al Baraka

Annual Report **2013**

The Pillars of Success

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Your Partner Bank

"Al Baraka Banking Group's philosophy, in essence, is that Allah, The Almighty, grants mankind the power to inherit the land on this earth. As such Man is not the owner of wealth but he is responsible for it.

The purpose of Man, by the commandment of Allah, The Almighty, is to construct, embellish, create and build on this earth. Man is therefore also ordained to create jobs for others. Thus, the wealth bestowed upon us belongs to Allah, The Almighty.

Therefore, we must apply Shari'a rules related to the ownership of wealth in creating the wealth and in investing, exchanging, growing and spending the wealth."

Shaikh Saleh Abdullah Kamel
Chairman of the Board of Directors, Al Baraka Banking Group

Meaning of Al Baraka

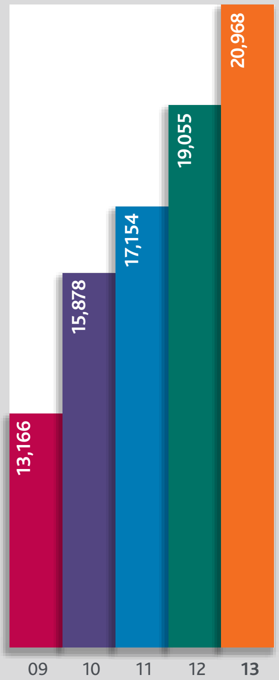
Baraka (blessing) represents fertility, growth and affluence. Baraka is the unseen growth of things; it comes from Allah as a gift or bestowment. If Allah has blessed the wealth, it will grow, prosper and flourish. The owner of that wealth will be blessed to use it for the good of himself, his family, and the wider society.

Financial Highlights

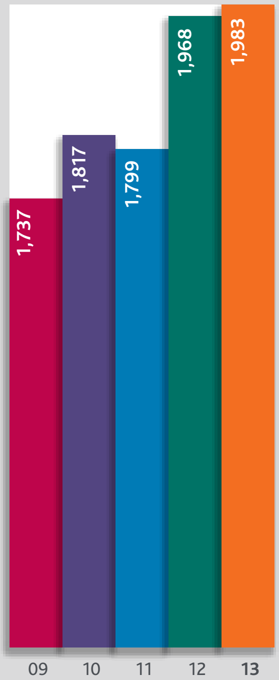
	2013	2012	2011	2010	2009
Earnings (US$ Millions)					
Total Operating Income	909	880	730	659	634
Net Operating Income	420	422	344	316	325
Net Income	258	235	212	193	167
Net Income Attributable to Equity Holders of the Parent	145	133	118	106	92
Basic and Diluted Earnings per Share - US Cents*	13.90	12.79	11.39	10.16	8.75
Financial Position (US$ Millions)					
Total Assets	20,968	19,055	17,154	15,878	13,166
Total Financing and Investments	15,355	14,319	11,818	11,391	9,431
Total Customer Accounts	17,744	16,398	14,680	13,571	10,999
Total Owners' Equity	1,983	1,968	1,799	1,817	1,737
Equity attributable to Parent's Shareholders	1,299	1,294	1,203	1,224	1,214
Capital (US$ Millions)					
Authorised	1,500	1,500	1,500	1,500	1,500
Subscribed and Fully Paid-up	1,048.3	1,014.5	869.6	790.5	744
Profitability Ratios					
Return on Average Owners' Equity	13%	13%	12%	11%	10%
Return on Average Parent's Shareholders' Equity	11%	11%	10%	9%	8%
Return on Average Assets	1.3%	1.3%	1.3%	1.3%	1.4%
Operating Expenses to Operating Income	54%	52%	53%	52%	49%
Financial Position Ratios					
Owners' Equity to Total Assets	10%	10%	11%	11%	13%
Total Financing and Investments as a Multiple of Equity (times)	7.7	7.3	6.6	6.3	5.4
Liquid Assets to Total Assets	27%	25%	33%	33%	34%
Net Book Value per Share (US$)*	1.25	1.24	1.16	1.18	1.16
Other Information					
Total Number of Employees	9,891	9,398	9,021	8,503	7,250
Total Number of Branches	479	425	399	370	289

