

YOUR PARTNER BANK

alBaraka 

**DELIVERING
GROWTH**



Annual Report 2014
Albaraka Islamic Bank - Bahrain

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Albaraka Islamic Bank

Head Office

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

Main Branch (Diplomatic Area)

Tel: +97317 535 300, Fax: +97317 533 993
Isa Town Branch Tel: +973 17 788 388 Fax: +973 17 687 838
Muharrag Branch Tel: +973 17 461 999 Fax: +973 17 324 888
Riffa Branch Tel: +973 17 768 600 Fax: +973 17 490 003
Arad Branch Tel: +973 17 358 885 Fax: +973 17 676 361
Ramli Mall, A'ali Tel: +973 17 646 677 Fax: +973 17 646 676

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

Subsidiaries

1. Al Baraka Bank Pakistan Limited
Shafqaat Ahmed Chief executive Officer
Plot No. 162, Bangalore Town Block 7 & 8,
Shahrah-e-Faisal Karachi, Pakistan
Tel: +9221 34 315 851+9221 34 307 000
Fax:+9221 34 323 761+9221 34 546 465
Email: albaraka@albaraka.com.pk
Web: www.albaraka.com.pk

2. Itqan Capital Company
Adel Saud Dahlawi
CEO & Board Member
Jeddah,
Prince Sultan Road Hay Al Nahda
P.O. Box 8031Postal Code 21482
Tel: +966 26 996 888Fax: +966 26 338 852



His Royal Highness
Prince Khalifa bin Salman
Al Khalifa

The Prime Minister of
The Kingdom of Bahrain



His Majesty King
Hamad bin Isa
Al Khalifa

The King of
the Kingdom of Bahrain



His Royal Highness
Prince Salman bin Hamad
Al Khalifa

The Crown Prince, Deputy
Supreme Commander and
First Deputy Prime Minister

Al Baraka Islamic Bank B.S.C. (c) - Bahrain (AIB - Bahrain) established 1984 in Bahrain and over the years has pioneered the development of Islamic banking and finance.

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

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

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

During the year 2010, AIB completed the merger of its branches in Pakistan, which their operations dates back to 1991, with the branches of Emirates Global Islamic Bank Limited, to establish Al Baraka Bank Pakistan Limited as a subsidiary with 64.64% Shareholding. The Head office is located in Karachi. ABPL have assets in excess of Rs. 90 billion a workforce of more than 1600 professionals and a network of 135 branches in 82 cities and towns across the country. ABPL has commenced operations on 29th of October 2010 and consequently, all branches of AIBP and Emirates Global Islamic Bank is re-branded as ABPL. As for its strategic plans, the bank continue maintaining the pace of its growth in its business operations with particular focus on commissions and fee – based earnings. The bank also expanding its investment portfolio, continue to develop its infrastructure, particularly with regard to modern information technologies (IT) and related services, improve customer service, provide training and coaching to employees and maintain our special relationship with our customers as their "Partners in Achievement".

Al Baraka Islamic Bank is a banking institution registered with the Ministry of Industry and Commerce in Bahrain under Commercial Registration No. 14400 and has a Retail Banking license issued by the Central Bank of Bahrain. The bank has an authorized capital of US\$ 600 million and issued and paid-up capital of US\$ 122 million. Al Baraka Islamic Bank - Bahrain is one of the banking units of Al Baraka Banking Group, which is a Bahrain Joint Stock Company listed in Bahrain stock exchange and Nasdaq Dubai. Al Baraka Banking Group is a leading international Islamic banking group with Standard and Poor's rating of investment grade BB+/ Negative/B. The Group offers retail, corporate and investment banking and treasury services, strictly in accordance with the principles of the Islamic Shari'a. The authorized capital of Al Baraka Banking Group is US\$ 1.5 billion, while total equity amounts to around US\$ 2.075 billion. The Group has a wide geographical presence in the form of subsidiary banking units and representative offices in 15 countries, which in turn provide their Shari'a-compliant banking products and services through around 500 branches. These banking Units are Jordan Islamic Bank, Jordan; Al Baraka Islamic Bank, Bahrain; Al Baraka Bank Pakistan Limited, Pakistan; Al Baraka Bank Algeria; Al Baraka Bank Sudan; Al Baraka Bank Ltd, South Africa; Al Baraka Bank Lebanon; Al Baraka Bank Tunis; Al Baraka Bank Egypt; Al Baraka Turk Participation Bank, Turkey and its branches in Iraq; Al Baraka Bank Syria and a representative office in Indonesia, ITQAN Capital and a representative office in Libya.

VISION, MISSION & RATINGS

Vision

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

Mission

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

International Ratings

Over the past 31 years of Islamic banking, Albaraka Islamic Bank has succeeded in establishing a recognisable local, regional and international presence that has ensured its ratings denotes to the financial soundness of the Bank and its capacity to repay its financial obligation on a timely basis.

- Capital Intelligence has maintained long term and short term foreign currency credit ratings of the bank at BB+ and A3.
- Outlook on the assigned ratings is "Stable."

Capital Intelligence ratings

Long term

BB+

Short term

A3

OPERATIONAL HIGHLIGHTS

The following are the major operational achievements the Bank managed to achieve during the operational year of 2014:

1

THE BANK HAS SUCCESSFULLY COMPLETED THE ISSUANCE OF LOCAL CURRENCY SUKUK AMOUNTED TO RUPEES 2 BILLION (USD 20.508 MILLION) IN PAKISTAN TO MEET VERY STRINGENT LOCAL MINIMUM CAPITAL REQUIREMENTS.

2

CAPITAL INTELLIGENCE HAS MAINTAINED LONG TERM AND SHORT TERM FOREIGN CURRENCY CREDIT RATINGS OF THE BANK AT BB+ AND A3, RESPECTIVELY. OUTLOOK ON THE ASSIGNED RATINGS IS "STABLE".

3

NEW IT SYSTEMS WERE INTRODUCED TO ENABLE THE BANK PROVIDE THE MOST ADVANCED BANKING SERVICES TO ITS CUSTOMERS AND INCREASE ITS OPERATIONAL EFFICIENCY.

4

THE BANK SIGNED A FINANCING AGREEMENT WITH TAMKEEN DURING 2014 WHICH WILL INCREASE PENETRATION IN SMALL & MEDIUM ENTERPRISES IN THE KINGDOM OF BAHRAIN.

5

THE BANK WAS REWARDED BY EUROMONEY IN 2014 AS "BAHRAIN ASSET MANAGER OF THE YEAR" IN APPRECIATION FOR THE RANGE OF STRUCTURED PRODUCTS DEVELOPED BY THE DIVISION OVER THE PAST FEW YEARS.

6

THE BANK LAUNCHED THE ELECTRONIC BANKING SERVICES VIA THE INTERNET TO ITS CUSTOMERS, WHICH CONTAIN A RANGE OF BANKING SERVICES THAT WILL INCREASE CUSTOMER SATISFACTION FOR THE BANK'S SERVICES

FINANCIAL HIGHLIGHTS

DESPITE OF VOLATILITY IN MARKET, THE BANK HAS ACHIEVED AN ACCELERATED GROWTH BY FOCUSING ON BUILDING HIGH QUALITY ASSETS BASED ON A STABLE AND WELL DIVERSIFIED LIABILITY BASE.

PROFIT OF THE YEAR

(USD Million)

2.1
USD Million

2.1	0.9	-10.6	2.6	4.6
2014	2013	2012	2011	2010

EARNING PER SHARE


(USD)

1.7
USD

1.7	0.7	-8.67	2.12	3.79
2014	2013	2012	2011	2010


TOTAL ASSETS

(USD Million)

2014		1,835
2013		1,631
2012		1,41
2011		1,598
2010		1,347






FINANCING AND INVESTMENTS

(USD Million)

2014		1,339
2013		1,008
2012		1,041
2011		1,035
2010		883






TOTAL DEPOSITS

(USD Million)

2014		1,592
2013		1,416
2012		1,216
2011		1,284
2010		1,135

TOTAL EQUITY

(USD Million)

2014		169.88
2013		164.80
2012		168.76
2011		178.83
2010		183.95

BOARD OF DIRECTORS



1 Mr. Khalid Rashid Al Zayani

Chairman

Experience: 45 years

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

2 Mr. Adnan Ahmed Yousif

Vice Chairman

Experience: 42 years

Mr. Adnan Ahmed Yousif is a highly regarded senior banker with over 42 years of international banking experience. He holds a Master of Business Administration degree from University of Hull, UK. He was earlier with Arab Banking Corporation, for over 20 years and last served as Director on its Board.

As President & Chief Executive, Mr. Yousif has lead Al Baraka Banking Group (ABG) since inception, developing the Group into one of the largest and most diversified Islamic banking groups in the world. He is also the Chairman of Al Baraka Turk Participation Bank, Banque Al Baraka D'Algerie, Al Baraka Bank Ltd. South Africa, Al Baraka Bank Lebanon, Jordan Islamic Bank, Al Baraka Bank Egypt, Al Baraka Bank Syria, Al Baraka Bank Sudan, Al Baraka Bank Pakistan Ltd., Vice Chairman of Al Baraka Islamic Bank, Bahrain and a Board member of Al Baraka Bank Tunisia.

Mr. Yousif was the Chairman of the Union of Arab Banks, Lebanon for two terms (2007-2013). Besides having received many international awards including twice the Islamic Banker of the Year award (2004 and 2009), he is the recipient of the Medal of Efficiency, a unique honor conferred by His Royal Highness - King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain during the year 2011.

Mr. Adnan Ahmed Yousif was honored with the Tatweej Award for Excellence in leadership and institutional performance in the category - "Wise Leadership in the field of Arab banking for 2012" granted by the Arab Administrative Development Organization - an organization affiliated to the Arab League - in cooperation with the Tatweej Academy. In addition, he was awarded by LARIBA American Finance House the 2012 "LARIBA Award for Excellence in Achievement", in recognition of his leadership role in consolidating and operating the largest diversified Islamic Banking Group in the world.

3 Mr. Abdul Latif Abdul Rahim Janahi

Board Member

Experience: 43 years

Mr. Abdul Latif Abdul Rahim Janahi is one of the early pioneers in Islamic economy, Islamic banking and Islamic insurance. He authored a number of books on these topics and prepared more than 60 studies and work papers presented at numerous events, conferences, seminars and, universities. He worked hard to promote the idea of Islamic banking, insurance and re-insurance in Bahrain and was behind the establishment of a number of banks, financial institutions and insurance and reinsurance companies in Bahrain and outside Bahrain. He has practical experience of more than 43 years in the areas of banking, insurance and reinsurance. He holds a diploma in insurance and is a recognized expert in conventional insurance, Takaful (Islamic insurance), Islamic banking and Islamic economics. Mr. Janahi is the founder and Chief Executive Officer of the Safwa International, Bahrain (consultancy), and board member of many Islamic banking and investment institutions such as the Islamic Bank of Bangladesh - Dhaka, Khaleej Finance and Investment (being the Chairman of the Board of Directors) and the Islamic Arab Bank and Islamic Insurance and Reinsurance Company.

4 Mr. Moosa Abdul Aziz Shehadah

Board Member

Experience: 54 years

Holds a Master degree in Business Administration (MBA) from USA. Worked in conventional banks from 5 /1961 until 5 /1980. He then joined Jordan Islamic Bank on June 1, 1980 till now. He is currently the General Manager and the Vice-Chairman of the Board of Directors in addition to being a board member of many Islamic banks.

Mr. Shehadah is currently a member of the Board of Directors of the General Council for Islamic Banks, a Board Member of the Jordanian Businessmen Association and Chairman and Board Member of several public and private companies in various sectors (industrial, educational, investment and insurance sector). He was also a Board Member of the Association of Banks in Jordan since 1983 and has been the association's Vice-President for the period 1997 to 2005.

A member of several investment, social, humanitarian and international organizations and committees. Participates and lectures in several seminars related to the banking sector and the Islamic financial institutions regionally and internationally. Former member of the Accounting and Auditing Standards Board for Islamic Financial Institutions and the Chairman of the Accounting Committee (1990 to 2002). A member of the Board of Trustees of the Arab Thought Forum, Advisory Board Member of the International union of Arab Bankers. Honor- permanent member of the society of friends of Jordan Eye Bank and the prevention of blindness.

5 Mr. Abdulrahman Abdulla Mohamed

Board Member

Experience: 39 years

Master of Business Administration Degree (MBA) from University of Hull, United Kingdom, around 39 year in Banking Industry. Present Position, Board Director and Executive Committee Member.

TAIB Bank (Aug 2001- till present) and a Member of Deposit Protection Scheme Board. Central Bank of Bahrain (Jul 2011 till present). His Past Position General Manager in National Bank of Bahrain, Board Member and executive committee Member – Bahrain commercial facilities company and chairman of the Board – National Motors company.

BOARD OF DIRECTORS CONTINUED

6 Mr. Ashraf Ahmed Mustafa El-Ghamrwai

Board Member

Experience: 38 years

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

7 Mr. Yousef Ali Fadil bin Fadil

Board Member

Experience: 31 years

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

8 Mr. Maqbool Habib Khalfan

Board Member

Experience: 47 years

Mr. Maqbool Habib Khalfan is a well-known banking personality with banking experience of more than forty years. He is the managing partner of (and 50% partner in) Arabian Exchange Company, Qatar since 1977. Mr. Khalfan was the founder and director of Gulf Colors, Qatar and had held many senior positions in banks as he was the General Manager of Qatar Industrial Development Bank during the period from 1997 to 2001 and General Manager of Doha Bank Limited during the period 1979-1997. He holds a Bachelor degree in Business Administration from Cairo University - May 1977.

9 Dr. Khalid Abdulla Ateeq

Board Member

Experience: 30 years

Dr. Khalid is currently the Chief Executive Officer and Board Member of Family Bank.

Dr. Khalid has over 30 years experience in banking, finance, auditing and accounting. prior to join Family Bank, he was the Deputy CEO of Venture Capital Bank for seven years. Before that he was Executive Director of Banking Supervision at the Central Bank of Bahrain for thirteen years, where he was responsible for the licensing, inspection and supervision of financial institutions, insuring that all banks and financial institutions, either operating or incorporated in Bahrain, complied with promulgated laws and regulations. Before joining the CBB, he was Assistant Professor at Bahrain University. In addition, through his diversified experience, Dr. Ateeq served in senior posts with a number of reputable banks and firms. He holds a Ph.D. in Philosophy of Accounting from UK.

Dr. Khalid is a Board Member at Al Khair Bank, Med Gulf Company, Med Gulf Takaful and Itqan Company.

10 Mr. Mohammed Isa Al Mutaweh

Chief Executive Officer and Member of the Board of Directors

Experience: 28 years

Mr. Mohamed Isa Al Mutaweh is the Chief Executive Officer and a member of the Board of Directors of Al Baraka Islamic Bank - Bahrain, Chairman of the Credit Committee and member of the Executive Committee. He has long experience in banking extending to more than 28 years during which he held leading positions in banks. He was General Manager and Board Member of Al Amin Bank, Bahrain, Chairman of the Credit Committee and member of the Executive Committee of Al Amin Bank. He also served as Executive Director of ABC Islamic Bank which is affiliated to Arab Banking Corporation. Prior to that he served in a senior position with National Bank of Bahrain in the Corporate Banking Division. Mr. Al Mutaweh is a member of the World Union of Arab Bankers and a member of the participation committee of the Awqaf properties investment fund of Islamic development bank, Jeddah and ex-member of the boards of directors of Bahrain association of banks and a member of Bahrain advisory council of the chartered institute of securities and investment (CISI), UK. Mr. Al Mutaweh has an MBA degree in Business administration from university of Hull, UK.

LIST OF COMMITTEES FOR YEAR 2014 AND SHARI'A SUPERVISORY BOARD

Sharia'a Supervisory Board

Shaikh Dr. Abdul Sattar Abu-Ghoudah
Chairman

Shaikh Essam Mohammed Isaac
Member

Shaikh Nizam Mohammed Yaqoobi
Member

Executive Committee

Mr. Adnan Ahmed Yousif
Chairman

Mr. Abdulatif AbdulRahim Janahi
Member

Mr. Abdul Rahman Abdulla Mohamed
Member

Mr. Mohd Isa Al Mutaweh
Member

Audit Committee

Mr. Maqbool Habib Khalfan
Chairman

Mr. Mousa AbdulAziz Shehadeh
Member

Mr. Yousif Ali Fadil Bin Fadil
Member

Remuneration & Board Affairs Committee Meetings

Mr. Yousif Ali Fadil Bin Fadil
Chairman

Mr. Adnan Ahmed Yousif
Member

Mr. Abdul Rahman Abdulla Mohamed
Member

Risk Management Committee

Mr. Khalid Abdulla Ateeq
Chairman

Mr. Maqbool Habib Khalfan
Member

Mr. Ashraf Al Ghmrawi
Member

External Auditor's
Ernst & Young

BOARD OF DIRECTORS REPORT



KHALID RASHID ALZAYANI
CHAIRMAN

THE BANK CONTINUED TO DELIVER A STRONG SET OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014 WITH A 14.16% INCREASE IN TOTAL OPERATING INCOME AS COMPARED TO LAST YEAR. SUCH INCREASE IN OPERATING PROFITABILITY HAS BEEN PRIMARILY RESULTED FROM SUBSTANTIAL INCREASE IN CORE BANKING ASSETS AND IMPROVED LIQUIDITY MANAGEMENT.

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present our annual report for the year ended 31 December 2014.

Economic Review

The global economy has remained volatile due to divergence amongst the leading economies. While the United States has continued to experience a fairly broad-based, gradual recovery, the Euro-zone and Japan is facing weakness. Further, the growth rates in developing countries and economies in transition have become more divergent with a sharp deceleration in a number of large emerging economies. A number of these economies have encountered various country-specific challenges, including structural imbalances and geopolitical tensions. Furthermore, the economic growth was hampered by some new challenges, including a number of unexpected shocks, such as the heightened geopolitical conflicts in different parts of the world. On the whole global economy grown at only a moderate estimated pace of 2.6 per cent in 2014.

Economic Review continued

Economic growth in Middle East region is hampered due to recent political turmoil, social unrest and volatility in oil prices. However, the countries of Cooperation Council for the Arab States of the Gulf (GCC) are partially offsetting this downward trend in the regional economy. In spite of increased volatility in the global oil markets, economic growth in Bahrain has remained robust with clear indications that infrastructure spending is significantly boosting the momentum of the non-oil sector. This serves as an important source of economic resilience at a time of renewed weakness in much of the global economy. Economic growth is likely to have clearly exceeded 4% in year 2014. All major segments of economy, including hydrocarbon sector, has posted a growth during the year 2014. More particularly construction sector has shown highest growth, due to start of certain new infrastructure project, hospitality and social sector maintained its momentum, tourism has shown a healthy increase and banking sector growth remained steady across the year.

In Pakistan, after a long period of stagnation/ fiscal deterioration, the economy has started to show real signs of revival in year 2014. Such recovery is observed due to growth in agriculture output, increase in activity in large scale manufacturing sector, improvement in electricity supply and fiscal discipline shown by the new government. Accordingly, the GDP growth has been reached to 4.1% for the financial year 2014. Improvement in foreign exchange reserves, curtailment of inflation in single digit and increase in demand for credit sectors symbolize said revival of economy during the year. Above all, a leading credit rating agency "Moody's" has change the outlook for Pakistan economy from "negative" to "Stable". However, security situation, natural calamities like flood and energy shortages have remained bearing on economy to achieve its full potential.

Performance Review

Despite of volatility in market, the Bank has achieved an accelerated growth by focusing on building high quality assets based on a stable and well diversified liability base. In this respect, size of financial position of the bank has been grown by 12% from position as at 31 December 2013 amounted to USD 1,631.208 million to USD 1,835.022 million as at 31 December 2014. Said growth has been driven by customer centric policies, expansion of geographic outreach and broadening of our product portfolio to meet the contemporary business needs of our people. Majority of the key performance indicators has been moved in a positive direction.

During the year, the key business strategies were directed towards the building of core banking assets and optimum utilization of available resources. Therefore, the financings and investments have shown a remarkable growth of 34% and 30%, respectively, since 31 December 2013. In this regard, the Bank has targeted opportunities available in all customer segments and geographical regions, leading to a significant improvement in diversification of asset base. Pursuant to prevalent market conditions, the new deals are made with reputable customers carrying sound financial health.

Overall customer deposits, being a bloodline in a bank, have been increased by 12.45% to USD 1,591.921 million as at 31 December 2014 from USD 1,415.663 million as at 31 December 2013.

Growth in these balances has been achieved mainly from opening of 20 new branches in Pakistan, introduction of competitive products and personalized services offered to our esteemed customers.

The Bank has successfully completed the issuance of local currency sukuk amounted to Rupees 2 billion (USD 20.508 million) in Pakistan to meet very stringent local minimum capital requirements. Such sukuk also meet the regulatory requirements for eligibility as Tier II capital and result in a significant improvement in capital adequacy on a consolidated level.

The Bank continued to deliver a strong set of results for the year ended 31 December 2014 with a 14.16% increase in total operating income as compared to last year. Such increase in operating profitability has been primarily resulted from substantial increase in core banking assets and improved liquidity management. Further, the cost of deposits has also been rationalized to market benchmarks contributing towards such increase in total operating income for the current year.

At the same time opening of new branches and launch of new products has resulted in an increase of 16% from USD 39.677 million to USD 46.089 million in operating cost of the Bank during the year 2014. However, increase in such expenses was as per expectations and remained within acceptable limits established for the current year.

Settlement or regularization of certain large non-performing obligors has resulted in a substantial reduction in net specific provision against non-performing assets from USD 3.146 million to USD 0.134 million. However, the Bank has made general provision amounted to USD 0.725 million, against un-foreseen risks in financing portfolio, upon instructions from regulatory authorities. Resultantly, the general provision and investment risk reserves maintained by the Bank, to mitigate the impact of un-identified losses, have been increased to USD 1.323 million and 2.338 million, respectively.

Finally, net income after provision and taxation has been significantly increased from USD 0.915 million for the year ended 31 December 2013 to USD 2.070 million for the year ended 31 December 2014. Such growth in profitability validates the resilience of the Bank's operations against recent political turmoil and backdrop in global economic revival.

Credit rating

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

BOARD OF DIRECTORS REPORT CONTINUED

Credit rating continued

At the same time Al Baraka Pakistan Limited (ABPL) has sustained local currency long-term and short-term rating entity A, and A1 respectively, as assigned by the Pakistan Credit Rating Agency (PACRA). These ratings denote a lower expectation of credit risk emanating from a strong capacity for timely payments of financial commitments.

Corporate and Social Responsibility

Being premier Islamic Bank our strategic vision is to devote our energies towards establishment of a fair and equitable financial system: one which rewards efforts and contributes to the development of the community. In this respect, the Bank is serving the wide range of banking needs of each segment of society, through provision of Shria' compliant solution based on the Islamic principles. Further, the Bank is also engaged in a numerous projects of social welfare like assistance to poor or needy people, promotion of education, provision of on-job training and many other projects of social welfare.

Future Outlook

Moving forward, the Bank will continue its endeavours of building a robust portfolio of efficient assets by targeting low risk opportunities available in each and every segment of market across the globe. Core business strategies, duly updated in the light of recent developments in organization and market fundamentals, will provide the guidance to achieve excellence by transforming weakness into strengths and converging challenges into opportunities.

Cornerstone of our philosophy will remain on improving customer satisfaction service by providing innovative banking solution equipped with latest available technologies in the market. In this respect, the Bank is focussing on training of staff, leveraging of technology base and extending geographical outreach.

Effective risk management practice and strong control environment is expecting to perform a pivotal role in upcoming years. Expected changes in regulations, uncertainties associated with global economic prospects and volatility in market requires a vibrant approach to proactively identify the risks expecting to affect financial or operating performance of the Bank and formulate plans to mitigate their impacts. In this respect, the risk management will be strengthened with requisite resources and aligned with best established practices across the globe.

Acknowledgment

We are so grateful to Al Mighty Allah for his blessings as our Bank has been able to complete three decades of journey full of achievements and successes. Alhamdulillah our Bank is strongly present in Middle East and Pakistan as a premier Islamic financial institution serving contemporary vast banking needs of our community through provision of quality banking solutions.

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

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



Khalid Rashid AlZayani

Chairman

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

Manama, Kingdom of Bahrain

25 February 2015

BEYOND BANKING

By Partnership, therefore, we mean that our success and that of each of our customers are as intertwined as our jointly held beliefs. Taking part in the joint effort is therefore our reward.

ALBARAKA NETWORK

Albaraka Islamic Bank has started operations in Bahrain and has grown into a market leader in Islamic Banking operating in 15 countries.

- Jordan Islamic Bank
- Al Baraka Indonesia
- Al Baraka Pakistan
- Al Baraka Bahrain
- Al Baraka Turkey
- Al Baraka Syria
- Al Baraka Lebanon
- Al Baraka Tunis
- Al Baraka Algeria
- Al Baraka South Africa
- Al Baraka Sudan
- Al Baraka Egypt
- Al Baraka Libya
- Al Baraka Iraq
- ITQAN Capital



eBanking
Service

e-banking services were launched providing Internet banking and phone banking services where these two services provide several benefits to customers.



MOBILE
BANKING

15

ALBARAKA
NETWORK



EXECUTIVE MANAGEMENT



1



2



3



4



5



6



7



8



9



10



11



12



13

1. Mr. Mohammed Isa Al Mutaweh

**Chief Executive Officer,
Member of the Board of Directors**

Experience: 28 years

He is the Chief Executive Officer and Board Member of Al Baraka Islamic Bank - Bahrain, Chairman of Credit Committee and Member of Executive Committee. Backed by a long banking experience over 28 years of which he previously held several senior positions, General Manager and Board Member of Al Amin Bank, Bahrain, Chairman of Credit Committee and member of Executive Committee of Al Amin Bank. Executive Director in ABC Islamic Bank, and prior to that, he was in a senior position with National Bank of Bahrain in the Corporate Banking Division. He is also a member of the World Union of Arab Bankers and a member of the participation committee of the Awqaf Properties Investment Fund of Islamic Development Bank, Jeddah and ex-member of the board of directors of Bahrain Association of Banks and a member of Bahrain Advisory Council of the Chartered Institute for Securities & Investment (CISI), UK. Mr. Al Mutaweh has an MBA degree in Business Administration from university of Hull, UK.

2. Mr. Tariq Mahmood Kazim

**Deputy General Manager
Support services Group**

Experience: 31 years

Bachelor Degree in Systems Engineering and Analysis (University of Petroleum and Minerals Dhahran/Saudi Arabia) 31 years of experience in providing, managing and implementing Banking, Telecommunication and e-Commerce Solutions. Past careers include two years with Arabian Networks as General Manager and 16 years with NCR as a Business Unit Leader. Joined Al Baraka Islamic Bank in April 2002. He is also a Board & Vice Chairman in Al Baraka Bank Pakistan Limited.

3. Mr. Rashid Hassan Alalawi

**Deputy General Manager
Business Group**

Experience: 33 years

Mr. Rashid is holder of Master of Business Administration from University of Glamorgan in Wales, United Kingdom and he has an Executive Management Diploma from University of Bahrain. He has extensive banking experience for more than 33 years in the retail banking, customer services, electronic banking, and retail operations. Mr. Rashid has joined Al Baraka Islamic Bank in February 2009 and prior to that he held various senior positions in Bahrain Islamic Bank, Shamil Bank (currently known as Ithmaar Bank), and Bank of Bahrain & Kuwait.

4. Mr. Moosa Abdul Latif Mohammed

**Assistant General Manager
Operations**

Experience: 35 years

Banking Studies (Diploma) 5 years Banking experience with National Bank of Bahrain, and 30 years banking experience with Al Baraka Islamic Bank, Bahrain. Various managerial and banking courses inside and outside Bahrain.

5. Mr. Nadeem Khan

**Assistant General Manager and
Chief Financial Officer**

Experience: 28 years

Mr. Nadeem Amjad Khan is a Chartered Accountant and is a Fellow of the Institute of Chartered Accountants of Pakistan. Prior to his appointment as CFO of Al Baraka Islamic Bank, Bahrain he worked in Al Baraka Bank Pakistan Ltd. He joined Al Baraka Bank Pakistan Ltd. as Assistant Vice President and rose to the position of Assistant General Manager. He has also worked in leading accounting firms at senior position in Assurance and Management consultancy. He has also been teaching ACCA students. He

specializes in accounting and financial matters and has developed broad expertise in treasury and capital markets. He is also a Board Member in Al Baraka Bank Pakistan Limited. He is also member of the committee of Accounting and Auditing for Interest Free Mode of Financing of ICAP.

6. Mr. Fouad El Ouzani

**Assistant General Manager
Credit Department**

Experience: 13 years

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

7. Mrs. Maisoon Mohammed BenShams

**Assistant General Manager
Risk Management and Compliance**

Experience: 34 years

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

8. Mr. Asrar Uddin Abdul Ghafour

**Assistant General Manager
Information Technology**

Experience: 22 years

Mr. Asrar Uddin has over 22 years experience in playing an effective role in the IT department of Islamic Bank's in the GCC region. He joined Al Baraka IT team in 2002. He has vast knowledge of core banking project implementations, project roll-outs, automation of business processes, managing systems migrations, managing day to day activities of IT operations. His major achievements in Al Baraka are many but to name some are; Implementation of Misy Equation Banking System, migration from Midas to Equation, successful completion of EMV Project, increasing branches and ATM network, implementation of IT policy and procedures, supporting other Al Baraka Banks in Pakistan, South Africa, Egypt, Syria and Lebanon.

9. Mr. Isa Al Obaidly

**Assistant General Manager,
Head of Human Resources and Administration**

Experience: more than 27 years

Mr. Al Obaidly 27 years experience in several HR & Admin fields including recruitment, Setting of

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

10. Mr. Adel Al-Manea

**Assistant General Manager
Head of Commercial Banking Department**

Experience: 25 years

Mr. Al-Manea is Senior Manager for Commercial Banking Department. Mr. Al-Manea is a holder of Associated Accounting Technician from the Board of AAT - United Kingdom and Banking Studies (Diploma) from University of Bahrain. He has over 25 years of banking experience in commercial and Offshore Banks with Local, International and Islamic Banks. 2 years banking experience with Bank of Bahrain and Kuwait, and 17 years banking experience with Ithmaar Bank. Various managerial and banking courses inside and outside Bahrain. Joined Al Baraka Islamic Bank in August 2008.

11. Mr. Hussain H. Nattaie

**Assistant General Manager
Head of Corporate Banking and Syndications**

Experience: 11 years

Mr. Al Nattaie is the Head of Corporate Banking and Syndications Department with over 11 years experience in local and offshore corporate banking. Hussain held several senior positions prior to joining Al Baraka Islamic Bank in National Bank of Bahrain, The Arab Investment Company and Standard Chartered Bank. Hussain holds a B.Sc. degree in Accounting and Finance from the University of Bahrain and currently is doing the CMA. Mr. Al Nattaie became a member of Al Baraka Bank beginning of year 2008.

12. Mohammed Al Mughani

Manager - Head of Internal Audit

Experience: 10 years

Mr. Mohamed Al Mughani had joined Al Baraka Islamic Bank on Aug 2008 as a Manager - Head of Internal Audit Department. He has 10 years of experience in internal and external audit, risk assessment and corporate governance. He previously worked as an Assistant Manager - Audit Department at BDO Jawad Habib, Bahrain. Mr. Al Mughani is ACCA qualified and also Certified Information System Auditor (CISA). He hold a BSc in Accounting from University of Bahrain.

13. Mohammed Jassim Hassan

**Assistant Manager - Head of Sharia
Department**

Experience: 6 years

Mohamed Jassim is the Head of Sharia department in Al Baraka Islamic Bank-Bahrain. He has Bachelor in Islamic law, from the Sharia College of the Islamic University in Madinah Al Monawarah - KSA. And Certified Sharia Adviser and Auditor (CSAA) , from AAOFI- Bahrain. Mohamed Jassim has more than 6 years working and lecturing experience in Islamic banking.

CHIEF EXECUTIVE REPORT



MOHAMED ISA AL MOTAWEH
CHIEF EXECUTIVE OFFICER

2014 WAS A DISTINGUISHED YEAR FOR AL BARAKA ISLAMIC BANK, WHERE IT SUCCEEDED IN INCREASING THE INCOME FROM ALL CORE ACTIVITIES IN BOTH BAHRAIN AND PAKISTAN, BASED ON THE IMPLEMENTATION OF THE MANY INITIATIVES INCLUDED IN THE MEDIUM-TERM BUSINESS STRATEGY (2014-2016).

TOTAL DEPOSITS

(USD Million)

+12.43%

2014		1,592
2013		1,416
2012		1,216
2011		1,284
2010		1,135

Introduction

2014 was a distinguished year for Al Baraka Islamic Bank, where it succeeded in increasing the income from all core activities in both Bahrain and Pakistan, based on the implementation of the many initiatives included in the medium-term business strategy (2014-2016). The implementation of these initiatives have led to a record number of benchmarks, both on the level of increase of profits or the expansion in the businesses, as well as at the level of the launch of new products and the expansion of the branch network and enter new markets.

These initiatives have focused on the following key areas:

- Increasing major business-related assets of the Bank, through the discovery of opportunities in new business and market segments. We have sought to achieve this initiative through our success in reaching new classes of customers both large companies and small and medium-sized family businesses, as well as entry into new markets and countries, especially the neighboring countries such as Saudi Arabia, UAE, Qatar in addition to African countries to

* All figures mentioned in the report are in US dollars unless otherwise stated

Introduction continued

compensate for the markets in which we operate and experiencing some political turbulence. We signed an agreement with Tamkeen to finance small and medium enterprises, and another agreement with the Housing Bank to finance social housing. We also expanded in the investment portfolio, particularly for higher-yielding Sukuk.. Investment in Sukuk bring many advantages, first good returns, secondly the ability to liquidation and third arranging re-purchase agreements with a number of financial institutions in exchange for funding from them. As well as increased income from trade finance activities.

- Diversifying and expanding investment, deposit and financing products portfolio to meet the growing and emerging customer needs. During the year 2014, the Bank has introduced several innovative products, most notably insurance products and investment savings account "al Barakat" which attract a lot of liquidity to the Bank.
- Restructuring of the organizational structure in line with finest applicable international practices, and activating the Treasury Department by employing Head of Treasury, and as well as the Cash Management Committee by meeting on a weekly basis. We also activated the Debt Collection Department, which contributed to the collection of non-performing financings and remediating them by consensus settlements, which resulted in a significant reduction in the specific provisions against increasing the general provisions at the request of the Central Bank of Bahrain, which requires that the general provisions as a percentage of the financing portfolio should be at least 1%, while the Bank maintains a higher rate of 1%.

Over the years, Al Baraka Bahrain has developed a wide range of products and services, including a spread of personal, housing and automobile and equipment finance offerings and Taqseet card (repayment by installments), which offers multiple Murabaha finance transactions at the same time through one card to assist customers in purchasing a wide variety of electronic and other household goods. The Bank added to an innovative new product to finance services based on the principle of Ijara whereby the Bank, acting as lessor, leases to the client a service existing as a Forward Ijara, allowing for payment in installments over time, which can be applied to facilities financing education, medical treatment, travel and tourism, marriage, Hajj and Umrah. The Bank launched Taqseet facilities for the residents in Bahrain the electronic banking services via the Internet, telephone. In 2014, the Bank signed a partnership agreement with the insurance company (Medgulf Takaful) so that the insurance company can sell its policies to the Bank's client base providing insurance coverage for cars, travel, fire, personal accidents, investments, real estate, and savings, especially for children.

Regarding the Bank's ATM network, the Bank added two new ATMs in 2014 in Saar and American Mission Hospital, which bring the total ATMs to 24. We paid much of our attention during 2014 to the development of the Bank's work environment, and its relations with the customers in order to improve and develop the relations with them, in addition to the development of human resources and the hiring of skilled recruits to help the Bank in the implementation of its new business strategies. Furthermore, we introduced new IT systems to enable the Bank provide the most advanced banking services to its customers and increase its operational efficiency.

Therefore, we are in a good position to make strong progress and to enhance our leading position in the Kingdom of Bahrain and the region, specially that the economies of the region countries and their financial and banking systems enjoy sound and strong position and that the governments in the region stressed that they would continue their spending on investments and infrastructure development and reaffirmed their support to the financial and banking systems, despite the decline in oil revenues.

Financial Performance

Income

Total income from the joint finance and investment accounts amounted to US\$ 79 million in 2014, representing an increase of 1%. This income includes the income from joint financing operations which has increased by 14% from US\$ 38.7 million in 2013 to US\$ 44.1 million in 2014 and income from joint financing, other financings and investments which has decreased by 11.6% from US\$ 39.5 million in 2013 to US\$ 34.9 million in 2014. But this latter income is a part of consolidated income from both joint finance and self-finance, other financings and investments, where income from self-finance, other financings and investments is shown within other operating income. If we take the consolidated income from both joint finance and self-finance, it increased by 8% from US\$ 47.3 million in 2013 to US\$ 51 million in 2014. This income mainly includes income from Ijarah Muntahiya Bittamleek amounting to US\$ 13.7 million (US\$ 10.7 million in 2013), income from investments amounting to US\$ 22 million (US\$ 25.4 million in 2013), income from Musharaka financing amounting to US\$ 8.9 million (US\$ 5.3 million in 2013), income from selling of investments amounting to US\$ 4.1 million (US\$ 4 million in 2013) and income from Istisnaa financing amounting to 2.1 million in 2013 (US\$ 0.75 million in 2013).

In line with the increase in the total income from joint financing, the return on equity of investment accountholders went up by 5.6% from US\$ 55.7 million in 2013 to US\$ 58.8 million in 2014 which represents the gross return on investment accountholders amounting to US\$ 72.6 million in 2014 (US\$ 68.8 million in 2013) less the Bank's share as a Mudarib of US\$ 13.8 million in 2014 (US\$ 13.1 million in 2013).

After deducting the investors' share from the revenue from the investment accountholders, the Bank's share of total income US\$ 20.2 (as a Mudarib and financier) amounted to US\$ 22.5 million in 2014, reflecting a decrease of 10.1%.

In contrast, the majority of the other sources of income showed good improvements: income from self financed, other financings and investments increased from US\$ 7.7 million in 2013 to US\$ 16.1 million in 2014, income from banking services increased by 10.2% from US\$ 6.6 million in 2013 to US\$ 7.3 million in 2014, while income from self-financed sales decreased by 14.3% from US\$ 3.2 million in 2013 to US\$ 2.7 million in 2014. It can be noticed the large improvement in income from core business activities of the Bank as a result of larger investments in operating assets.

These improvements compensated the decline in income from joint investments, as the total operating income of the Bank has increased noticeably by 14.2% from US\$ 43.6 million in 2013 to US\$ 49.7 million in 2014.

INNOVATIVE FINANCIAL PRODUCTS

Al Baraka Islamic Bank offers innovative financial products, particularly in the areas of Islamic investment , international trade, management of short-term liquidity and consumer financing.



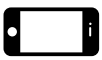
'We believe society needs a fair and equitable financial system: one which rewards effort and contributes to the development of the community.'

ONLINE BANKING



ONLINE BANKING

Now with Al Baraka Islamic Bank's electronic banking services, you can bank with us through our secure network from anywhere and anytime.



MOBILE BANKING

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Branches

ATM NETWORK

The Bank installed 19 ATM machines during the year 2014 in Bahrain and Pakistan, to bring the total number of ATMs to 80. The focus was on installing stand-alone ATMs that are not part of branches of the Bank, with particular emphasis on drive-by ATMs.



Financial Performance continued

In view of opening new 14 branches in Pakistan and installing new ATMs and IT systems in Head Office, branches and Pakistan and launching electronic banking services, the operating expenses increased by 16.2% from US\$ 39.7 million in 2013 to US\$ 46.1 million in 2014. These expenses mainly included staff costs, amounting to US\$ 24.4 million in 2014 (US\$ 21.2 million in 2013), other operating expenses, amounting to US\$ 18.8 million in 2014 (US\$ 15.6 million in 2013) and depreciation amounting to US\$ 2.9 million in 2014 (US\$ 2.8 million in 2013).

As a result of the larger increase in operating expenses, the net operating income decreased by 6.3% from US\$ 3.9 million in 2013 to US\$ 3.6 million in 2014.

In view of the large efforts by the Bank in 2014 to collect non-performing debt and the improvement in the quality of financings and investments in both Bahrain and Pakistan, the allocated provisions decreased to US\$ 0.86 million in 2014 from US\$ 3.1 million in 2013, noting that the 2014 provisions are general provisions which were taken upon the instructions of the Central Bank of Bahrain.

After deducting taxes of US\$ 0.70 million in 2014 (US\$ 0.19 million in 2013), the Bank's net profit jumped largely by 126.2% from US\$ 0.92 million in 2013 to US\$ 2.1 million in 2014.

The Bank's Financial Position

2014 saw large and clear efforts by the Bank and through its different departments and sections either in Bahrain or Pakistan to expand its core activities such as Murabaha, Mudaraba, Ijara Musharaka and investments operations along with diversifying financing sources. To enhance the liquidity position, and to expand financing business as well. These efforts were reflected positively on the items of these operations in the balance sheet of the Bank, which led to the increase in total assets by 12.5% from US\$ 1.63 billion in 2013 to US\$ 1.84 billion in 2014.

Income - Generating Assets

As a clear evidence of the success of the efforts mentioned above, the total income-generating assets increased by 19% from US\$ 1.19 billion in 2013 to US\$ 1.42 billion in 2014. Murabaha sale receivables continued to be the main component of the income-generating assets, decreasing by 2% from US\$ 633.7 million in 2013 to US\$ 621 million in 2014. These financing operations represent Murabaha financing agreements with financial institutions and corporations that the Bank provided to them primarily through syndicated financing arrangements.

In 2014, the Bank continued to focus on achieving its ambitious business growth plans, and seize top quality opportunities and transactions. The Bank also continued its efforts to penetrate emerging markets and increase its market share and volume of business in general.

Through Corporate Finance and Syndications Division, the Bank continued to capture sought-after financing transactions, in the MENA region, to match the ambitious strategic growth plans set by our group "ABG", and continued to diversify the assets, and lower its operating costs. The business plans in Bahrain gave top priority to address government of Bahrain projects, especially the infra-structure related, given our track record in addressing such initiatives in the past. The Corporate Finance division takes pride in being one of the most efficient and active divisions in the Kingdom, evident by its successful handling of the role of "Syndicate lead-arranger" in the US\$500m loan provided to Mumtalakat, the investment arm of the government of Bahrain.

Through Trade Finance & FI division, the Bank focused on meeting its ambitious growth plans in growing the size of its unfunded business, which will support the diversification of revenue sources. The Bank consistently aims for growing the size of FI deposits and trade finance related activities, and the diversity of its source, country-wise, region-wise and sector-wise. The division is remarkably one of the most active locally and regionally, evident by its penetration to challenging markets from North Africa to the Far East.

The financing agreement which the Bank signed with Tamkeen during 2014 will increase penetration in Small & Medium Enterprises in the Kingdom of Bahrain. Tamkeen Finance Scheme agreement shall begin with an initial financing limit of 10 million Bahraini Dinars; this limit shall be for one calendar year and shall be topped up at any time during the year if the bank has reached to the limit ceiling, through approaching Tamkeen. This program will no doubt give benefits to the Bank as it is a highly demanded scheme, and the Bank has a large number of potential clients, and plenty of opportunities in different types of business sectors, the main aim is to develop the private sector and ultimately enhance the economic development of the Kingdom of Bahrain.

In the area of retail finance, the Retail Banking Department was launched in 2009 to implement an ambitious strategy to expand and increase the Bank's market share in this sector. The financing products launched under the Taqseet (installment) scheme were well received by customers because they met all their financing needs in terms of the purchase of personal and consumer goods and real estate for own-use as residence or for investment purposes. The Bank added to an innovative new product to finance services based on the principle of Ijara whereby the Bank, acting as lessor, leases to the client a service existing as a Forward Ijara, allowing for payment in installments over time, which can be applied to facilities financing education, medical treatment, travel and tourism, marriage, Hajj and Umrah. The Taqseet card is an innovative Islamic financing tool in the card market that has been developed on the basis of Murabaha Islamic financing mode. What makes the Taqseet Card so unique is that the customer can have several finance facilities running on just one card at the same time. The value of the purchase can be paid back on monthly flexible Installments.

During 2014, Al Baraka Islamic Bank launched a number of promotional offers offering customer finance on easy terms with competitive profit rates while at the same time maintaining prudent credit criteria. The Bank launched Taqseet facilities for the residents in Bahrain the electronic banking services via the Internet, telephone. In 2014, the Bank signed a partnership agreement with the insurance company (Medgulf Takaful), which is one of the biggest leading insurance company in the region, which enables the Bank to launch and sell Sharia-compliant insurance policies to the Bank's clients both individuals and companies.

Investments, which represented the second largest income generating assets, increased noticeably by 30.9% to US\$ 439 million in 2014 compared with US\$ 335.5 million in 2013. This increase was mainly resulted from higher investments in high-quality Sukuk as well as transferring its subordinated qard Hassan to Itqan Capital. The investment portfolio consisted of unquoted Sukuk at fair value of US\$ 20.3 million in 2014 (nil in 2013) and quoted and unquoted Sukuk at amortized cost in an amount of US\$ 348.2 million in 2014 (US\$ 301.2 million in 2013) and equity-type instruments at fair value through equity in an amount of US\$ 76.5 million in 2014 (US\$ 39.3 million in 2013), before deducting US\$ 5.9 million provisions for the deterioration in value of these investments in 2014 (US\$ 5 million in 2013).

CHIEF EXECUTIVE REPORT CONTINUED

Income - Generating Assets continued

Starting from 1st July 2012, the Bank became owning 60% of the issued shares of Itqan Capital (previously Al Tawfeek Financial Group), which was established as a closed joint stock company registered in the Kingdom of Saudi Arabia and licensed by the Capital Market Authority. The company engages in asset and portfolio management, and custody, research and advisory services. All products and services offered by the company are in strict compliance with the provisions of Islamic Sharia. The company's paid-up capital is SAR 200 million and the authorized capital is SAR 360 million. This step represent the Bank and the parent company Al Baraka banking Group's strategy to enter key regional markets, for Saudi Arabia is the largest Arab economy with strong fundamentals and a stable financial and investment environment, which presents us with significant business and investment opportunities. During 2014, the subordinated qard Hassan extended from the Bank to the company amounting to US\$ 26.67 million has been capitalized, increasing the equity share of the Bank to 83.07% effective from 31 October 2014. The financials of this Company was not consolidated with the Bank's statements because the Company is being controlled through the main parent company, Al Baraka banking Group, through an agreement signed by the Bank with the Group on 1st July 2012.

Despite the challenging and gloomy environment regionally and globally, the Investment Division in the Bank has succeeded in capturing good investment transactions and managed to partner with renowned regional investment banks, which further diversified the division's assets and source of income, and in the meantime improved the quality and resilience of the investment portfolio. The division has succeeded in exiting couple of investment funds at undoubtedly good market timing. The division is entrusted with monitoring the performance of its basket of assets, which remarkably showed resilience to market turbulence amidst the heights of the global financial and economic crisis. The division continued its ambitious business growth plans, to enable the division become consistently a major contributor to the bottom line of the bank. It's a source of pride, that the investment division is shaping up, as one of the strong power engines of AIB across the board and was rewarded by Euromoney in 2014 as "Bahrain Asset Manager of the Year" in appreciation for the range of structured products developed by the division over the past few years. The Division has been very active in the purchase of and trading in Islamic Sukuks, which are financial instruments approved by the Sharia'a, for the purpose of employing the surplus liquidity of the Bank. In this context, the Bank has expanded its portfolios in Salam Sukuks and the Sukuks issued by the Government of Bahrain, as well as that issued by other governments or state-owned companies in the region, considering the good returns that they yield compared to the level of risk they entail.

The income-generating assets also included Ijarah Muntahiya Bittamleek which increased largely by 74.6% from US\$ 126.6 million in 2013 to US\$ 221 million in 2014. These financings represent purchase of equipment and real estate financings, where real estate financings witnessed higher volume in 2014. Musharaka financing also increased by 64.7% from US\$ 72.5 million in 2013 to US\$ 119.3 million in 2014. The real estate investments portfolio went up slightly by 7.7% from US\$ 5.5 million in 2013 to US\$ 6 million in 2014.

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

Geographical and Sectoral Distribution

During 2014, the Bank continued to focus on its main business markets in Pakistan, Bahrain, GCC and MENA in order to benefit from the abundant opportunities available there. As a result, the share of the Asian markets represented 53.6% of the total assets of the Bank, followed by the Bank's assets in the Gulf and the Middle East and North Africa region at 35.7%, then Europe at 6.4% while the remaining assets are divided between the other regions.

Of these assets, 34.7% represents transactions with banks and financial institutions, 27% with commercial and production businesses, 2.4% in construction and contracting and remaining share in other sectors and activities.

Liquidity Management

A key element of the Bank's culture and policies is the maintenance of strong liquid assets to accord with its leading role as a commercial bank on the one hand, and its ability to seize upon good opportunities that may become available in the regional markets, as an investment bank on the other. After the outbreak of the financial crisis in 2008, we promptly re-emphasized this approach as part of our overall precautionary measures. During 2014, and due to stable financial conditions during the first parts of the year and the expansion in earning assets, the liquid assets (cash and balances with banks) reached US\$ 300 million in 2014 compared to US\$ 319.7 million in 2013, representing a decrease of 6.1%. Due to noticeable increase in deposits and investment accountholders, the liquidity assets as a percentage of total deposits reached 18.9% in 2014 compared to 22.6% in 2013. The distribution of assets in terms of maturity shows that 48.7% of the total assets have a maturity within a period not exceeding one year, compared to 71% on the liabilities and equity side.

Liabilities and Customer Accounts

On the liabilities side, the investment accountholders, deposits from financial institutions and current accounts represented the main source of funds for the business operations of the Bank. These accounts increased markedly by 12.4% in 2014 to reach US\$ 1.59 billion compared to US\$ 1.42 billion in 2013. This reflects the Bank's successful efforts in expanding and diversifying finance sources sectorally and geographically through its good reputation in the markets, including those where ABC's units operate.

The investment accountholders represent the main external source of funds of the Bank. These accounts increased by 15.3% in 2014 to reach US\$ 1.29 billion compared to US\$ 1.12 billion in 2013. While deposits from financial and banking institutions decreased by 29.9% to US\$ 90.4 million in 2014 compared to US\$ 129 million in 2013. Current accounts increased significantly by 26.2% from US\$ 167.9 million in 2013 to US\$ 211.8 million in 2014, reflecting the expansion of the client base of the Bank for both individuals and corporates following the Bank's success in launching new saving and investment products and expanding in branch network in Pakistan.

During 2014, the Bank launched the new saving investment account "alBarakat" in the market. This account provides valuable prizes to their clients, represented in the grand prize, a marvelous villa in Durrat Al Bahrain in addition to 4 e-class Mercedes Benz car's for each quarter. The account provides attractive cash prizes on a monthly basis providing an opportunity to win a monthly salary of BD 555 for a full year, the prizes also include cash prizes of BD 1,000 and BD 500. These opportunities will multiply when entering the draw depending on the multiples in the account values with the minimum account value being BD 50.

Liabilities and Customer Accounts continued

For the first time in 2014, it is shown on the liabilities side; US\$ 20.5 million subordinated mudaraba sukuk. Al Baraka Pakistan took the first initiative in its kind in the Islamic banking industry in Pakistan where it issued mudaraba sukuk which is considered as unsecured subordinated financing, Tier II capital compliant in an amount of USD 20 million in September 2014. The sukuk is due for payment after 7 years. This issue was a landmark transaction in the entire country and received accolades not only from the State Bank of Pakistan but also from various industry players and fund managers.

Capital Adequacy

Total shareholders' equity amounted to US\$ 169.9 million in 2014 compared to US\$ 164.8 million in 2013, representing an increase of 3.1%. The capital adequacy ratio (in accordance with the instructions of the Central Bank of Bahrain "CBB" with respect to the implementation of the directives of Basel II) remained at very satisfactory level of 15.39% in 2014 compared to 13.98% in 2013, which provides the Bank with a strong capital base for further growth in the coming period.

Off-Balance Sheet Investment Accounts

The off-balance sheet equity of investment account holders amounted to US\$ 111.6 million in 2014 compared to US\$ 136.8 million in 2013, reflecting a decrease of 18.4%. These accounts are invested primarily in Mudaraba transactions with customers.

The Bank Operations in Pakistan

Al Baraka Pakistan is the third largest Islamic bank, in terms of total assets and deposits, amongst the five full-fledged Islamic Banks currently operating in Pakistan. The Bank has 130 branches spread in 77 cities and towns in Pakistan. All the branches are centrally connected and offer on-line services to its customers. A total of 77 ATMs are available at 30 locations. The Bank offers Retail, Corporate, Investment Banking and Treasury Services strictly in accordance with the principles of Islamic Sharia.

The Pakistan Credit Rating Agency (PACRA) has maintained the long-term and short-term entity ratings of Al Baraka Bank (Pakistan) Limited (ABPL) at "A" (Single A) and "A1" (A One) respectively. Meanwhile, "Positive Outlook" has been assigned to these ratings.

Main Achievements in 2014:

A) Issue of Tier II capital compliant Sukuk

Al Baraka Pakistan took the first initiative in its kind in the Islamic banking industry in Pakistan where it issued mudaraba sukuk which is considered as unsecured subordinated financing, Tier II capital compliant in an amount of USD 20.5 million in September 2014. The sukuk is due for payment in 2021. This issue was a landmark transaction in the entire country and received accolades not only from the State Bank of Pakistan but also from various industry players and fund managers. The Sukuk attracted phenomenal coverage from the local and international media.

b) Significant Reduction in Non Performing Assets

On an aggregate basis, there was a reduction of over US\$ 12 Million in the Non Performing Asset (NPAs) of the Bank during the year ended Dec.31, 2014. Infection ratio, on net basis, stands reduced to 2.7% in 2014 compared to 6.7% in 2013. No significant fresh NPAs added despite growth of over 30% in the financing book of the Bank.

C) Phenomenal Increase in Financing Book

Net Islamic financing, investments & related assets increased to US\$ 671.4 million in 2014 in comparison to US\$ 591.8 million in 2013, due to growth in commercial financing & increasing deposits. Financings are mostly restricted to blue-chip, high-quality names.

D) Sound Deposit Base of the Bank

- Total number of bank branches increased from 116 to 130, boosting the geographical footprint to a total of 77 cities and towns in Pakistan.
- Despite difficult times, total Deposits increased by US\$ 46 million to reach US\$ 802.2 million in comparison to USD 756.6 million in 2013.

E) Marketing and Technology Initiatives

- 32 new ATMs were deployed during the year 2014, taking the total deployment to 77 ATMs in 30 cities across Pakistan.
- Launched Al Baraka UnionPay Debit Card, which is accepted in 140 countries across the globe.
- Launch of Inter Bank Funds Transfer Facility (IBFT) on ATMs
- Establishment of a disaster recovery site in partnership with IBM
- Implementation of Operational Risk Software
- Al Baraka Pakistan has been awarded 'the CSR Excellence Award 2014' by a reputed and accredited agency in Pakistan
- In-house development of Leave Management System and Pool Management System

F) Launch of various fresh businesses

During FY14, The Bank established three new business functions: Cash Management, Capital Markets & Home Remittances.

The Credit Rating of the Bank

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

New Identity of the Bank

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

During 2014, the Bank continued with developing policies and high ethical and professional standards with regard to the offering of innovative and highly efficient Sharia'a-compliant services and products. To achieve this, we put in place a number of programs and plans which are currently being implemented to embody the motto of the new identity of the Group in being a "Partner Bank" to our customers, investors, and all our stakeholders. These steps included the implementation of a number of programs at all levels at the Bank to promote the understanding and assimilation of the new corporate identity and the values and principles that it represents and, which in turn, require high skills and outstanding performance from all employees.

CHIEF EXECUTIVE REPORT CONTINUED

New Identity of the Bank continued

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

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

At the subsidiary unit level, the Chief Executive Officer of each bank of the Group has been appointed Brand Guardian for his respective unit, assisted by senior executives, to ensure that all activities related to the brand conform to the unified policies.

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

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

As a result of this, there is now a strong customer oriented approach in all marketing activities. This approach is derived from the strategy outlined in the unified corporate identity and it has now been fully integrated into the policies, procedures and business methodologies.

Prizes Awarded to the Bank in 2014:

As a reflection of the Bank's growing reputation regionally and internationally, the Bank was awarded many international prizes in 2014. The Bank is proud to be chosen as the 'Best Islamic Bank in the Kingdom of Bahrain' in March 2014 for the third successive year by the Foundation of Islamic Finance News, the Malaysia-based international institution specializing in news for the Islamic financial sector. The Bank also won the 'Best Islamic Financial Institution in Bahrain' prize from Global Finance Magazine.

The Bank was rewarded by Euromoney in 2014 as "Bahrain Asset Manager of the Year" in appreciation for the range of structured products developed by the division over the past few years.

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

Branches

As for our local branch network, the opening of new branches was mainly in Pakistan, while the Bank has six branches in the Kingdom of Bahrain. We have an ambitious plan to open more branches in Bahrain and Pakistan 2015, which highlights our determination to enhance

our financing and deposit market share, considering that the Bank has a range of highly successful financial and deposit products designed for individuals and companies which include many attractive features that best meet the needs of customers in strict compliance with Islamic Sharia.

As for the ATM network, the Bank added two new ATMs in Saar and American Mission Hospital, which bring the total of these ATMs to 24 ATMs. During 2014, we took care of work environment and relationship with customers in order to improve and develop relations with them, as well as attention to human development and employment of competencies that contribute to enable the Bank to implement its new business strategies, and introduced new systems of information technology which enables the Bank to provide the latest banking services to its customers and increase operational efficiency.

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

The Bank has launched a new electronic service during 2014 using the Kiosk which enables customers to conduct banking transactions electronically via (ipad) in the main branch of the Bank located in the diplomatic area. The device offers clients e-banking services in a comprehensive manner, including a review of their bank account, repay the loans, transfer between accounts and request a statement of account and other services. The device includes a comprehensive guide to teach customers how to use it.

Human Resources and Training

Al Baraka Islamic Bank continued during 2014 to create conducive work environment and enhance the values and principles of the Bank to promote the concept of working as one team that possesses the academic qualifications, expertise and capabilities needed for the Bank's operations and satisfying the needs and expectations of our customers. The Bank also continued its efforts to fill senior positions and improve the performance and productivity of its staff to serve customers better.

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

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

Information Technology

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

- Main IT projects implemented during 2014 by the Bank:
- New Islamic Financing System PFF (Pennant Finance Factory).
- FATCA Module.
- Collection / Delinquency Management System PCF (Pennant Collection Factory).
- eBanking for Corporate Clients.
- ECM – Enterprise Content Management (in progress).
- SWIFT Technical Assessment.
- Enhancements to HR System.
- BATELCO Opex Reduction.
- Benefit Credit Bureau – Corporate.
- Real-Time ATM Cash Deposit instead of offline via envelopes.
- ATM in SAAR Mall.
- Branch Shifting from ARAD to Muharraq SEEF Mall.
- CBB Blocking System.
- CBB Internet Security Reporting.
- Automation of Deposit Breaking as per the Bank's new policy.
- Implementation Data Leakage Prevention (DLP) in last stages.
- Misys Licensing Upgrade to VBP4.
- eBanking High Availability Project.
- CBB AML Report.
- Wind7 Upgrade to 40% Staff Computers.
- Enhanced SWIFT system by adding 4 BICs 11 for 4 departments in the Bank.
- Changed Al Baraka old license name to existing one in MC online
- Implemented GCC POS and DDI project
- Changed Transfer agent Bank with Al Baraka for MC settlement ICA 7345 & ICA 13887.
- Implementation of RTGS system in Al Baraka DR site.
- Enhanced eBanking by Adding 2 new utility payments (Batelco & VIVA).

Social Responsibility

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

The Bank continued during the year 2014 performing its social responsibilities by directing its products and services for the development of communities in which it operates to enhance them socially and economically, and to improve the quality of these products and services, as well as through the support of financing of small and medium enterprises and taking care of youth skills and

training them. As well as through its social contributions and generous financial donations to serve community and charitable organizations through sponsorships and donations program to charities and local clubs and scientific and religious centers, in addition to supporting needy families in Bahrain. The Bank has a special program to provide assistance to charities and humanitarian organizations during the holy month of Ramadan.

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

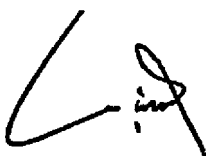
The Bank employs a number of students who are in the final stages of their undergraduate studies during the summer vacation, as well as fresh graduates with the aim of rehabilitation and refine their knowledge which is considered as an important part of the Bank's contributions toward the community.

Finally

At the end of our presentation of the performance of Al Baraka Islamic Bank in 2014, and in light of the positive operating results that we have made, particularly in terms of enhanced profitability through enhancing revenues from core operating sources of the Bank, which cover our both main markets Bahrain and Pakistan, we can emphasize our confidence in the future, where the Bank has great capital, human and technical resources and high liquidity that place him in a strong position to take advantage of the regional and global economies.

As for 2015, which is the second year in the new strategic plan of the Bank, we will continue implementing a number of initiatives including the credit card of the Bank, establishing a specialized section for SMEs, and shifting to the headquarter in Bahrain bay. In accordance with this strategy, we will make more efforts to maximize the satisfaction of clients and stakeholders, in addition to build high quality income-generating assets portfolio through enhancing controls, regulations and practices of risk management, governance, AML and CFT, and internal audit including Sharia control as well as tapping into new markets in Africa and Asia and continued launching new and innovative financing, savings and investment products.

We recognize that 2015 is full with challenges and is surrounded with unstable environment, but we believe that the economic fundamentals of the Kingdom of Bahrain and other GCC countries will remain strong, and are supported by ambitious development programs. Therefore, the efforts and initiatives made by the Bank, supported generously by the parent bank, Al Baraka banking Group, will advance the status and profitability of the Bank and will enhance its local and regional position.



Mohammed Isa Al-Mutaweh
Board Member and Chief Executive

CORPORATE GOVERNANCE

Governance and Compliance

Philosophy, Strategy and objectives

AlBaraka Islamic Bank "AIB/the bank" adhere to the principles and best practices of corporate governance. It is a fundamental part of how we discharge our duties and responsibilities towards protecting and enhancing our shareholders' value as well as ensuring that we achieve long term sustainable financial performance. Our governance framework extends beyond legislative and regulatory compliance and is aimed at creating a culture of good governance across the business to protect the interests of stakeholders.

The Bank aspires to the highest standards of ethical conduct by delivering our promise to clients, reporting our financial results accurately and transparently and maintaining full compliance with all laws, rules and regulations governing the Bank's business.

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

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

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

The board adopted written Corporate Governance Policy covering bank-wide corporate governance framework, matters related to the

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

These disclosures should be read in conjunction with AIB's consolidated financial statements for the year ended 31 December 2014. To avoid any duplication, information required under CBB Rulebook PD module but already disclosed in other sections of the annual report has not been reproduced in these disclosures.

Governance Framework

Ownership Structure

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

There has been no trading of Banks Shares during the year by the Directors or senior management. As at 31st December 2014, distribution schedule of shares, setting out the number and percentage of holders were as the following categories:

No	Name	Relationship	Position	Domicile	# of Shares	Share %
1	ABG	Parent Co.	-	Bahraini	1,115,755	91.1134%
2	Abdullatif A. Raheem Janahi	Non-executive and Independent Director	BoD Member	Bahraini	1,250	0.1021%

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

3	Hussain Mohsin Alharthe	Shareholder	-	Saudi	50,000	4.0830%
4	Bahrain Islamic Bank	Shareholder	-	Bahraini	10,000	0.8166%
5	Ibdar Bank	Shareholder	-	Bahraini	10,000	0.8166%
6	Suliman Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
7	Saleh Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
8	Abdullah Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
9	Mohammed Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
10	Heirs of Dr. Hassan Abdullah Kamel	Shareholder	-	Saudi	5,000	0.4083%
11	Dubai Islamic Bank	Shareholder	-	UAE	5,000	0.4083%
12	Saeed Ahmed Lotah & Sons Group	Shareholder	-	UAE	5,000	0.4083%
13	Jordan Islamic Bank	Shareholder	-	Jordan	2,500	0.2042%
14	Sheikh Saleh Abdullah Kamel	Shareholder	-	Saudi	73	0.0060%
Total					1,224,578	100%

Distribution of ownership of shares by nationality;

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

Distribution of ownership of shares by size of shareholder;

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

The Board of Directors (The Board)

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

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

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

The principal functions of the Board are as follows.

- reviews and approves the Management's proposals on long-term strategic plans of the Bank as well as the strategic business plans and activities of the various business units and monitors the Management's performance in the implementation process;
- approves the annual budget for the Bank and conducts regular business review of achievements against the annual budget, as well as reviews the Management's business strategies and action plans;
- sets corporate values and clear lines of responsibility and accountability that are communicated throughout the Bank;

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

CORPORATE GOVERNANCE CONTINUED

Governance Framework continued

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

1. Credit facilities above US\$ 15m and/or tenor more than 10years
2. Investments in quoted equities and investment in funds above US\$5m and/or tenor more than 7 years
3. Write-offs or discharge of the Bank's debts
4. If the investment losses is more than 10%.
5. Any excess above 20% of the original approved limits, and/or amount above US\$ 1m, and/or tenor above 3months.
6. Exceptional waivers in relation to security value or cash margin, if the original authority is the board.

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

Re-election of Directors

The previous Board's term expired in April 2014. In compliance with the Bank's Article of Association, the shareholders re-elected the existing Board members in the Annual General Meeting held in May 2014, for a period of three years ending April 2017. After the resignation of Board member Mr. Adil Saud Dahlawi, a new member Mr. Khalid Abdulla Ateeq has been elected.

Re-election of Directors process begins when an announcement is made requesting nominations for the position of membership of the three year term is due to expire, such nominations must be submitted to the Chairman of the Board within the time frame provided in the announcement. As part of the nomination process, each nomination must comply with local rules and regulations and must be submitted to the CBB in order to ensure compliance with the "Fit and Proper" requirements. The names of all nominated individuals so approved by the CBB are then submitted to the shareholders at the next AGM for election. Election of Directors takes place in accordance with the rules and procedures as set out in the Commercial Companies Law and AIB's Articles of Association.

Termination of Board Membership:

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

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

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

The Board Composition

The Directors have broad experience across a number of industries and business sectors, and provide valuable input and an external perspective to matters of business strategy. The Board currently has 10 members, comprising 6 independent non-executive directors (including the Chairman) and 4 executive directors.

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

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

Board Balance, Independence of Directors, and Membership in the Board Committees is set out below:

Director Name	Nationality	Board Membership		Committee Membership			
		Designation	Position	Audit & Governance	Remuneration & Board Affairs	Executive	Risk
Khalid Rashid Al-Zayani	Bahraini	Independent Director	Chairman				
Adnan Ahmed Abdulmalek	Bahraini	Executive	Vice Chairman		Member	Chairman	
Abdullatif A.Raheem Janahi	Bahraini	Independent Director	Member and Individual Founder			Member	
Abdulrahman Abdulla Mohammed	Bahraini	Independent Director	Member		Member	Member	
Musa A. Shihadah	Jordanian	Executive	Member	Member			
Khalid Abdulla Ateeq*	Bahraini	Independent	Member				Chairman
Ashraf A. El Ghamrawi	Egyptian	Executive	Member				Member
Yousef Ali Fadel Ben Fadel	UAE	Independent Director	Member	Member	Chairman		
Maqbool Habib Khalfan	Qatar	Independent Director	Member	Chairman			Member
Mohamed Essa Al Mutaweh	Bahraini	Executive	Member			Member	

*Appointed in May 2014

Information, induction and ongoing development

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

A formal induction process exists for each new Director on joining the Board, including briefing on the Bank's Corporate Governance Policy with copy for their reference, and meetings with other

Directors and the Board Secretary. The Bank provides the necessary programs of continuing education to ensure that Directors are kept up to date with developments in the industry both locally and globally which assist them in carrying out their duties as Directors.

Board meetings and attendances

In line with the nature and demands of the Bank's business, the Board meets at least every quarter unless further meetings are required. In 2014, the Board held 4 meetings, and the number of meetings attended by each member was as follows:

No	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Khalid Rashid Al-Zayani	4	4	18 February 2014 6 May 2014 4 August 2014 12 November 2014	4/4
2	Adnan Ahmed Abdulmalek				4/4
3	Abdullatif A.Raheem Janahi				4/4
4	Abdulrahman Abdulla Mohamed				4/4
5	Musa A. Shihadah				4/4
6	Khalid Abdulla Ateeq				3/4
7	Ashraf A. El Ghamrawi				4/4
8	Yousef Ali Fadel Ben Fadel				4/4
9	Maqbool Habib Khalfan				4/4
10	Mohamed Essa Al Mutaweh				4/4

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

for the effective functioning and discharging of the responsibilities of the Board.

CORPORATE GOVERNANCE CONTINUED

Performance Evaluation

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

Remuneration

During the year, the Central Bank of Bahrain issued regulations concerning Sound Remuneration Practices which the Bank adopted by proposing revisions to its variable remuneration policy and framework. Such revisions were duly reviewed and approved by the Board Remuneration Committee and Board of Directors on 12 November 2014. The revised policy and incentive components are subject to the approval of the shareholders in the upcoming Annual General Meeting. Once approved, the policy will be implemented throughout the Bank.

The Bank's compensation strategy, which includes the variable remuneration policy, sets out the Bank's policy on remuneration for Directors and Senior Management and the key factors that are taken into account in setting the policy.

Remuneration Strategy

The quality and long-term commitment of all of our employees is fundamental to our success. There is a robust and effective governance framework in place to ensure that the Bank operates within clear parameters of its compensation strategy and policy for remunerating the Board members, executives and senior management and its Shari'a Board members in accordance to the remuneration policies and procedures approved by the Board. All compensation matters and overall compliance with regulatory requirements are overseen by the Remuneration and Board Affairs Committee.

The Bank's basic compensation philosophy is to provide a competitive level of total compensation to attract and retain qualified and competent employees who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of the Bank and its shareholders.

The Bank's reward package comprises of fixed pay, benefits, performance bonus and a long-term performance incentive plan. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of our objectives through balancing rewards for both short-term results and long-term sustainable performance. Our strategy is designed to share our success, and to align employees' incentives with our risk framework and risk outcomes.

In order to ensure alignment between how we compensate our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarized in our performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all ethics and integrity. Altogether, performance is judged, not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the Remuneration & Board Affairs Committee believes the latter contributes to the long-term sustainability of the business. More particularly, we use capital and solvency ratios, key profitability measures, quality of earning parameters and strategic growth indicators as performance metrics for key business line managers and individuals.

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance on whether an employee is a Material Risk taker and/ or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Bank and an employee is considered a Material Risk taker if they are the Head of a significant business line or any individuals within their control who has a material impact on the Bank's risk profile.

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

The Remuneration & Board Affairs Committee has oversight of all reward policies for the Bank's employees. The Remuneration & Board Affairs Committee is the supervisory and governing body for the compensation policy, practices and plans. It is responsible for determining, reviewing and proposing the variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Bank. The Remuneration & Board Affairs Committee ensures that all persons are remunerated fairly and responsibly.

In addition to the responsibilities of the Remuneration & Board Affairs Committee mentioned elsewhere in this report, the Remuneration & Board Affairs Committee is entrusted with specific and detailed responsibilities with regard to the Bank's variable remuneration policy and oversight of its implementation. These include but are not limited to ensuring that the system operates as intended, especially for Material Risk Takers, ensuring that variable remuneration forms a substantial part of their total remuneration and is adjusted for all types of risks by reviewing the stress testing and back testing results. The Remuneration & Board Affairs Committee is also responsible for ensuring that for Approved Persons in risk management, internal audit, operations, Sharia' review, financial control and compliance functions, the mix of fixed and variable remuneration is weighted in favor of fixed remuneration. In addition, the Remuneration & Board Affairs Committee recommends that Board members' remuneration be based on their attendance and performance in compliance with Article 188 of the Bahrain Commercial Companies Law.

The Remuneration & Board Affairs Committee carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The Remuneration & Board Affairs Committee demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

As outlined in the Corporate Governance section of the Annual Report, the Board is satisfied that all non-executive Directors are independent, including the Remuneration & Board Affairs Committee members.

The aggregate remuneration paid to Remuneration & Board Affairs Committee members during the year in the form of sitting fees amounted to USD 12,000 [2013: USD 10,500].

Board remuneration

Remuneration for the Bank's Board of Directors is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. Board remuneration is subject to the

approval of the shareholders in the Annual General Meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

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

No director has received or become entitled to receive a benefit by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, other than the contracts mentioned in related section of the Bank's financial statements.

Directors' interests in the Bank's shares

Board Members	Shareholding at 1 January 2014	Shareholding at 31 December 2014	Changes in shareholding
Abdullatif A.Raheem Janahi	1,250	1,250	-

Directors, staff inclusive of CEO and Shari'a Committee Members' Remunerations:

	2014	2013
Directors:		
Remuneration*	87,199	-
Sitting Fees	210,000	175,000
Allowances and others**	42,237	43,188
Total	339,436	218,188
Staff inclusive of Chief Executive Officer:		
Fixed Remuneration		
Approved persons-business line	2,020,280	1,956,176
Approved persons-others	1,561,462	1,511,692
Other staff in Bahrain	8,259,946	7,123,148
Staff of overseas subsidiary	10,654,878	9,429,152
Total fixed remuneration	22,496,566	20,020,168
Variable Remuneration		
Approved persons-business line	379,023	206,769
Approved persons-others	283,910	154,963
Other staff in Bahrain	796,869	543,716
Staff of overseas subsidiary	525,060	316,588
Total variable remuneration	1,984,862	1,222,036
Total remuneration to staff	24,481,428	21,242,204
Shari'a Committee Members	68,699	65,044

* The amounts represent remuneration paid to the Board of Directors during the year based on the prior year performance. The remuneration for the year 2014 will be paid after approval from shareholders in the Annual General Meeting.

** Others include the reimbursement of tickets and per diem for attending Board of Directors and Board Committees meetings.

CORPORATE GOVERNANCE CONTINUED

Board remuneration continued

Total fixed remuneration for Approved Persons and Material Risk takers affected by the policy amounts to USD 1,345,761 (2013: USD 1,303,517) and the number of persons affected: 4 (2013:4). The total variable remuneration for 2014 will be finalized and approved by shareholders in the forthcoming AGM in March 2015 amounted to USD 403,832 (2013: USD 145,634). Further details of variable remuneration are given in deferred compensation section. Said variable remuneration will include upfront cash amounted to USD 161,533, upfront shares amounted to USD 17,124, deferred cash amounted to USD 23,258 and deferred shares amounted to USD 201,917.

During the year ended 31 December 2014, remuneration paid to external auditors amounts to USD 128,780 for audit and USD 125,332 for non audit services to the Group.

There is no severance pay during current year and corresponding period.

Variable Remuneration for Staff

The Bank's Variable Remuneration Policy provides that variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of our staff's variable remuneration, the annual bonus rewards the delivery of operational and financial targets set each year, individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the Remuneration & Board Affairs Committee aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the bank level include a combination of short term and long term measures and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations).

The Bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the RABC.

For the overall Bank to have any funding for distribution of a bonus pool; threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not determined by the financial performance of the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

Alignment with Risk

The policy aims to align variable remuneration to the risk profile of the Bank. In its endeavor to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes and delivers an appropriate mix of remuneration that is risk aligned.

The Bank's Remuneration & Board Affairs Committee considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account for all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the bank's current capital position and its ICAAP.

Alignment with Risk continued

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the bank takes into account the full range of current and potential risks, including:

- the cost and quantity of capital required to support the risks taken;
- the cost and quantity of the liquidity risk assumed in the conduct of business; and
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The RABC keeps itself abreast of the Bank's performance against the risk management framework. The RABC will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

The Bank has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Bank's total variable remuneration;
- At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings will be lower;
- Reduction in the value of deferred shares or awards;
- Possible changes in vesting periods and additional deferral applied to unvested rewards; and
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The RABC, with the Board's approval, can rationalize and make the following discretionary decisions:

Variable remuneration has following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years.
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of phantom shares on conclusion of the performance evaluation process for each year.
Deferred Shares	The portion of variable compensation that is awarded and paid in the form of phantom shares on a pro-rata basis over a period of 3 years.

All deferred awards are subject to malus provisions. All phantom shares awards are released to the benefit of the employee after a six month retention period from the date of vesting.

- Increase/reduce the ex-post adjustment;
- Consider additional deferrals or increase in the quantum of non-cash awards; and
- Recovery through malus and clawback arrangements.

The Bank's malus and clawback provisions in the policy allow the Bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited / adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behavior has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be made by the Bank's Board of Directors.

The Bank's malus and clawback provisions allow the Bank's Board to determine that, if appropriate, vested /unvested elements under the deferred bonus plan can be adjusted/ cancelled in certain situations. These events include the following:

- Reasonable evidence of willful misbehavior, material error, negligence or incompetence of the employee causing the Bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year; and
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.
- Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

CORPORATE GOVERNANCE CONTINUED

Deferred compensation

Employees earning over BHD 100,000 in business lines shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	Amount 2014	Vesting period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Upfront shares	-	Immediate	6 Months	Yes	Yes
Deferred cash	10%	3 Years	-	Yes	Yes
Deferred share awards	50%	3 Years	6 Months	Yes	Yes

Employees earning over BHD 100,000 in other functions shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	Amount 2014	Vesting period	Retention	Malus	Clawback
Upfront cash	50%	Immediate	-	-	Yes
Upfront shares	10%	Immediate	6 Months	Yes	Yes
Deferred cash	-	3 Years	-	Yes	Yes
Deferred share awards	40%	3 Years	6 Months	Yes	Yes

The RABC, based on its assessment of role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements. There are no signing or guaranteed bonus awarded during the current and prior year.

External Consultants

The Bank appointed consultants to advise the Bank on amendments to its variable remuneration policy to bring it in line with the CBB's Sound Remuneration Practices and industry norms. This included assistance in designing an appropriate Share-based Incentive Scheme for the Bank.

Board Committees

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

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

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

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

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

1. Audit and Governance Committee

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

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

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

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

No	Names	Minimum No of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Maqbool Habib Khalfan	4	4	18 February 2014	4/4
2	Musa A. Shihadah			06 May 2014	4/4
3	Yousef Ali Fadel Ben Fadel,			04 August 2014	4/4
				12 November 2014	

2. Remuneration & Board Affairs Committee (RABC)

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

- Board of Directors' and individual directors' performance;
- Effectiveness of, and compliance with, the Bank's corporate governance policies and practices;
- Succession planning for the Board and senior management;
- Staff remuneration policy and fees for non-executive directors and for the Shari'a Supervisory Board;
- Approve, monitor and review the remuneration system to ensure the system operates as intended;
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit but take different amount of risk on behalf of the bank;
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration;
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed

including salaries, fees, expenses, bonuses and other employee benefits;

- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The RABC will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment;
- Ensure that for approved persons in risk management, internal audit, operations, financial control and compliance functions the mix of fixed and variable remuneration is weighted in favor of fixed remuneration;
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law; and
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use Personal hedging strategies or remuneration-and liability related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

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

No	Names	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Yousef Ali Fadel Ben Fadel	2	2	12 January 2014	2/2
2	Adnan Ahmed Abdulmalek			02 October 2014	2/2
3	Abdulrahman Abdulla Mohamed,				2/2

3. Executive Committee

The primary purpose of the Committee is to consider specific matters delegated to it by the full Board and then make recommendations thereon to the Board or take decisions based on

authorities specifically delegated by the Board. The Board Executive Committee also has the power and authority to approve certain credit and investment proposals. The members, number of meeting held, and attendance of members are as follows:

CORPORATE GOVERNANCE CONTINUED

3. Executive Committee continued

No	Names	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Adnan Ahmed Abdulmalek	4	5	19 January 2014	5/5
2	Abdulrahman Abdulla Mohamed,			21 April 2014	5/5
3	Mohamed Essa AlMutaweh			09 June 2014	5/5
4	Abdullatif A.Raheem Janahi			08 September 2014	5/5
				26 November 2014	5/5

4. Board Risk Management Committee

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

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

A key purpose is to help monitoring the Bank's risk appetite for consideration by the Board, and agreeing and recommending a

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

No	Names	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Maqbool Habib Khalfan	4	4	17 February 2014	4/4
2	Ashraf A. El Ghamrawi			05 May 2014	4/4
3	Khalid Abdulla Ateeq*			17 September 2014	2/4
				02 December 2014	

*Joint in May 2014

Management Committees

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

Asset and Liability Committee (ALCO)

The Asset and Liability Committee's mandate is to monitor the liquidity and capital adequacy of the Group and review the Group's long term equity investments and its penetration into the different markets. The Committee reviews liquidity and cash flow of the Bank and the Group and sets balance sheet growth targets, besides monitoring the distribution of profits to investors.

Commercial / Corporate/ Retail Credit Committee

The Credit Committee is the authority that approves credits and considers issues of Group credit policy and Group credit exposures, problem credits and provisioning levels.

risk management framework to the Board that is consistent with the approved risk appetite. This framework, which is designed to achieve portfolio outcomes consistent with the Bank's risk/return expectations, includes:

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

The Risk Committee consists of three members. The Risk Committee has its own Board approved charter. The Chairman of the Risk Committee invites members of management or others to attend the committee meetings, as appropriate. (Due to the resignation of Mr. Adel Dahlawi, the Committee has been reconstituted in the year 2014 to fulfill the minimum requirement of membership where Mr.Khalid Abdulla Ateeq has joined as the Chairman of the Risk Management Committee.

Information Technology Steering Committee

The IT Steering Committee's role is to draw up the Group's short and long term IT strategy and oversee and monitor its implementation throughout the Group with a view to effecting standardization in information and operation management.

Cash Management Committee

Cash management committee is responsible for overseeing the management of available liquidity on a continuous basis.

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

INTERNAL CONTROL

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

The Bank's system of internal control includes:

- An organization structure with clearly defined authority limits and reporting mechanisms to senior levels of management and to the Board.
- A Risk Management function with responsibility for ensuring that risks are identified assessed and managed throughout the Bank.
- A set of policies and guidelines relating to credit risk management, asset and liability management, compliance, operational risk management and business continuity planning.
- An annual budgeting and monthly financial reporting system for all business units, which enables progress against plans to be monitored, trends to be evaluated and variances to be acted upon.
- An Internal Audit function to evaluate the adequacy and effectiveness of governance, risk and control systems, and to review management's compliance with policies and procedures.
- The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:
- Various appointed Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all departments and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the internal audit are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Bank reviews internal control issues identified by the respective Internal Audit Department, regulatory authorities, management, and external auditors and evaluate the adequacy and effectiveness of the risk management and internal control systems. The Audit Committee also reviews the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis.

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

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

RISK MANAGEMENT

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

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

CORPORATE GOVERNANCE CONTINUED

RISK MANAGEMENT continued

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

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

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

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

We believe that accurate, reliable and timely information is vital to support decisions regarding risk management at all levels. On an ongoing basis, the bank will also continue to strengthen its risk management processes and invest in relevant risk management infrastructures in order to be more robust and responsive to the increasingly complex business environment. The requirements span a diverse range of risk functionality including market and credit risk analysis systems, budgeting, strategic planning, asset and liability management, performance measurement, operational risk and regulatory reporting, as well as trading and trade processing systems and those systems supporting our staff.

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

The Bank is committed to meeting the highest levels of ethical standards in all areas of its operations. Starting from 1st July 2014 the bank's has adopted new customer on-boarding process to comply with new legislative and regulatory requirements and reporting related to United States Foreign Account Tax Compliance Act ("FATCA") requirements.

The Compliance Officer of the Bank is responsible for preparing compliance policies for Board review and approval, and administering and enforcing these policies. Compliance Unit continued to carry out other activities in 2014 inherent to its area ensuring the bank's operations are in line with all applicable laws and regulations, sending periodic regulatory information to the supervisory bodies, advises and keeps senior management informed on the implication of compliance laws and regulations that have a bearing on the Bank's operations, etc. It also cooperated in

new corporate projects such as the bank's adjustment to the US laws FATCA. On 1st March 2014 and based on the request of the Central Bank of Bahrain, compliance unit was combined with AML unit and recognized as a separate unit independent from Risk Management Department.

Management of Credit Risk

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

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

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

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

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

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

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

Management of Liquidity and Market Risk

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

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

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

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

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

Management of Operational Risk

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

The management of Operational Risk has two key objectives:

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

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

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

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

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

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

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

Capital Management

Capital Management is an ongoing process of ensuring adequate capital is available to meet regulatory capital requirements and ensure optimum capital usage. The Bank has implemented a dedicated capital management system which calculates the capital adequacy ratio in compliance with CBB and Basel II guidelines. Using this system, exposures are measured at the most granular level so that account level data is correctly used for calculation of risk weights, credit conversions and allocation of credit risk mitigants. AIB has also adopted the Basel II Standardized Approach

CORPORATE GOVERNANCE CONTINUED

to measure regulatory capital requirement on credit risk and market risk. For operational risk, the regulatory capital requirement is calculated based on Basic Indicator Approach. AIB has adopted "Pillar 1 Plus" approach for ICAAP where the bank can assess the additional capital requirements on the Pillar 2 risks like credit concentration risk, profit rate risk and other risks relevant to AIB. This also includes the capital charge estimations resulting from stress testing.

Compliance

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

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

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

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

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

The Code is intended to focus the Board and each director on areas of ethical risk, provide guidance to directors to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct, and help foster a culture of honesty and accountability. Each director must comply with the letter and

spirit of this Code. Directors should communicate any suspected violations of this Code promptly to the Chairman of the Audit Committee and the Chairman of the Corporate Governance Committee. Violations will be investigated by the Board or by a person or persons designated by the Board and appropriate action will be taken in the event of any violations of the Code.

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

The code envisages and expect from the board:

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

Conflict of interest

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

- **Business Interests** - If any member of the Board of Directors considers investing in securities issued by the Bank's customer, supplier or competitor, they should ensure that these investments do not compromise their responsibilities to the Bank. Many factors including the size and nature of the investment; their ability to influence the Bank's decisions; their access to confidential information of the Bank, or of the other entity, and the nature of the relationship between the Bank and the customer, supplier or competitor should be considered in

determining whether a conflict exists. Additionally, they should disclose to the Bank any interest that they have which may conflict with the business of the Bank.

- **Related Parties** - As a general rule, the Directors should avoid conducting Bank's business with a relative or any counterparty in which the relative or other person is associated in any significant role. If such a related party transaction is unavoidable, they must fully disclose the nature of the related party transaction to the appropriate authority as per the Corporate Governance Guidelines which are approved by the Board. Any dealings with a related party must be conducted in such a way that no preferential treatment is given to that party.
- **Use of Bank's Assets and Resources** - Each member of the Board of Directors has a duty to the Bank to advance its legitimate interests while dealing with the Bank's assets and resources. Members of The Board of Directors are prohibited from:
 - Using the Bank property, information or position for personal gain;
 - Acting on behalf of the Bank in any transaction in which they or any of their relative(s) have a significant direct or indirect interest.
- **Gifts** - Soliciting, demanding, accepting or agreeing to accept anything where any such gift is more than modest in value, or where acceptance of the gifts could create the appearance of a conflict of interest;

Directors avoid any action, position or interest that conflicts with an interest of the Bank, or gives the appearance of a conflict. The Bank annually solicits information from Directors in order to monitor potential conflict of interest, and Directors are expected to be mindful of their fiduciary obligations to the Bank. In the event of a situation involving a potential conflict of interest, Directors are encouraged to seek advice from the Bank's Compliance Officer. In the case of any other transaction or situation giving rise to conflicts of interest, the appropriate authority should after due deliberations decide on its impact.

Confidentiality

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

COMMUNICATION POLICY

The Bank uses all available avenues to communicate with its stakeholders, in line with the principle of transparency and disclosure that is integral to good corporate governance. This includes wide use of corporate publications, website, direct mailers,

electronic mail and local & regional media (through press releases), for the purposes of advertising and providing information on the Bank's progress.

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

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

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

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

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

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

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

CORPORATE GOVERNANCE CONTINUED

Customer-Centric Initiatives

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

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

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

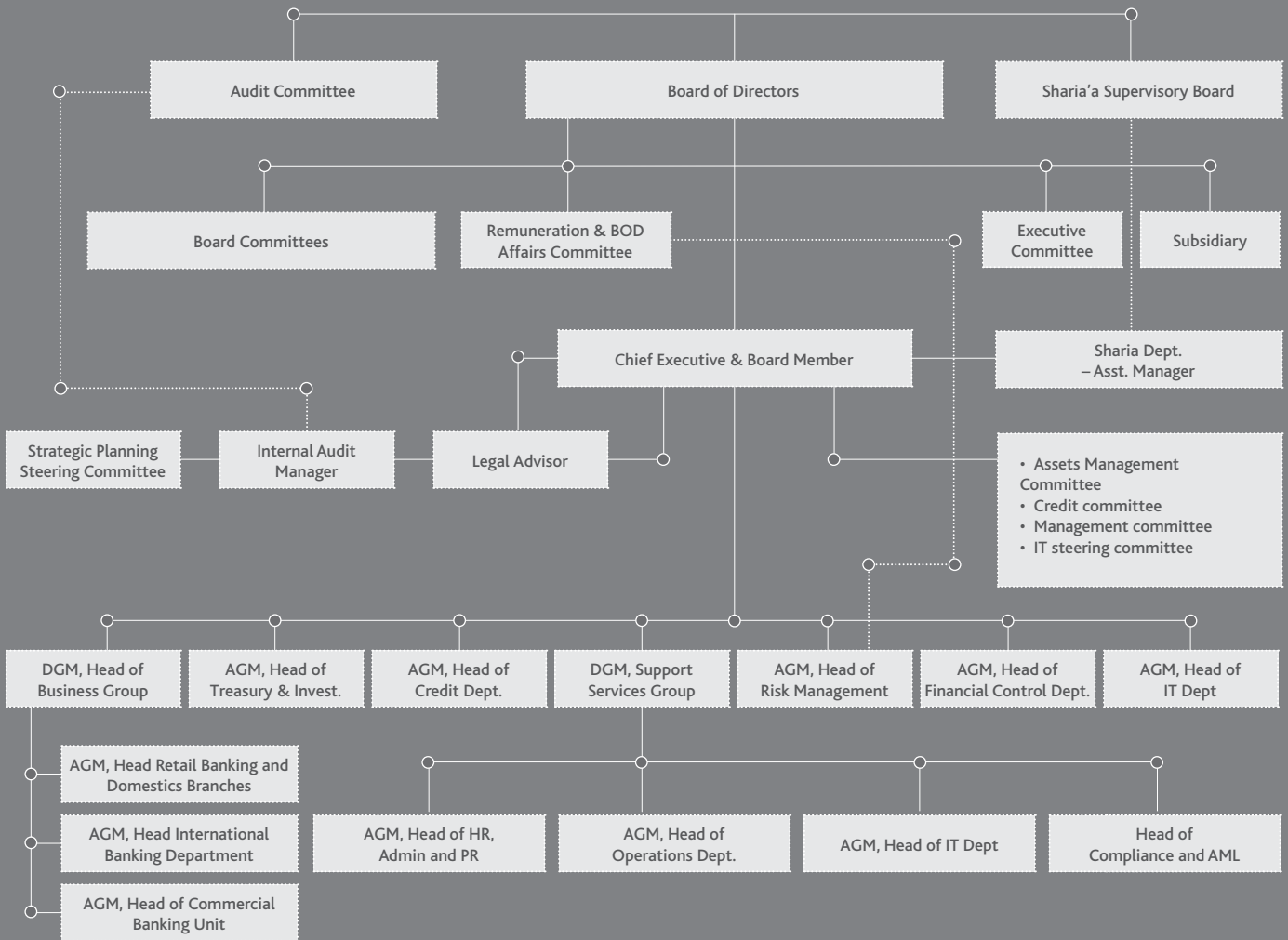
The Bank maintains comprehensive policy on handling of Whistleblowing and Customer Complaints, approved by the Board. All employees of the Bank are aware of and abide by this. The Bank has a designated Whistleblowing Team for handling of all complaints and its contact details are displayed on the

Bank's website and at the Branches. Complaints are normally investigated by persons not directly related to the subject matter of the complaint. The Bank endeavors to address all complaints within five working days. Wherever this is not possible, the customer is contacted directly and a time frame for rectification of his complaint advised. A periodical report on status of complaints is also submitted to CBB and to AIB's Board of Directors.

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

The Bank has Board approved KYC-AML-CFT Policy in place. The said Policy is the foundation on which the Bank's implementation of KYC norms, AML standards, CFT measures and obligation of the Bank according to regulation and directives issued by CBB. The roles of the Bank's MLRO and Deputy MLRO is to oversee the proper implementation of the requirements of the Anti-Money Laundering Law, as amended, on covered and suspicious transactions as well as the freezing of accounts, and to ensure complying with the requirements and obligations set out in relevant legislation, rules and industry guidance for the financial services sector. A new MLRO & Compliance Officer will soon be appointed as the existing one has resigned effective 11/12/2014. The Bank continuously reviews the policies and the adopted measures to ensure the ongoing application of, and adherence to, best practice. Regular training sessions are conducted on KYC-AML-CFT guidelines for all the staff

ORGANISATION CHART



SOCIAL RESPONSIBILITY

We in Al Baraka Islamic Bank contribute to the development of communities and local economies in which we operate as part of our being an Islamic financial institution, where we are believers that this role represents a key feature of the business model which we are committed. Because Al Baraka Islamic Bank is considered a pioneer in Islamic banking, we strive to maintain our leading position as an institution committed to social responsibility.

During 2014, the Bank continued to carry out its social responsibility by directing its products and services for the construction of the communities in which it operates, and by improving the quality of these products and services, as well as through the support of financing small and medium-sized enterprises and developing youth skills. The Bank also continued its generous contributions and financial donations in the service of society through sponsorships and donations to charities, local clubs, and centers of scientific and religious as well as supporting needy families in Bahrain. The Bank also has a special program to provide assistance to charities and humanity centers during the holy month of Ramadan.

The Bank continues its sponsorship of many banking and financial events and conferences in Bahrain such as the World Conference of Islamic banks and the Conference of the Accounting and Auditing Organization for Islamic Financial Institutions as the Bank is one of the main sponsors for them.

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



SHARIA'A SUPERVISORY BOARD'S REPORT

for financial year ended 31 December 2014

In the Name of Allah, The Merciful, The Compassionate

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

To: The Shareholders of Al Baraka Islamic Bank

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

We have supervised the principles and contracts used in transactions and applications by Al Baraka Islamic Bank BSC (exempt closed) (the "Bank") throughout the year up to the end of December 2014. We have performed our supervision as may be necessary to enable us express an opinion on whether the Bank has complied with the provisions and principles of Islamic Shari'a, as well as with the fatwa's, resolutions and specific guidelines that were issued by us.

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

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

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

In our opinion

1. The contracts, transactions and dealings entered into by the Bank during the financial year ended 31 December 2014 which we reviewed were made in compliance with the provisions and principles of Islamic Shari'a.
2. The management has committed itself to segregate all the unintended gains obtained from sources or means prohibited by the provisions and principles of Islamic Shari'a and disburse of it towards charitable causes under the supervision of the Shari'a Supervisory Board.
3. The allocation of profits and charging of losses related to investment accounts conform to the basis that has been approved by us in accordance with Shari'a provisions and principles.
4. The management is not authorized to pay the Zakat on behalf of the shareholders, and as such the responsibility for payment of the Zakat lies with the shareholders in accordance with the Zakat calculation approved by the Shari'a Supervisory Board, which is USD 0.130 per share.

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

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

Date: 18/02/2014
kingdom of Bahrain.

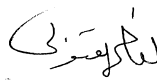
Shari'a Board Members



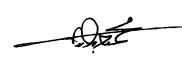
Dr. Sheikh Abdul Sattar Abu Guddah
Chairman of Sharia'a Board



Sheikh Esam Mohamed Ishaq
Member of Sharia'a Board



Sheikh Nedham Mohamed Yaqoobi
Member of Sharia'a Board



Mohamed Jasim
Assistant Manager of Sharia
Department

FINANCIAL STATEMENTS

At 31 December 2014

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial position of Al Baraka Islamic Bank B.S.C (c) ("the Bank") and its subsidiary ("the Group") as of 31 December 2014 and the related consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

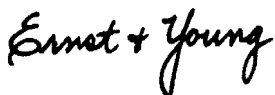
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2014, the results of its operations, its cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Report on other regulatory requirements

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

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

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2014 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

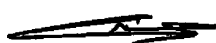


Partner's registration no: 45
25 February 2015
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	2014 US\$	2013 US\$
ASSETS			
Cash and balances with banks and financial institutions	3	300,006,018	319,640,704
Sales receivables	4	620,990,366	633,697,727
Mudaraba financing	5	-	1,729,061
Ijara Muntahia Bittamleek	6	221,040,523	126,579,913
Musharaka	7	119,299,509	72,455,498
Investments	8	439,054,503	335,493,099
Investments in real estate	9	5,973,584	5,549,016
Ijara income receivables	10	13,144,231	17,251,392
Premises and equipment	11	23,273,257	23,342,211
Goodwill	12	18,407,059	17,560,934
Other assets	13	73,831,979	77,907,623
TOTAL ASSETS		1,835,021,029	1,631,207,178
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA SUKUK AND OWNERS' EQUITY			
Liabilities			
Due to banks and financial institutions		90,407,721	128,998,308
Current accounts		211,810,003	167,899,912
Other liabilities	14	52,713,995	50,744,711
Total liabilities		354,931,719	347,642,931
Equity of investment accountholders		1,289,703,134	1,118,764,934
Subordinated mudaraba sukuk	15	20,508,436	-
Owners' Equity			
Share capital	16	122,457,800	122,457,800
Reserves	17	20,855,976	18,477,324
Retained earnings		8,452,966	7,241,110
Equity attributable to parent's shareholders		151,766,742	148,176,234
Non-controlling interest		18,110,998	16,623,079
Total owners' equity		169,877,740	164,799,313
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA SUKUK AND OWNERS' EQUITY		1,835,021,029	1,631,207,178
OFF-BALANCE SHEET ITEMS:			
EQUITY OF INVESTMENT ACCOUNTHOLDERS		111,648,279	136,777,525
CONTINGENCIES AND COMMITMENTS	18	272,717,761	268,477,796



Khalid Rashid Al Zayani
Chairman



Adnan Ahmed Yousif
Deputy Chairman



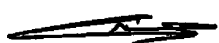
Mohamed Isa Al-Mutaweh
Chief Executive Officer & Board Member

The attached explanatory note 1 to 32 from part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2014

	Notes	2014 US\$	2013 US\$
INCOME			
Income from jointly financed sales		44,074,237	38,669,022
Income from jointly financed, other financings and investments	19	34,923,426	39,512,212
Income from jointly financed assets		78,997,663	78,181,234
Return on equity of investment accountholders before Group's share as a Mudarib		(72,635,382)	(68,753,815)
Group's share as a Mudarib		13,849,413	13,062,863
Return on equity of investment accountholders		(58,785,969)	(55,690,952)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmaal)		20,211,694	22,490,282
Group's income from self financed sales		2,734,248	3,188,975
Group's income from self financed, other financings and investments	19	16,118,098	7,738,493
Revenue from banking services	20	7,297,563	6,624,884
Other income	21	3,258,940	3,462,647
Group's Mudarib / agency fee from off-balance sheet equity of investment account holders		99,056	47,122
TOTAL OPERATING INCOME		49,719,599	43,552,403
OPERATING EXPENSES			
Staff expenses		24,360,279	21,242,205
Depreciation	11	2,949,157	2,809,039
Profit on due to banks and financial institutions		3,419	12,598
Other operating expenses	22	18,776,235	15,613,878
TOTAL OPERATING EXPENSES		46,089,090	39,677,720
NET OPERATING INCOME		3,630,509	3,874,683
Provision for impairment - net	23	(859,896)	(3,146,175)
INCOME BEFORE TAXATION		2,770,613	728,508
Taxation	24	(700,865)	186,965
INCOME FOR THE YEAR		2,069,748	915,473
Attributable to:			
Equity shareholders of the parent		1,346,507	968,876
Non-controlling interest		723,241	(53,403)
		2,069,748	915,473



Khalid Rashid Al Zayani
Chairman



Adnan Ahmed Yousif
Deputy Chairman



Mohamed Isa Al-Mutaweh
Chief Executive Officer & Board Member

The attached explanatory note 1 to 32 from part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	2014 US\$	2013 US\$
OPERATING ACTIVITIES		
Net income before taxation	2,770,613	728,508
Adjustments for:		
Depreciation	2,949,157	2,809,039
Provision for impairment - net	859,896	3,146,175
Gain on sale of premises and equipment	(41,527)	(84,139)
Gain on sale of investments	(4,117,936)	(3,951,298)
Unrealised remeasurement gain	(424,568)	(500,000)
Operating profit before changes in operating assets and liabilities	1,995,635	2,148,285
NET CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Balances with central banks in mandatory reserves	(15,882,168)	(13,270,439)
Sales receivables	(90,261,263)	(45,755,653)
Mudaraba financing	1,729,061	33,131,865
Ijara Muntahia Bittamleek	(94,460,610)	(13,347,378)
Musharaka	(47,676,393)	(9,568,107)
Ijara income receivables	4,105,897	4,501,044
Other assets	(23,124,658)	(5,627,096)
Other liabilities	1,755,343	17,176,111
Due to banks and other financial institutions	(38,590,587)	9,295,190
Current accounts	43,910,091	39,046,405
Equity of investment accountholders	171,017,607	151,413,735
Taxation paid	(692,955)	(585,614)
Net cash (used in) / from operating activities	(86,175,000)	168,558,348
INVESTING ACTIVITIES		
Purchase of investments	(413,130,882)	(132,016,436)
Investments sold / matured	339,607,183	174,658,804
Purchase of investment in real estate	-	(2,066)
Purchase of premises and equipment	(2,195,917)	(5,110,763)
Sale of premises and equipment	44,951	174,089
Net cash (used in) / from investing activities	(75,674,665)	37,703,628
FINANCING ACTIVITY		
Subordinated Mudaraba Sukuk	20,508,436	-
Net cash from financing activity	20,508,436	-
Foreign currency translation adjustments	1,636,965	(3,215,363)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(139,704,264)	203,046,613
Cash and cash equivalents at 1 January	453,680,421	250,633,808
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (NOTE 25)	313,976,157	453,680,421

The attached explanatory note 1 to 32 from part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2014

Equity attributable to shareholders of the parent

	Share capital US\$	Statutory US\$	General US\$	Employee defined benefit plan US\$	Reserves				Total US\$	Non- controlling interest US\$	Total owners' equity US\$
					Cumulative changes in fair value US\$	Foreign exchange US\$	Retained earnings US\$	Total US\$			
Balance at 1 January 2014	122,457,800	21,845,716	8,687,143	-	(78,891)	(11,976,644)	7,241,110	148,176,234	16,623,079	164,799,313	
Cumulative changes in fair value	-	-	-	-	33,497	-	-	33,497	18,323	51,820	
Foreign currency translation reserve	-	-	-	-	-	2,348,795	-	2,348,795	822,005	3,170,800	
Net income for the year	-	-	-	-	-	-	1,346,507	1,346,507	723,241	2,069,748	
Remeasurement losses on defined benefit plan	-	-	-	(138,291)	-	-	-	(138,291)	(75,650)	(213,941)	
Transfer to statutory reserve	-	134,651	-	-	-	-	(134,651)	-	-	-	
Balance at 31 December 2014	122,457,800	21,980,367	8,687,143	(138,291)	(45,394)	(9,627,849)	8,452,966	151,766,742	18,110,998	169,877,740	
Balance at 1 January 2013	122,457,800	21,748,828	8,687,143	-	(846,661)	(7,821,732)	6,369,122	150,594,500	18,171,801	168,766,301	
Cumulative changes in fair value	-	-	-	-	767,770	-	-	767,770	(30,809)	736,961	
Foreign currency translation reserve	-	-	-	-	-	(4,154,912)	-	(4,154,912)	(1,464,510)	(5,619,422)	
Net income/(loss) for the year	-	-	-	-	-	-	968,876	968,876	(53,403)	915,473	
Transfer to statutory reserve	-	96,888	-	-	-	-	(96,888)	-	-	-	
BALANCE AT 31 DECEMBER 2013	122,457,800	21,845,716	8,687,143	-	(78,891)	(11,976,644)	7,241,110	148,176,234	16,623,079	164,799,313	

The attached explanatory note 1 to 32 from part of these consolidated financial statements.

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

For the year ended 31 December 2014

	Balance at 1 January 2014 US\$	Cumulative changes in fair value US\$	Net withdrawals US\$	Gross income US\$	Mudarib's / agency fee US\$	Balance at 31 December 2014 US\$
Sales receivables	106,618,765	-	(6,361,721)	1,772,278	(99,056)	101,930,266
Investments	30,158,760	-	(20,440,747)	-	-	9,718,013
	136,777,525	-	(26,802,468)	1,772,278	(99,056)	111,648,279

	Balance at 1 January 2013 US\$	Cumulative changes in fair value US\$	Net (withdrawals) deposits US\$	Gross income US\$	Mudarib's / agency fee US\$	Balance at 31 December 2013 US\$
Sales receivables	107,929,065	-	(1,367,808)	104,630	(47,122)	106,618,765
Investments	26,046,122	3,318,315	794,323	-	-	30,158,760
	133,975,187	3,318,315	(573,485)	104,630	(47,122)	136,777,525

The attached explanatory note 1 to 32 from part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

1. INCORPORATION AND PRINCIPAL ACTIVITY

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Bank operates under a Retail Bank's licence number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has six commercial branches in the Kingdom of Bahrain.

The principal activities of the Bank and its 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.

The consolidated financial statements were approved by the Board of Directors on 25 February 2015.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

The consolidated financial statements are presented in United States Dollars, being the reporting currency of the Group. All values are rounded of nearest US Dollar unless otherwise indicated. However, the functional currency of the Bank is Bahraini Dinars and the subsidiary is Pakistani Rupees. Items included in the consolidated financial statements of each entity are measured using respective functional currency. The Group uses the direct method of consolidation and has elected to recycle the gain or loss that arises from using this method.

Statement of compliance

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

Basis of consolidation

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

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

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

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

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in a subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

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

The following is the principal subsidiary of the Bank, which is consolidated in these consolidated financial statements.

Bank	Ownership for 2014 / 2013	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2014/2013
Held directly by the Bank				
Al Baraka Bank (Pakistan) Limited*	64.64%	2004	Pakistan	130 / 110

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Further, the State Bank of Pakistan (SBP) vide BSD Circular No. 7 of 2009 dated 15 April 2009 required the minimum paid up capital (free of losses) for banks / development financial institutions (DFI) to be raised to Rs. 10 billion (US\$ 99.52 million). Further the banks / DFIs are also required to maintain a capital adequacy ratio of 10% at all times.

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

- i) The Bank is required to maintain a minimum paid up capital (net of losses) (MCR) of at least Rs 6 billion (US\$ 59.71 million) at all times and will have to meet the full MCR of Rs 10 billion (US\$ 99.52 million) by 31 December 2016.
- ii) As a short term arrangement, ABPL has been allowed to raise a foreign currency sub-ordinated debt of US\$ 11 million from the Bank (Al Baraka Islamic Bank B.S.C. (c)). The said sub-ordinated debt has been deposited with the SBP as non-remunerative deposit.
- iii) The above foreign currency deposit with the SBP shall be increased to Rs 2.1 billion (US\$ 20.89 million) by 31 December 2014 and Rs 2.8 billion (US\$ 27.86 million) by 31 December 2015.
- iv) The foreign currency sub-ordinated debt will not be withdrawn unless ABPL achieves full compliance with MCR. However any withdrawal will be subject to prior approval of the SBP. In the event ABPL is not MCR compliant by 31 December 2016, the sub-ordinated debt will be converted into the paid up capital of ABPL.
- v) For regulatory purposes, the foreign currency sub-ordinated debt is allowed to be included in ABPL's capital.
- vi) SBP while approving the capital plan of the Bank vide its letter no. BPRD/BA&CP/608/019652/2013 dated 28 December 2013 required ABPL to maintain CAR of atleast 15% which may be reduced depending on the level of increase in MCR.
- vii) To comply with the aforementioned requirements related to MCR and CAR, ABPL has issued unsecured, sub-ordinated and privately placed sukuk amounting to US\$ 20.508 million (note 17). Further, the Bank as the Parent is fully committed to comply with the current and future regulatory requirements.

Investment in Itqan Capital

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

After obtaining all regulatory approvals, the Bank acquired 60% equity stake effective 1 July 2012 in the Company and sold 5.88% equity stake in ATCIF. Thereafter, the subordinated qard hasan amounting to US\$ 26,667 thousand (note 13) has been capitalised increasing the equity share of the Bank effective from 31 October 2014. Accordingly, the ownership interest of the Bank has increased to 83.07%. Further, the Bank via a management agreement dated 1 July 2012 assigned the control to govern the financial and operating policies of the Company to Al Baraka Banking Group (the "Ultimate Parent"). The Bank has authorised the Ultimate Parent to represent it in the shareholders' meetings and to exercise control on the Company to do any or all acts and deeds and exercise all powers of the Bank pursuant to the Charter Document referred in the management agreement and or under any applicable laws.

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

The investment acquired is initially recognised at cost, being the fair value of consideration given including acquisition charges associated with the investment. Subsequently, the investment is carried at cost less impairment losses, if any.

2.2 Summary of significant accounting policies

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

a) Cash and cash equivalents

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

b) Sales receivables

Murabaha receivables

Murabaha receivables are stated net of deferred profits, any amounts written off and provision for doubtful debts, if any.

Murabaha receivables are sales on deferred payment terms. The Bank arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then sells this commodity to murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the murabeh over the agreed period. (Promise made in the murabaha to the purchase orderer is not obligatory upon the customer or the Bank considers promise made in the murabaha to the purchase orderer as obligatory).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

2. ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

a) Cash and cash equivalents (continued)

Wakala receivables

Wakala receivables are stated cost plus accrued profit, less provision for doubtful amount.

Salam receivables

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

Istisna'a receivables

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

c) Mudaraba financing and Musharaka

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

d) Ijara Muntahia Bittamleek and Ijara income receivables

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

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

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

e) Investments

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

Investment in real estate

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

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

Equity-type instruments at fair value through equity

This includes all equity-type instruments that are designated as fair value through equity upon initial recognition. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in consolidated statement of income.

Debt-type instruments at fair value through statement of income

These include debt-type investments held for trading purposes and those investments that are designated under this category on initial recognition. Subsequent to acquisition, investments designated at fair value through consolidated statement of income are re-measured at fair value with unrealised gains or losses recognised in consolidated statement of income.

Debt-type instruments at amortised cost

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

2. ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

f) Premises and equipment

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

g) Fair values

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

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

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

h) Business combination and goodwill

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

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

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

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

i) Equity of investment accountholders

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

j) Investment risk reserve

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

k) Profit equalisation reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

2. ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

l) Off-balance sheet equity of investment accountholders

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

m) Revenue recognition

Sales receivables

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

Mudaraba financing

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

Wakala financing

Income on Wakala financing is accrued on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Ijara Muntahia Bittamleek

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

Musharaka

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

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

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

Fees and commission income

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

Dividends

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

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

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

Income from investments

Income from investments is recognised when earned.

Rental income

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

n) Return on equity of investment accountholders

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

2. ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

o) Investment pool expenses

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

p) Taxation

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

Current

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

Deferred

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

q) Contingencies and Commitments

Contingencies are possible obligation or assets that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Further, the obligation arisen from past events where the liability cannot be determined with reasonable certainty or probability of outflow of resourced cannot be determined are also contingencies.

A commitment is a binding contract for the exchange of a specified quantity of resourced at a specific price on a specified future dates or date.

r) Derecognition

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

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

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

s) Earnings prohibited by Shari'a

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

t) Foreign currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollar) at the rate of exchange ruling at the consolidated statement of financial position date and their income and expenses are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of owners' equity. On disposal of a foreign operation, the deferred cumulative amount recognised in owners' equity relating to that particular foreign operation is recognised in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

2. ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

u) Impairment of financial assets

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

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

v) Judgements and estimates

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

Impairment and uncollectibility of financial assets

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

Fair valuation of investments

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

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

Going concern

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

Classification of investments

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

w) Employees' end of service benefits

Defined contribution plan

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

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

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

Defined benefit plan

The subsidiary in Pakistan operates an approved funded gratuity scheme for all its permanent employees. Annual contributions are made to the scheme in accordance with the actuarial recommendation. The actuarial valuation is carried out using the projected unit credit method.

x) Zakah

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

2. ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

y) Joint and self financed

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

z) Offsetting

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

aa) Shari'a supervisory board

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

ab) Trade date accounting

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

3. CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2014 US\$	2013 US\$
Cash in hand	18,724,570	17,871,984
Balances with State Bank of Pakistan		
Current account	4,115,021	4,993,587
Capital deposit account	11,000,000	11,000,000
Mandatory reserves	33,570,236	23,024,938
	48,685,257	39,018,525
Balances with CBB		
Current account	20,574,251	9,636,124
Mandatory reserves	21,954,907	16,618,037
	42,529,158	26,254,161
Balances with other banks and financial institutions	190,067,033	236,496,034
	300,006,018	319,640,704

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

4. SALES RECEIVABLES

	2014			2013		
	Self financed US\$	Jointly financed US\$	Total US\$	Self financed US\$	Jointly financed US\$	Total US\$
Commodities	-	80,614,285	80,614,285	-	184,773,667	184,773,667
Salam financing	-	56,889,566	56,889,566	-	43,610,867	43,610,867
Istisna'a financing	-	40,211,133	40,211,133	-	16,983,359	16,983,359
Murabaha	5,739,233	495,879,185	501,618,418	11,075,670	440,093,862	451,169,532
Others	-	16,559,367	16,559,367	-	5,984,312	5,984,312
Gross sales receivable	5,739,233	690,153,536	695,892,769	11,075,670	691,446,067	702,521,737
Deferred profits	(586,667)	(26,795,216)	(27,381,883)	-	(25,082,382)	(25,082,382)
	5,152,566	663,358,320	668,510,886	11,075,670	666,363,685	677,439,355
Provision for impairment (note 22)	-	(47,520,520)	(47,520,520)	-	(43,741,628)	(43,741,628)
Net sales receivable	5,152,566	615,837,800	620,990,366	11,075,670	622,622,057	633,697,727

Sales receivables which are non-performing as of 31 December 2014 amounted to US \$ 93.724 million (2013: US \$ 79.559 million).

5. MUDARABA FINANCING

	2014			2013		
	Self financed US\$	Jointly financed US\$	Total US\$	Self financed US\$	Jointly financed US\$	Total US\$
Banks and financial institutions	-	-	-	1,729,061	-	1,729,061

6. IJARA MUNTAHIA BITTAMLEEK

	2014			2013		
	Self financed US\$	Jointly financed US\$	Total US\$	Self financed US\$	Jointly financed US\$	Total US\$
BUILDING						
Cost	-	151,992,329	151,992,329	-	94,270,174	94,270,174
Accumulated depreciation	-	26,582,575	26,582,575	-	20,962,041	20,962,041
Net book value	-	125,409,754	125,409,754	-	73,308,133	73,308,133
EQUIPMENT						
Cost	-	77,962,902	77,962,902	-	51,791,734	51,791,734
Accumulated depreciation	-	15,916,954	15,916,954	-	19,009,188	19,009,188
Net book value	-	62,045,948	62,045,948	-	32,782,546	32,782,546
OTHERS						
Cost	-	44,419,543	44,419,543	1,851,441	28,265,040	30,116,481
Accumulated depreciation	-	10,834,722	10,834,722	1,851,441	7,775,806	9,627,247
Net book value	-	33,584,821	33,584,821	-	20,489,234	20,489,234
TOTAL						
Cost	-	274,374,774	274,374,774	1,851,441	174,326,948	176,178,389
Accumulated depreciation	-	53,334,251	53,334,251	1,851,441	47,747,035	49,598,476
Net book value	-	221,040,523	221,040,523	-	126,579,913	126,579,913

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At 31 December 2014

7. MUSHARAKA

	2014			2013		
	Self financed US\$	Jointly financed US\$	Total US\$	Self financed US\$	Jointly financed US\$	Total US\$
Musharaka	-	121,864,492	121,864,492	4,480,000	73,902,523	78,382,523
Provision for (note 22)	-	(2,564,983)	(2,564,983)	-	(5,927,025)	(5,927,025)
	-	119,299,509	119,299,509	4,480,000	67,975,498	72,455,498

Musharaka which are impaired as of 31 December 2014 amounted to US \$ 3.397 million (2013: US \$ 9.251 million).

8. INVESTMENTS

	2014			2013		
	Self financed US\$	Jointly financed US\$	Total US\$	Self financed US\$	Jointly financed US\$	Total US\$
i) Debt-type instruments at fair value through statement of income						
Unquoted						
Sukuk	-	20,314,188	20,314,188	-	-	-
i) Debt-type instruments at amortised cost						
Quoted						
Sukuk	102,182,817	35,235,672	137,418,489	88,948,205	17,170,757	106,118,962
Unquoted						
Sukuk	72,854,801	137,915,276	210,770,077	57,828,883	137,229,000	195,057,883
	175,037,618	173,150,948	348,188,566	146,777,088	154,399,757	301,176,845
ii) Equity-type instruments at fair value through equity						
Quoted						
Listed equity shares	2,098,679	230,568	2,329,247	-	186,005	186,005
Unquoted						
Equity investments	58,039,602	519,490	58,559,092	28,351,320	495,611	28,846,931
Managed funds	1,000,000	5,021,468	6,021,468	1,000,000	5,011,473	6,011,473
Real estate related	8,680,207	875,066	9,555,273	3,378,495	912,625	4,291,120
	69,818,488	6,646,592	76,465,080	32,729,815	6,605,714	39,335,529
Less: Provision for impairment (note 23)	(2,120,480)	(3,792,851)	(5,913,331)	(2,460,643)	(2,558,632)	(5,019,275)
Total investments	242,735,626	196,318,877	439,054,503	177,046,260	158,446,839	335,493,099

Included in quoted equity type instruments, US\$ 2,162 thousand (2013: US\$ 99 thousand) of investments are fair valued using quoted prices in active markets for identical instruments.

Within unquoted investments which are held at fair value through equity are investments amounting to US\$ 71,212 thousand (2013: US\$ 35,889 thousand) which are held at cost less provision for impairment. These are investments in unlisted companies whose shares are not traded on active markets. The investments are primarily in closely-held companies located in the Gulf Co-operation Council ("GCC"). The investments are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for determining a reliable fair value.

The Group's investments in sukuk held at amortised cost amounting to US\$ 345,366 thousand (2013: US\$ 299,505 thousand) has a fair value amounting to US\$ 344,148 thousand (2013: US\$ 298,073 thousand).

The investments stated at a carrying amount of US\$ 49,756 thousand (2013: US\$ 48,780 thousand) are secured as guarantee against the borrowing from a financial institution.

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9. INVESTMENTS IN REAL ESTATE

	2014 US\$	2013 US\$
Buildings	5,549,016	3,204,488
Additions	-	2,066
Transfer from other assets	-	1,842,462
Changes in fair value (note 21)	424,568	500,000
	5,973,584	5,549,016

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

10. IJARA INCOME RECEIVABLES

	2014			2013		
	Self financed US\$	Jointly financed US\$	Total US\$	Self financed US\$	Jointly financed US\$	Total US\$
Ijara income receivables	-	14,628,998	14,628,998	566,801	18,099,835	18,666,636
Provision for impairment (note 23)	-	(1,484,767)	(1,484,767)	-	(1,415,244)	(1,415,244)
	-	13,144,231	13,144,231	566,801	16,684,591	17,251,392

Total Ijara Muntahia Bittamleek and ijara income receivables, which are non-performing as of 31 December 2014, amounted to US\$ 8.706 million (2013: US \$ 2.889 million).

11. PREMISES AND EQUIPMENT

	Land and Buildings US\$	Computer Software & license US\$	Office furniture and equipment US\$	Vehicles US\$	Total US\$
COST:					
At 1 January 2014	20,943,753	7,944,519	16,982,426	1,024,423	46,895,121
Additions	503,847	416,504	1,275,069	497	2,195,917
Disposals	-	-	(89,764)	(89,227)	(178,991)
Exchange difference on opening balance	527,294	105,693	445,524	35,736	1,114,247
At 31 December 2014	21,974,894	8,466,716	18,613,255	971,429	50,026,294
DEPRECIATION:					
At 1 January 2014	3,628,176	6,802,929	12,426,795	695,010	23,552,910
Provided during the year	785,688	671,185	1,371,932	120,352	2,949,157
Disposals	-	-	(86,340)	(89,227)	(175,567)
Exchange difference on opening balance	46,651	84,111	269,938	25,837	426,537
At 31 December 2014	4,460,515	7,558,225	13,982,325	751,972	26,753,037
Net book values:					
At 31 December 2014	17,514,379	908,491	4,630,930	219,457	23,273,257
At 31 December 2013	17,315,577	1,141,590	4,555,631	329,413	23,342,211
Estimated useful lives for calculation of depreciation	20-30 years	4-5 years	1-10 years	4-5 years	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

12. GOODWILL

	2014 US\$	2013 US\$
At 1 January	17,560,934	19,038,642
Foreign exchange translations	846,125	(1,477,708)
	18,407,059	17,560,934

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

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

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

1) Discount rate

Discount rate represents the factor that translates the projected cash flows into present value terms in order to arrive at an indicative business valuation of the CGU. The rate used by the management to discount the future cash flow projections is 23.8% (2013: 23.5%) and is not only reflective of the time value of money but also the risk associated with the business future operations and the geographical segment in which it operates.

2) Terminal value

The Group's management has used industry's price to book multiple to arrive at the CGU's terminal value. The multiple used in calculating the CGU's value is 1.50x (2013: 1.36x).

At a discount rate of 23.8% (2013: 23.5%) and price to book multiple of 1.5x (2013: 1.36x), the recoverable amount of the CGU exceeded its net book value by US\$ 52.69 million (2013: US\$ 24.32 million).

Sensitivity to changes in key assumptions

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

13. OTHER ASSETS

	2014 US\$	2013 US\$
Subordinated qard hasan	-	26,665,782
Advance against financing transactions	21,070,972	12,240,225
Deferred tax (note 13.1)	14,557,564	13,673,932
Collaterals pending sale	11,828,748	3,484,001
Accounts receivable	7,454,181	8,569,925
Advance tax (note 24)	2,472,492	2,580,843
Income receivable	1,870,649	677,115
Advance against capital expenditure	6,135,254	5,779,797
Others	11,752,733	6,892,034
Total	77,142,593	80,563,654
Provision for impairment (note 23)	(3,310,614)	(2,656,031)
	73,831,979	77,907,623

13.1 The above net deferred tax asset has been recognised in accordance with the Group's accounting policy. The management based on financial projections prepared during the year, estimates that sufficient taxable profits would be available in future against which the deferred tax asset could be realised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

14. OTHER LIABILITIES

	2014 US\$	2013 US\$
Margins received	15,428,422	15,246,449
Accounts payable	9,787,213	11,666,217
Security deposit against Ijara Muntahia Bittamleek	10,193,275	7,710,530
Bills payable	6,765,418	6,889,262
Provision for employees benefits	5,580,340	4,337,015
Rentals received in advance	-	2,153,857
Charity fund	1,022,018	1,375,448
Others	3,937,309	1,365,933
	52,713,995	50,744,711

15. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

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

	2014 US\$	2013 US\$
IAH - Non-banks	1,051,685,729	903,675,439
IAH - Banks	235,104,709	212,097,474
Profit equalisation reserve (note 15.1)	574,489	573,411
Investment risk reserve (note 15.2)	2,338,207	2,418,610
	1,289,703,134	1,118,764,934

15.1 Movement in profit equalisation reserve

	2014 US\$	2014 US\$
Balance at 1 January	573,411	544,632
Amount apportioned from income allocable to equity of investment accountholders	23,174	20,738
Foreign exchange (loss) / gain	(22,096)	8,041
Balance at 31 December	574,489	573,411

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

15. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

15.2 Movement in investment risk reserve

	2014 US\$	2013 US\$
Balance at 1 January	2,418,610	2,604,947
Exchange difference	(1,097)	476
Amount apportioned to provision (note 23)	(79,306)	(186,813)
Balance at 31 December	2,338,207	2,418,610

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

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

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

The Group's share, as Mudarib, in the profits of equity of investment accountholders is upto a maximum of 70% (2013: upto 70%) as per the terms of IAH agreements.

The Group has charged a total administrative expense of US\$ 2.98 million (2013: US\$ 2.43 million) to equity of investment account holders.

15.3 Equity of Investment Accountholders rate of return

	Average 2014 Rate of return %			Average 2013 Rate of return %		
	Bahrain	Pakistan		Bahrain	Pakistan	
	BD	USD		BD	USD	
Saving Accounts	0.34%	0.32%	5.03%	0.68%	0.53%	4.36%
One Month Investment Account	1.20%	-	5.87%	1.79%	0.90%	3.87%
Three Months Investment Account	1.39%	0.83%	6.40%	2.07%	0.86%	5.44%
Six Months Investment Account	1.58%	0.89%	5.79%	2.35%	1.10%	5.69%
Nine Months Investment Account	1.67%	0.95%	-	2.37%	1.29%	-
1 Year Investment Account	1.76%	0.95%	7.82%	2.74%	1.50%	6.76%
2 Years Investment Account	2.06%	-	7.98%	3.19%	-	7.98%
3 Years Investment Account	2.06%	-	8.10%	3.19%	-	8.10%
4 Years Investment Account	-	-	8.00%	-	-	8.00%
5 Years Investment Account	-	-	9.00%	-	-	9.00%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

15.4 Equity of Investment Accountholders by type

	2014 US\$	2013 US\$
Saving Accounts	467,516,488	376,874,543
One Month Investment Account	84,254,619	74,410,731
Three Months Investment Account	149,266,316	99,348,785
Six Months Investment Account	208,082,813	159,779,074
Nine Months Investment Account	908,729	648,114
1 Year Investment Account	260,057,176	316,188,209
2 Years Investment Account	53,762,368	37,197,712
3 Years Investment Account	30,706,706	18,646,619
4 Years Investment Account	161,496	268,699
5 Years Investment Account	34,986,423	35,402,448
	1,289,703,134	1,118,764,934

15.5 Equity of Investment Accountholders by maturity

	2014 US\$	2013 US\$
Accounts on demand	467,516,488	376,874,543
Accounts on a contractual basis*	822,186,646	741,890,391
	1,289,703,134	1,118,764,934

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

16. SUBORDINATED MUDARABA SUKUK

ABPL has issued unsecured, sub-ordinated and privately placed mudaraba sukuk amounting to US\$ 20,508 thousand. The issuance of sukuk is intended to comply with regulatory requirements related to CAR as stated in note 2.1 to these consolidated financial statements. The tenor of the sukuk is seven years maturing in 2021. The principal repayment, starting after six months of the drawdown date, would be made semi-annually on a straight line basis.

17. OWNERS' EQUITY

	2014 US\$	2013 US\$
(i) Share capital		
Authorised 6,000,000 ordinary shares (2013: 6,000,000) of US\$ 100 each	600,000,000	600,000,000
Issued and fully paid 1,224,578 ordinary shares (2013: 1,224,578) of US\$ 100 each	122,457,800	122,457,800

Additional information on shareholding pattern

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

17. OWNERS' EQUITY (continued)

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

	Number of shares	Number of shareholders	2014 % of total outstanding shares	Number of shares	Number of shareholders	2013 % of total outstanding shares
Less than 1%	58,823	12	4.81%	58,823	12	4.81%
1% up to less than 5%	50,000	1	4.08%	50,000	1	4.08%
	108,823	13	8.89%	108,823	13	8.89%

(ii) Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB. An amount of US\$ 0.135 million was transferred to statutory reserve for the year ended 31 December 2014 (31 December 2013 : US\$ 0.097 million).

(iii) General reserve

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

(iv) Cumulative changes in fair value

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

(v) Foreign exchange reserve

This represents the translation reserve arising as a result of consolidation of the foreign subsidiary.

18. CONTINGENCIES AND COMMITMENTS

	2014 US\$	2013 US\$
Letters of credit	84,995,837	132,329,788
Guarantees	67,301,666	58,989,262
Foreign exchange contracts	80,280,956	48,185,270
Acceptances	37,066,214	26,399,793
Taxation	2,365,293	1,928,283
Others	707,795	645,400
	272,717,761	268,477,796

Law Suits

During the year 2010, a constitutional petition and certain suits have been filed by a client in Pakistan in the Honourable High Court of Sindh against Al Baraka Bank (Pakistan) Limited wherein the client has claimed that he was offered 24 million ordinary shares of Al Baraka Bank (Pakistan) Limited at an aggregate value of US\$ 2.98 million (2013: US\$ 2.85 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\$ 0.59 million (2013: 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 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.

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19. INCOME FROM JOINTLY AND SELF FINANCED, OTHER FINANCINGS AND INVESTMENTS

	2014 US\$	2013 US\$
Income from investments	21,964,218	25,431,503
Ijara Muntahia Bittamleek (note 19.1) - net	13,668,992	10,663,095
Musharaka	8,882,565	5,274,544
Gain on sale of investments	4,117,936	3,951,298
Mudaraba financing	4,558	971,826
Istisna financing	2,093,919	745,214
Dividends	102,748	49,500
Rental income	206,587	163,725
Total	51,041,523	47,250,705
Income from jointly financed, other financings and investments	34,923,426	39,512,212
Income from self financed, other financings and investments	16,118,098	7,738,493
	51,041,524	47,250,705

19.1 Ijara Muntahia Bittamleek

	2014 US\$	2013 US\$
Income from Ijara Muntahia Bittamleek	48,324,696	40,599,383
Depreciation on Ijara Muntahia Bittamleek	(34,655,704)	(29,936,288)
	13,668,992	10,663,095

20. REVENUE FROM BANKING SERVICES

	2014 US\$	2013 US\$
Fees and commissions	4,243,425	2,925,905
Letters of credit and acceptances	2,326,813	2,981,014
Guarantees	727,325	717,965
	7,297,563	6,624,884

21. OTHER INCOME

	2014 US\$	2013 US\$
Foreign exchange gain - net	2,040,324	2,235,531
Fair value gain on investment in real estate (note 9)	424,568	500,000
Others	794,048	727,116
	3,258,940	3,462,647

22. OTHER OPERATING EXPENSES

	2014 US\$	2013 US\$
Administrative expenses	5,903,062	4,934,048
Premises costs	7,340,363	6,549,291
Business expenses	4,445,949	2,769,523
General expenses	1,086,861	1,361,016
	18,776,235	15,613,878

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

23. MOVEMENT IN PROVISIONS FOR IMPAIRMENT

2014	Sales receivables US\$	Musharaka US\$	Investments US\$	Ijara income receivables US\$	Other assets US\$	Total US\$
Provision at beginning of the year	43,741,628	5,927,025	5,019,275	1,415,244	2,656,031	58,759,203
Charged during the year	7,376,659	445,923	1,173,983	122,747	536,351	9,655,663
Written back during the year	(4,194,852)	(4,093,541)	(376,150)	(121,483)	(9,741)	(8,795,767)
	3,181,807	(3,647,618)	797,833	1,264	526,610	859,896
	46,923,435	2,279,407	5,817,108	1,416,508	3,182,641	59,619,099
Written off during the year	(32,345)	-	-	-	-	(32,345)
Transferred from investment risk reserve (note 15.2)	79,407	-	-	-	-	79,407
Exchange difference on opening balance	550,023	285,576	96,223	68,259	127,973	1,128,054
Provision at end of the year	47,520,520	2,564,983	5,913,331	1,484,767	3,310,614	60,794,215
Notes	4	7	8	10	13	

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

The total general provision maintained against financing facilities as of 31 December 2014 amounted to US \$ 1,487 thousand (2013: US \$ 740 thousand).

24. TAXATION

Taxation relates to subsidiary in Pakistan and comprise:

	2014 US\$	2013 US\$
Consolidated statement of financial position:		
Advance tax - net	2,472,492	2,580,843
Consolidated statement of income:		
Current tax	(791,444)	(638,382)
Deferred tax	90,579	825,347
	(700,865)	186,965

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25. CASH AND CASH EQUIVALENTS

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

	2014 US\$	2013 US\$
Cash in hand	18,724,570	17,871,984
Balances with central banks in current accounts	24,689,272	14,629,711
Balances with other banks and financial institutions	190,067,033	236,496,034
Sales receivables - international commodities (with an original maturity of 90 days or less)	80,495,282	184,682,692
	313,976,157	453,680,421

26. RELATED PARTY TRANSACTIONS

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

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

	Shareholders		Other Related Parties		Total	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$	2014 US\$	2013 US\$
ASSETS:						
Cash and balances with banks and financial institutions	38,096	66,606	202,454	177,419	240,550	244,025
Sales receivables	-	-	49,637,224	49,722,801	49,637,224	49,722,801
Mudaraba financing	-	-	-	1,729,061	-	1,729,061
Ijara Muntahia Bittamleek	-	-	2,438,607	4,107,393	2,438,607	4,107,393
Musharaka	-	-	1,305,017	927,765	1,305,017	927,765
Ijara income receivables	-	-	63,988	45,422	63,988	45,422
Investments	-	-	72,504,812	27,933,732	72,504,812	27,933,732
Other assets	2,537,309	2,615,401	4,731,477	29,375,942	7,268,786	31,991,343
	2,575,405	2,682,007	130,883,579	114,019,535	133,458,984	116,701,542
LIABILITIES:						
Due to banks and financial institutions	4,491,051	4,346,142	3,208,177	45,526,662	7,699,228	49,872,804
Current account	77,391	1,974,081	2,865,353	585,092	2,942,744	2,559,173
Other liabilities	20,882	19,922	186,006	6,012,300	206,888	6,032,222
	4,589,324	6,340,145	6,259,536	52,124,054	10,848,860	58,464,199
EQUITY OF INVESTMENT ACCOUNTHOLDERS	8,826,063	15,905,443	67,070,486	65,603,516	75,896,549	81,508,959
OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS	-	8,130,000	84,781,932	86,735,865	84,781,932	94,865,865
CONTINGENCIES AND COMMITMENTS	-	-	11,989,180	15,746,077	11,989,180	15,746,077

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At 31 December 2014

26. RELATED PARTY TRANSACTIONS (continued)

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

	Shareholders		Other Related Parties		Total	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$	2014 US\$	2013 US\$
INCOME						
Income from jointly financed sales	-	-	1,387,638	676,774	1,387,638	676,774
Income from jointly financed, other financings and investments	-	-	290,489	1,156,983	290,489	1,156,983
Group's income from self financed, other financings and investment	-	-	483,382	174,327	483,382	174,327
Other income	574,415	574,415	-	-	574,415	574,415
Group's Mudarib/agency fee from off-balance sheet equity of investment account holders	-	-	99,056	31,603	99,056	31,603
	574,415	574,415	2,260,565	2,039,687	2,834,980	2,614,102
EXPENSES						
Return on equity of investment account holder before						
Group's share as a Mudarib	53,839	525,011	1,159,899	2,156,075	1,213,738	2,681,086
Other expenses	-	-	1,212,764	928,343	1,212,764	928,343
	53,839	525,011	2,372,663	3,084,418	2,426,502	3,609,429

Compensation of key management personnel is as follows:

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

	2014 US\$	2013 US\$
Salaries	3,236,962	3,057,853
Other benefits	2,049,644	1,738,397
	5,286,606	4,796,250

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27. RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors.

a) Liquidity risk

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

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2014 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms.

	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
Mudaraba financing	-	-	-	-	-	-	-	-	-	-
Jiara 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
Investments in real estate	-	-	-	5,973,584	-	-	-	-	-	5,973,584
Jiara 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 AND OWNER'S 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
Subordinated mudaraba sukuk	2,026,295	-	1,421,703	5,686,813	5,686,813	5,686,812	-	-	-	20,508,436
Other liabilities	42,970,151	862,432	719,828	4,330,755	3,822,102	8,727	-	-	-	52,713,995
Total liabilities	310,647,123	15,429,479	2,141,531	32,017,568	9,508,915	5,695,539	-	-	-	375,440,155
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 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

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27. RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2013 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms.

	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
Investments 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 AND OWNER'S EQUITY										
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

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27. RELATED PARTY TRANSACTIONS (continued)

b) Market risk

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

Profit rate risk

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

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.

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 and Bahrain).

Foreign exchange risk

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

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

	2014		
	Operational equivalent US\$	Strategic equivalent US\$	Total equivalent 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

	2013		
	Operational equivalent US\$	Strategic equivalent US\$	Total equivalent 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

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

Foreign currency risk sensitivity analysis

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

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At 31 December 2014

27. RELATED PARTY TRANSACTIONS (continued)

b) Market risk (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 owners' equity. The impact of a similar increase / (decrease) in exchange rates will be approximately opposite to the impact disclosed below:

Currency	Particular	Change	Exposures in US\$	Effect on profit and loss/equity
2014				
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 long Position	20%	327,651	65,530
2013				
Pakistani Rupees	Net long Position	20%	61,641,792	12,328,358
Euro	Net short Position	20%	(3,113,248)	(622,650)
Kuwaiti Dinars	Net long Position	20%	10,217,508	2,043,502
Pound Sterling	Net long Position	20%	105,341	21,068

Equity price risk

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

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

Market indices	Change in equity price 2014 %	Effect on equity 2014 US\$	Change in equity price 2013 %	Effect on equity 2013 US\$
Karachi Stock Exchange	10%	232,925	10%	9,888

As at the consolidated statement of financial position date, the Group had unquoted investments of US\$ 71.21 million (31 December 2013: US\$ 35.89 million). The impact of changes in the value of these unquoted investments and the related impact on equity will only be reflected when the investment is sold or deemed to be impaired.

Concentration of investment portfolio

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

31 December 2014	*GCC US\$	Rest of the world US\$	Total US\$
Banking	42,465,093	39,927,323	82,392,416
Government	37,798,706	211,745,352	249,544,058
Investment companies	69,848,943	-	69,848,943
Manufacturing	-	2,559,721	2,559,721
Real estate	12,237,011	6,693,807	18,930,818
Others	5,071,499	10,707,048	15,778,547
	167,421,252	271,633,251	439,054,503

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

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At 31 December 2014

27. RELATED PARTY TRANSACTIONS (continued)

b) Market risk (continued)

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

c) Credit risk

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

Type of credit risk

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

Sales receivables

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

Istisna'a receivables

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

Mudaraba financing

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

Musharaka

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

Ijara Muntahia Bittamleek

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

General credit policies and guiding principles

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

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

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27. RELATED PARTY TRANSACTIONS (continued)

c) Credit risk (continued)

Maximum exposure to credit risk

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

	Gross Maximum Exposure to Credit Risk	
	2014 US\$	2013 US\$
Sales receivables	620,990,366	633,697,727
Mudaraba financing	-	1,729,061
Musharaka	119,299,509	72,455,498
Ijara Muntahia Bittamleek and Ijara income receivables	234,184,754	143,831,305
Contingencies and commitments	269,644,673	265,904,113

Credit quality by type of Islamic financing contracts

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

	31 December 2014			
	Neither past due nor non performing US\$	Past due but performing US\$	Non performing Islamic financing contracts US\$	Total US\$
Type of Islamic Financing Contract				
Sales receivables	559,738,628	15,048,719	93,723,539	668,510,886
Musharaka	117,703,960	763,643	3,396,889	121,864,492
Ijara Muntahia Bittamleek and Ijara income receivables	226,365,929	597,182	8,706,410	235,669,521
	903,808,517	16,409,544	105,826,838	1,026,044,899
	31 December 2013			
	Neither past due nor non performing US\$	Past due but performing US\$	Non performing Islamic financing contracts US\$	Total US\$
Type of Islamic Financing Contract				
Sales receivables	570,489,598	27,391,247	79,558,510	677,439,355
Mudaraba financing	1,729,061	-	-	1,729,061
Musharaka	68,088,343	1,043,034	9,251,146	78,382,523
Ijara Muntahia Bittamleek and Ijara income receivables	141,293,285	1,064,549	2,888,715	145,246,549
	781,600,287	29,498,830	91,698,371	902,797,488

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

27. RELATED PARTY TRANSACTIONS (continued)

c) Credit risk (continued)

Aging analysis of past due but performing Islamic financing contracts

	31 December 2014			
	Less than 30 days US\$	31 to 60 days US\$	61 to 90 days US\$	Total US\$
Type of Islamic Financing Contracts				
Sales receivables	12,650,651	2,112,653	285,415	15,048,719
Musharaka	16,723	512,832	234,088	763,643
Ijara Muntahia Bittamleek & Ijara income receivables	282,279	273,627	41,276	597,182
	12,949,653	2,899,112	560,779	16,409,544
	31 December 2013			
	Less than 30 days US\$	31 to 60 days US\$	61 to 90 days US\$	Total US\$
Type of Islamic Financing Contracts				
Sales receivables	17,865,810	8,718,578	806,859	27,391,247
Musharaka	97,534	417,655	527,845	1,043,034
Ijara Muntahia Bittamleek and Ijara income receivables	719,086	292,025	53,438	1,064,549
	18,682,430	9,428,258	1,388,142	29,498,830

Aging of Non-Performing Facilities

	31 December 2014				Total US\$
	3-6 Months US\$	6-12 Months US\$	1-3 Years US\$	3 Years & above US\$	
Sales receivables	25,188,672	1,126,143	14,101,479	53,307,245	93,723,539
Musharaka	82,200	3,985	615,988	2,694,716	3,396,889
Ijara Muntahia Bittamleek and Ijara income receivables	6,468,898	655,837	806,616	775,059	8,706,410
	31,739,770	1,785,965	15,524,083	56,777,020	105,826,838
	31 December 2013				
	3-6 Months US\$	6-12 Months US\$	1-3 Years US\$	3 Years & above US\$	Total US\$
Sales receivables	8,176,040	630,223	20,122,681	50,629,566	79,558,510
Musharaka	52,957	303,839	3,458,355	5,435,995	9,251,146
Ijara Muntahia Bittamleek and Ijara income receivables	1,694,495	76,929	389,517	727,774	2,888,715
	9,923,492	1,010,991	23,970,553	56,793,335	91,698,371

As at 31 December 2014 the fair value of the collateral that the Group holds relating to non performing facilities amounts to US\$ 19.220 million (2013: US\$ 21.617 million). The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure.

Credit Risk Mitigation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

27. RELATED PARTY TRANSACTIONS (continued)

c) Credit risk (continued)

Collaterals listed hereunder attract capital relief from capital adequacy requirements:

- 1) Hamish Jiddiyah (HJ) (Good faith deposit): The Group takes this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honour his promise to perform, the Group has recourse to the HJ. HJ is taken by the Group at the inception of the transaction but before signing the contracts. HJ constitutes partial guarantee to the Group for the performance of the contract by the customer. The Group will still have recourse to the customers for the unsecured position in case of default.
- 2) Third party guarantee: The Group should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable, should provide the Group with signed audited financial statements.
- 3) Underlying assets of the lease contract: The underlying asset must be of monetary value and the Group must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any kind of encumbrance. In the same lease contract a customer can pledge other assets that customers own other than the underlying assets in the contract. In order for the Group to consider these assets as pledged assets, it must meet all the conditions for the underlying assets under the lease contract. It must be legally enforceable, accessible, saleable and free of any kind of encumbrance. The value of the pledged asset must be used only to offset the amount against the customers.
Any excess amount resulting from the closure of the pledge by the Group should be returned to the customer (pledger). The Group is conducting at least annual evaluation of the pledged assets and keeping adequate documentation of this evaluation.
- 4) Cash deposit free from any legal encumbrance with the subsidiary either in the form of equity of investment accountholders or off-balance sheet equity of investment accountholders.
- 5) Rated and unrated senior Sukuk issued by financial institutions or sovereigns.

Credit Quality

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

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

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

During the year 2014, US\$ 11,358 million (2013: US\$ 15,240 million) of financing facilities were renegotiated. Exposure amounting to US\$ 1,485 million of the restructured facilities is non-performing as of 31 December 2014 (2013: nil).

d) Operational risk

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

Infrastructure risks

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

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

Information technology risks

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

27. RELATED PARTY TRANSACTIONS (continued)

d) Operational risk (continued)

Staff risk

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

28. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

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

	Assets		Liabilities		Equity of investment accountholders	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$	2014 US\$	2013 US\$
Geographical region						
Middle East	654,707,795	664,436,936	132,527,315	148,427,108	518,359,347	445,785,729
Europe	117,625,661	55,299,537	1,277,938	2,576,716	178,319	227,044
Asia	984,443,820	826,635,484	216,116,866	152,741,004	660,435,202	606,209,544
Others	78,243,753	84,835,221	25,518,036	43,898,103	110,730,266	66,542,617
	1,835,021,029	1,631,207,178	375,440,155	347,642,931	1,289,703,134	1,118,764,934
Industry sector						
Trading and manufacturing	496,158,170	378,121,164	59,840,413	51,997,755	122,438,078	123,795,964
Banks and financial institutions	636,487,684	656,480,731	124,726,153	162,748,029	333,325,281	318,170,336
Construction	44,096,568	28,741,126	9,981,781	9,585,164	12,494,647	11,834,007
Others	658,278,607	567,864,157	180,891,808	123,311,983	821,445,128	664,964,627
	1,835,021,029	1,631,207,178	375,440,155	347,642,931	1,289,703,134	1,118,764,934

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

30. SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by management and the Board of Directors.

For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries predominantly includes operations in Pakistan.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2014

30. SEGMENTAL INFORMATION (continued)

The segmental results of the Group were as follows:

	Middle East		Other Asian Countries	
	2014 US\$	2013 US\$	2014 US\$	2013 US\$
Assets	902,630,861	806,482,182	932,390,168	824,724,996
Liabilities and equity of investment accountholders	775,416,013	700,602,498	869,218,840	765,805,367
Total income	21,078,644	20,272,249	28,640,955	23,280,154
Total operating expenses	(21,229,155)	(19,219,673)	(24,859,935)	(20,458,047)
Net operating income	(150,511)	1,052,576	3,781,020	2,822,107
Reversal / (provision) for impairment - net	174,895	13,924	(1,034,791)	(3,160,099)
Taxation	-	-	(700,865)	186,965
Income / (loss) for the year	24,384	1,066,500	2,045,364	(151,027)

31. SOCIAL RESPONSIBILITY

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

32. COMPARATIVE FIGURES

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

BASEL II, PILLAR III DISCLOSURES

For the year ended 31 December 2014

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BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

1. INTRODUCTION

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

The principal activities of the Bank and its 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 31 December 2014, refer note 2 of the consolidated financial statements of the Group.

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

2. CAPITAL ADEQUACY

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

Table – 1. Capital structure

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

	31 December 2014		31 December 2013	
	Tier 1 US\$	Tier 2 US\$	Tier 1 US\$	Tier 2 US\$
Components of capital				
Issued and fully paid ordinary shares	122,457,800	-	122,457,800	-
General reserves	8,687,143	-	8,687,143	-
Legal / statutory reserves	21,980,367	-	21,845,716	-
Others	(9,766,140)	-	(11,976,644)	-
Retained profit brought forward	8,452,966	-	7,241,110	-
Minority interest in consolidated subsidiaries	18,110,998	-	16,623,079	-
Less:				
Goodwill	18,407,059	-	17,560,934	-
Unrealised gross losses arising from fair valuing equity securities	45,394	-	78,890	-
Tier 1 Capital before PCD deductions	151,470,681	-	147,238,380	-

BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

2 CAPITAL ADEQUACY (continued)

Table – 1. Capital structure (continued)

	31 December 2014		31 December 2013	
	Tier 1 US\$	Tier 2 US\$	Tier 1 US\$	Tier 2 US\$
Profit equalisation reserve		574,489		573,411
Investment risk reserve		2,338,207		2,418,610
Subordinated term debt		20,508,436		-
Collective impairment loss provision		1,487,924		740,034
Tier 2 Capital before PCD deductions		24,909,056		3,732,055
Total available capital		176,379,737		150,970,435
Deductions				
Unconsolidated majority-owned or -controlled banking, securities or other financial entities	(27,171,051)	(27,171,051)	(27,171,217)	(27,171,217)
Excess amount over maximum permitted large exposure limit	(1,268,655)	(1,268,655)	(1,307,701)	(1,307,701)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	(3,530,650)	-	(24,888,663)	-
Total Deductions	(31,970,356)	(28,439,706)	(53,367,581)	(28,478,918)
Tier 1 and Tier 2 eligible capital	119,500,325	-	93,870,799	-
Total eligible capital		119,500,325		93,870,799

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	31 December 2014	31 December 2013
	Capital requirements US\$	Capital requirements US\$
Sales receivables	22,044,055	22,759,868
Ijara Muntahia Bittamleek & Ijara income receivable	7,919,750	4,398,434
Musharaka	4,359,228	3,489,194
Mudaraba financing	-	207,487
	34,323,033	30,854,983

BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

2 CAPITAL ADEQUACY (continued)

Table – 3. Capital requirement for market risk

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

	31 December 2014		31 December 2013	
	Self Financed US\$	URIA US\$	Self Financed US\$	URIA US\$
Market risk - standardised approach				
Sukuk risk	-	59,713	-	-
Foreign exchange risk	5,771,943	-	5,800,564	-
Total of market risk - standardised approach	5,771,943	59,713	5,800,564	-
Multiplier	12.50	12.50	12.50	12.50
	72,149,288	746,413	72,507,050	-
Eligible Portion for the purpose of the calculation	100%	30%	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	72,149,288	223,924	72,507,050	-
Total market RWE		72,373,212		72,507,050
Minimum capital requirement (12%)		8,684,785		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:

	31 December 2014 US\$	31 December 2013 US\$
Indicators of operational risk		
Average gross income	72,331,244	68,884,231
Multiplier	12.5	12.5
	904,140,550	861,052,888
Eligible Portion for the purpose of the calculation	15%	15%
Total operational RWE	135,621,083	129,157,933
Minimum capital requirement (12%)	16,274,530	15,498,952

Management of Operational Risk

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

The management of Operational Risk has two key objectives:

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

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

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

BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

2 CAPITAL ADEQUACY (continued)

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

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

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

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

Table – 5. Capital adequacy ratios

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

	31 December 2014		31 December 2013	
	US\$ Total capital ratio	US\$ Tier 1 capital ratio	US\$ Total capital ratio	US\$ Tier 1 capital ratio
Capital adequacy ratio	15.39%	15.39%	13.98%	13.98%
Financial subsidiary's Capital adequacy ratio *	27.02%	18.98%	22.48%	18.18%

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

Legal restrictions on capital and income mobility

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

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

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

	31 December 2014		31 December 2013	
	US\$ Total capital ratio	US\$ Tier 1 capital ratio	US\$ Total capital ratio	US\$ Tier 1 capital ratio
Capital adequacy ratio	14.24%	10.50%	11.97%	11.92%

3. RISK MANAGEMENT

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

a) Credit risk

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

BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

Table – 7. Credit risk exposure
The following table summarises the amount of gross funded and unfunded credit exposures and average gross funded and average gross funded and unfunded exposures as of:

	31 December 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 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 exposure over the period US\$
Funded exposure								
Cash and balances with banks and financial institutions	203,164,313	185,039,942	96,841,705	98,265,457	206,717,641	185,998,119	112,923,063	63,968,385
Sales receivables	5,152,565	7,428,054	615,837,801	624,198,587	11,075,670	44,014,062	622,622,057	524,634,428
Mudaraba financing	-	5,194	-	-	1,729,061	7,654,340	-	20,733,527
Ijara Muntahia Bittamleek	-	107,465	221,040,523	173,574,285	-	-	126,579,913	119,194,625
Musharaka	-	3,360,000	119,299,509	97,302,050	4,480,000	4,480,000	67,975,498	63,126,511
Investments	242,735,626	210,785,624	196,318,877	162,451,729	177,046,261	106,366,095	158,446,838	254,346,534
Investment in real estate	5,973,584	5,880,158	-	-	5,549,016	3,790,620	-	-
Ijara income receivables	-	97,411	13,144,231	18,735,158	566,801	762,556	16,684,591	17,859,103
Premises and equipment	23,273,257	23,446,545	-	-	23,342,211	22,456,546	-	-
Other assets	46,611,491	70,113,294	27,220,488	25,878,301	64,374,649	63,625,699	13,532,974	16,080,874
Unfunded exposure								
Contingencies and commitments	189,363,717	193,700,436	-	-	217,718,843	173,511,739	-	-
	716,274,553	699,964,123	1,289,703,134	1,200,405,567	712,600,153	612,659,776	1,118,764,939	1,079,943,987

* Average balances are computed based on quarter end balances.

2 CAPITAL ADEQUACY (continued)

Table – 8. Credit risk – geographic breakdown

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

	31 December 2014						31 December 2013					
	Self financed			Financed by IAH			Self financed			Financed by IAH		
	*geographic area	Middle East countries	Other Asian countries	*geographic area	Middle East countries	Other Asian countries	*geographic area	Middle East countries	Other Asian countries	*geographic area	Middle East countries	Other Asian countries
Cash and balances with banks	58,504,428	144,659,885	40,347,755	56,493,950	90,177,062	116,540,579	17,805,739	95,117,324	17,805,739	95,117,324	17,805,739	95,117,324
Sales receivables	5,152,565	-	320,586,939	295,250,862	11,075,670	-	375,516,413	247,105,644	375,516,413	247,105,644	375,516,413	247,105,644
Mudaraba financing	-	-	-	-	1,729,061	-	-	-	-	-	-	-
Ijara Muntahia Bittamleek	-	-	178,840,935	42,199,588	-	-	94,996,394	31,583,519	94,996,394	31,583,519	94,996,394	31,583,519
Musharaka	-	-	3,041,998	116,257,511	4,480,000	-	5,063,004	62,912,494	5,063,004	62,912,494	5,063,004	62,912,494
Investments	169,176,488	73,559,138	71,102,044	125,216,833	114,415,018	62,631,241	6,756,825	151,690,015	6,756,825	151,690,015	6,756,825	151,690,015
Investment in real estate	5,973,584	-	-	-	5,549,016	-	-	-	-	-	-	-
Ijara income receivables	-	-	11,552,696	1,591,535	566,801	-	14,780,319	1,904,272	566,801	14,780,319	1,904,272	1,904,272
Premises and equipment	8,374,943	14,898,314	-	-	9,092,791	14,249,420	-	-	9,092,791	14,249,420	-	-
Other assets	5,702,305	40,909,186	5,867,119	21,353,369	36,766,076	27,608,575	151,059	13,381,913	36,766,076	27,608,575	151,059	13,381,913
	252,884,313	274,026,523	631,339,486	658,363,648	273,851,495	221,029,815	515,069,753	603,695,181	273,851,495	221,029,815	515,069,753	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.

BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

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:

	31 December 2014						31 December 2013			
	Self financed		Financed by IAH		Self financed		Financed by IAH		Financed by IAH	
	Funded US\$	Unfunded US\$	Funded US\$	Unfunded US\$	Funded US\$	Unfunded US\$	Funded US\$	Unfunded US\$	Funded US\$	Unfunded US\$
Cash items	9,789,266	-	8,935,304	-	8,209,369	-	-	9,662,615	-	-
Claims on Sovereigns	234,729,229	-	184,288,446	-	134,221,865	-	-	202,629,868	-	-
Claims on Public Sector Entities	18,152,960	1,760,268	71,992,214	-	3,177,474	-	-	62,229,960	-	-
Claims on banks	103,163,343	73,360,327	185,222,115	-	222,602,751	103,339,647	-	267,636,753	-	-
Claims on corporate	13,539,034	112,747,499	638,950,972	-	2,295,862	112,315,904	-	441,286,588	-	-
Claims on Investment Firms	-	-	1,519,250	-	-	-	-	-	-	-
Mortgage	-	-	92,162,423	-	-	-	-	54,439,250	-	-
Past dues receivables	672,566	-	55,500,721	-	-	-	-	41,801,581	-	-
Regulatory Retail Portfolio	736,685	-	16,640,264	-	930,129	-	-	11,258,125	-	-
Equity investment	56,440,782	-	341,482	-	27,675,767	-	-	356,287	-	-
Investment in Funds	1,050,000	-	5,021,468	-	1,050,000	-	-	5,011,473	-	-
Holding of Real Estate	36,614,945	-	3,231,222	-	38,304,300	-	-	9,668,755	-	-
Other assets	52,022,026	1,495,623	25,897,253	-	56,413,793	2,063,292	-	12,783,679	-	-
	526,910,836	189,363,717	1,289,703,134	-	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, Moody's, Capital Intelligence, Fitch and other approved credit rating agencies for assigning risk weight to assets.

BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

3 RISK MANAGEMENT (continued)

Table – 10. Credit risk – related party transactions

All transactions with related parties have been made on arms length basis. The following table summarises the balances with related parties as of:

	31 December 2014		31 December 2013	
	Self financed US\$	Financed by IAH US\$	Self financed US\$	Financed by IAH US\$
Cash and balances with bank	-	240,550	-	244,025
Sales Receivable	-	49,637,224	-	49,722,801
Musharaka	-	1,305,017	-	927,765
Mudaraba Financing	-	-	1,729,061	-
Ijara Muntahia Bittamleek	-	2,438,607	-	4,107,393
Investments	72,226,722	278,090	27,676,320	257,412
Ijara Income Receivable	-	63,988	-	45,422
Other Assets	2,537,309	4,731,477	31,925,357	65,986
Contingencies and commitments	11,989,180	-	15,746,077	-
	86,753,211	58,694,953	77,076,815	55,370,804

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

	31 December 2014 Self financed US\$	31 December 2013 Self financed US\$
Assets		
Investment in a subsidiary	61,960,834	61,960,834
Subordinated debt to subsidiary	11,000,000	11,000,000
Other receivables from subsidiary	952,443	908,662
	73,913,277	73,869,496
Contingencies and commitments		
Letters of credit	1,317,425	561,355
Guarantees	285,000	2,420,565
Acceptances	-	2,946,553
	1,602,425	5,928,473

BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

3 RISK MANAGEMENT (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 31 December 2014:

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

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.

BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

3 RISK MANAGEMENT (continued) a) Credit risk (continued)

Highly leveraged counter parties

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

Table – 12. Credit risk – credit quality of Islamic financing contracts by counterparty type

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

	31 December 2014					31 December 2013				
	Past due but performing US\$	Non- performing Islamic financing contracts US\$	Aging of non performing facilities			Past due but performing US\$	Non- performing Islamic financing contracts US\$	Aging of non performing facilities		
			90 days to 1 year US\$	1 year to 3 years US\$	Over 3 years US\$			90 days to 1 year US\$	1 year to 3 years US\$	Over 3 years US\$
Corporates	8,720,874	60,335,450	29,548,307	12,733,156	18,053,987	28,046,578	48,272,544	10,071,578	21,814,485	16,386,481
Investment Firms	-	34,974,335	-	-	34,974,335	-	36,703,208	-	-	36,703,208
Individuals	205,956	5,587,715	3,914,319	1,120,909	552,487	276,029	2,438,278	304,724	604,439	1,529,115
Others	7,482,714	4,929,338	63,109	1,670,018	3,196,211	1,176,223	4,284,341	558,181	1,551,629	2,174,531
	16,409,544	105,826,838	33,525,735	15,524,083	56,777,020	29,498,830	91,698,371	10,934,483	23,970,553	56,793,335

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

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

	Specific allowances						
	Opening Balance US\$	Charges during the year US\$	Write-Back during the year US\$	Write-offs during the year US\$	Transferred to investment risk reserve US\$	Exchange difference on opening balance US\$	Balance at the end of the year US\$
Corporates	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.

BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

	Specific allowances						Balance at the end of the year US\$
	Opening Balance US\$	Charges during the year US\$	Write-Back during the year US\$	Write-offs during the year US\$	Transferred to investment risk reserve US\$	Exchange difference on opening balance US\$	
Corporates	30,120,374	6,681,779	(6,123,714)	(4,845,081)	-	(1,942,854)	23,890,504
Investment Firms	22,363,730	491,196	-	-	-	(45,373)	22,809,553
Individuals	1,433,982	114,484	(133,099)	(68,702)	186,813	(40,578)	1,492,900
Others	2,041,766	297,171	(29,556)	-	-	(158,475)	2,150,906
	55,959,852	7,584,630	(6,286,369)	(4,913,783)	186,813	(2,187,280)	50,343,863

A collective provision of US\$ 21 thousand was charged during the year and accumulated balance has been increased to US\$ 740 thousand as at 31 December 2013.

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

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

	31 December 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	64,261,475	22,265,177	1,323,233	41,870,969	23,959,948	598,233
Other Asian countries	41,565,363	27,817,169	164,691	49,827,402	26,383,915	141,801
	105,826,838	50,082,346	1,487,924	91,698,371	50,343,863	740,034

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

Table – 15. Credit risk – restructured Islamic financing contracts

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

	31 December 2014 Total US\$	31 December 2013 Total US\$
Restructured Islamic financing contracts	11,358,786	15,241,559

The amount represents total facilities restructured during the year. Further, there is no significant impact of the renegotiated Islamic financing contracts on the provisions as well as present and future earnings.

BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

3 RISK MANAGEMENT (continued) a) Credit risk (continued)

Table – 16. Counterparty credit risk exposure

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

	31 December 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 institutions	300,006,018	-	319,640,704	-
Sales receivables	620,990,366	417,441,228	633,697,727	374,272,469
Mudaraba financing	-	-	1,729,061	-
Ijara Muntahia Bittamleek	221,040,523	115,341,573	126,579,913	88,089,923
Musharaka	119,299,509	116,257,511	72,455,498	67,459,609
Investments	439,054,503	-	335,493,099	-
Investment in real estate	5,973,584	-	5,549,016	-
Ijara income receivables	13,144,231	-	17,251,392	-
Premises and equipment	23,273,257	-	23,342,211	-
Other assets	73,831,979	-	77,907,623	-
	1,816,613,970	649,040,312	1,613,646,244	529,822,001

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

Table – 17. Counterparty credit risk exposure

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

	31 December 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	234,184,754	83,383,231	143,831,305	59,078,802

b) Market risk

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

Table – 18. Market risk capital requirements

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

	31 December 2014		31 December 2013	
	Sukuk risk US\$	Foreign exchange risk US\$	Sukuk risk US\$	Foreign exchange risk US\$
RWE	223,924	72,149,288	-	72,507,056
Capital requirements (12%)	26,871	8,657,915	-	8,700,847
Maximum value of RWE	223,924	73,633,407	-	75,711,023
Minimum value of RWE	-	71,650,564	-	72,507,056

BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

3 RISK MANAGEMENT (continued) b) Market risk (continued)

Table – 19. Equity position risk in Banking Book

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 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
Private equity	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
	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 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	6,011,473	7,844,586	-	6,011,473	204,413
Private equity	28,082,609	28,157,151	98,875	27,983,732	26,459
Real estate related	1,893,860	3,421,037	-	1,893,860	392,852
	335,493,099	360,684,555	106,217,837	229,275,259	5,102,439

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

Table – 20. Equity gains or losses in Banking Book

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

	31 December 2014 US\$	31 December 2013 US\$
Cummulative realised gains arising from sale or liquidation	4,117,936	3,951,298
Total unrealised losses recognised in the balance sheet but not through P&L	(45,394)	(78,891)
Unrealised gross losses included in Tier One Capital	(45,394)	(78,891)

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.

BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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.

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

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

The Group's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These funds are invested in Islamic modes of financing and investments including murabaha, musharaka, mudaraba and ijara. The Group is offering these accounts for saving and term accounts ranging from 1 month to 5 years. There are no separate designations for portfolio managers, investment advisors and trustee. IAH accounts are managed at Head Office and subsidiary levels by relevant departments.

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

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

Investment risk reserve

The Group deducts investment risk reserve as per approved policy from time to time 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 and Bahrain).

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\$ 5.5 thousand (2013: US\$ 2 thousand) was charged by the CBB during the year ended 31 December 2014.

A financial penalty of US\$ 297 thousand (2013: US\$ 183 thousand) was charged by SBP to the Group's subsidiary in Pakistan during the year ended 31 December 2014.

BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Non-Shari'a complaint income

The Group has received US\$ 392 thousand (2013: US\$ 305 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

Table – 21. Equity of Investment Accountholders

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

	31 December 2014 US\$	31 December 2013 US\$
IAH - Banks	235,104,709	212,097,474
IAH - Non-banks	1,051,685,729	903,675,439
Profit equalisation reserve	574,489	573,411
Investment risk reserve	2,338,207	2,418,610
	1,289,703,134	1,118,764,934

Table – 22. Ratio of reserves to total IAH

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

	31 December 2014	31 December 2013
PER to IAH (%)	0.04%	0.05%
IRR to IAH (%)	0.18%	0.22%

Table – 23. Equity of Investment Accountholders by Islamic financing product type

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

	31 December 2014	31 December 2013
Sales receivable	63.53%	72.40%
Musharaka	12.31%	8.88%
Ijara Muntahia Bittamleek & Ijara income receivable	24.16%	18.72%

Table – 24. Equity of Investment Accountholders by Counterparty Type

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

Counterparty type

	31 December 2014	31 December 2013
Banks	18.32%	17.52%
Investment Firms	5.69%	7.29%
Corporates	20.23%	14.32%
Residentials	45.63%	51.28%
Others	10.13%	9.59%

BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 25. Investment Accountholders share of profit

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

	31 December 2014	31 December 2013
Administrative expenses charged to equity of investment accountholders	2,979,408	2,429,188
Share of profits earned by IAH, before transfers to/from reserves	72,635,382	68,753,815
Percentage share of profit earned by IAH before transfer to/from reserves	6.05%	6.37%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	58,785,969	55,662,173
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	4.90%	5.15%
Share of profit paid out to Bank as mudarib	13,849,413	13,062,863
Mudarib Fee to total Investment Profits	19.07%	19.00%

Table – 26. Movement in profit equalisation reserve

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

	31 December 2014 US\$	31 December 2013 US\$
Balance at 1 January	573,411	544,632
Amount apportioned from income allocable to equity of Investment accountholders	-	-
Foreign exchange (loss) / gain	(22,096)	8,041
	574,489	573,411
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	0.03%	0.03%

Table – 27. Movement in investment risk reserve

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

	31 December 2014 US\$	31 December 2013 US\$
Balance at 1 January	2,418,610	2,604,947
Exchange difference	(1,097)	476
Amount apportioned to provision	(79,306)	(186,813)
	2,338,207	2,418,610
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.

BASEL II, PILLAR III DISCLOSURES

for the year ended 31 December 2014

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 28. Equity of Investment Accountholders by type of assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2014:

	Opening Actual Allocation US\$	Movement US\$	Closing Actual Allocation US\$
Cash and balances with banks	97,475,018	(633,313)	96,841,705
Sales receivable	553,924,254	61,913,547	615,837,801
Ijara Muntahia Bittamleek	126,579,913	94,460,610	221,040,523
Musharaka	67,975,498	51,324,011	119,299,509
Investments	242,592,686	(46,273,809)	196,318,877
Ijara income receivables	16,684,591	(3,540,360)	13,144,231
Other assets	13,532,974	13,687,514	27,220,488
	1,118,764,934	170,938,200	1,289,703,134

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2013:

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

Table – 29. Equity of Investment Accountholders profit earned and paid

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

	Profit earned		Profit paid to IAH	
	US\$	%age	US\$	%age
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%

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Table - 30. Treatment of assets financed by Equity of Investment Accountholders

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2014:

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

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:

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

d) Off-balance sheet equity of Investment Accountholders

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

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

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

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

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3 RISK MANAGEMENT (continued)

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

Table – 31. Off-balance sheet equity of Investment Accountholders by Islamic product type

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

Islamic products

	31 December 2014	31 December 2013
Sales receivables	91.30%	77.95%
Investments	8.70%	22.05%

Table – 32. Off-balance sheet equity of Investment Accountholders by counterparty type

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

Counterparty type

	31 December 2014	31 December 2013
Banks	68.07%	55.58%
Corporate	31.93%	44.42%

Table – 33. Off-balance sheet equity of Investment Accountholders by type of assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2014:

	Opening actual allocation US\$	Closing actual Movement US\$	allocation US\$
Sales receivables	106,618,765	(4,688,499)	101,930,266
Investments	30,158,760	(20,440,747)	9,718,013
	136,777,525	(25,129,246)	111,648,279

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2013:

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

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

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

	Dec 2014 US\$	Dec 2013 US\$	Dec 2012 US\$	Dec 2011 US\$	Dec 2010 US\$
Gross Income	1,772,278	104,630	1,208,812	458,674	2,756,802
Mudarib Fee	99,056	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 Counterparty level.

BASEL II, PILLAR III DISCLOSURES

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3 RISK MANAGEMENT (continued)

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.
- 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 – 35. Liquidity ratios

The following table summarises the liquidity ratios as of:

	31 December 2014	31 December 2013
Liquid assets to total assets	17.11%	30.92%
Short term assets to short term liabilities	68.96%	79.88%

Table – 36. Quantitative indicators of financial performance and position

	Dec 2014*	Dec 2013*	Dec 2012*	Dec 2011*	Dec 2010
Return on average equity	1.2%	0.6%	-6.1%	1.4%	2.8%
Return on average assets	0.1%	0.1%	-0.8%	0.2%	0.5%
Cost to Income Ratio	92.7%	91.1%	98.4%	91.0%	75.3%

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

4. OTHERS

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