* *Adjusted for treasury and bonus shares.*

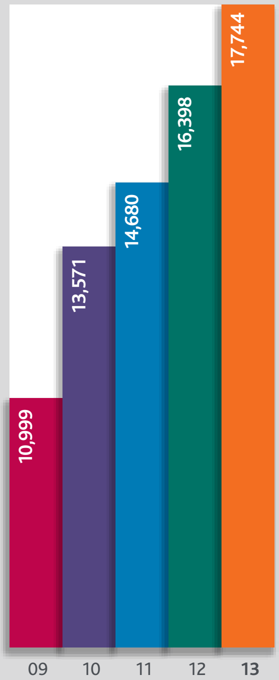
Total Assets
US$ - Millions



Total Owners' Equity
US$ - Millions

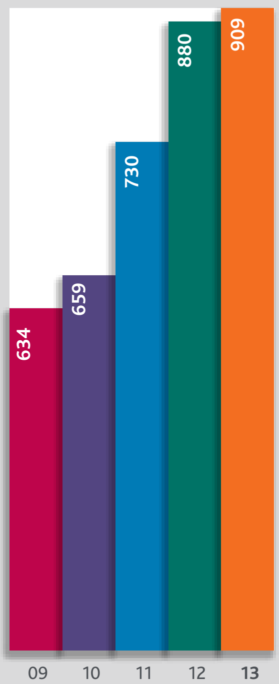


Total Customer Accounts
US$ - Millions

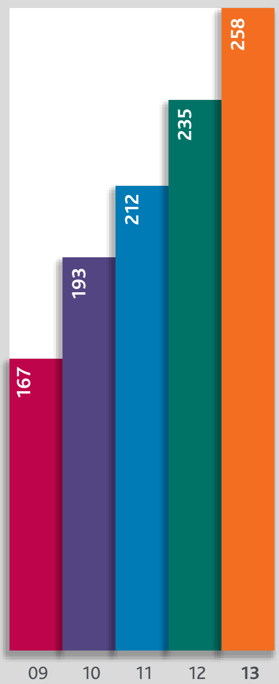


Total Financing & Investment
US$ - Millions

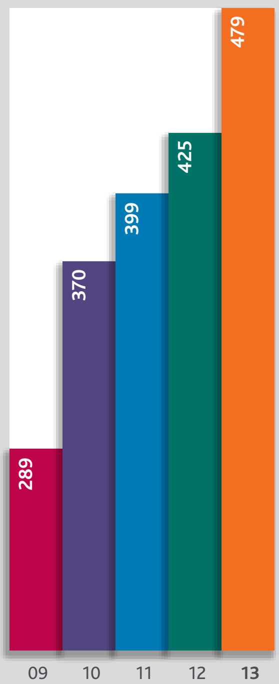
Total Operating Income
US$ - Millions



Net Income
US$ - Millions



Total Number of Branches



Total Number of Employees

Unified Corporate Identity

One Vision - One Identity - One Group

Our Vision

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

Our 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 mutual benefits with the customers, staff and shareholders who participate in our business success"

Early in 2009, Al Baraka Banking Group commenced the methodical rollout of its new Unified Corporate Identity to all parts of the Group, the launch of which was well received by the markets. While propelling the Al Baraka brand to the forefront of Islamic banking, and emphasising the Group's commitment to becoming the natural global leader in Islamic banking, the new corporate identity is also a strong symbol of the uniting of all subsidiaries under a single banner. Today the Al Baraka Group stands apart as an institution, with its own unique and unified philosophy, regulations, procedures and corporate culture in place. The Unified Corporate Identity is not merely a cosmetic change to the logo, its aesthetics or consistency of colour, but goes far beyond that. It is nothing less than an attempt to link the philosophical dimension upon which Islamic banking is based - participation and partnership and the equitable sharing of risk and reward through the projection of a unified and modern identity. We see this re-launch of our brand as the first step on a journey, as we work towards the creation of a unified banking group whose many subsidiaries are focused jointly on a single unifying vision.

The unified identity has helped the Group to prioritise its values and ambitions, raising them above the mere attainment of corporate size or product range and delivery. Instead, we believe that as we build our customer relationship based on the spirit of true partnership, our growth will be both inevitable and natural.

We at Al Baraka believe that banking has, or ought to have, a crucial role to play in society, one in which as bankers we have an incredible responsibility of stewardship for the resources placed in our hands. To meet this responsibility and use these resources wisely, we rely on Shari'a principles to guide us as we participate in our customers' successes, sharing in the social development of families, businesses and society at large.

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. We view money as a means to capitalise on opportunities and create a better society for all. Money becomes the conduit by which we enter into new opportunities together and take part in common effort for mutual reward; as steward of the resources entrusted to us, our efforts contribute to building the community, both at home and in the wider world. We call this concept: "Beyond Banking."

Our Values

Partnership

Our shared beliefs create strong bonds that form the basis of long-term relationships with customers and staff.

Driven

We have the energy and perseverance it will take to make an impact in our customers' lives and for the greater good of society.

Neighbourly

We value and respect the communities we serve. Our doors are always open; our customers always experience a warm-hearted, hospitable welcome and accommodating service.

Peace of mind

Our customers can rest assured that their financial interests are being managed by us to the highest ethical standards.

Social contribution

By banking with us our customers make a positive contribution to a better society; their growth and our growth will benefit the world around us.

Our basic strengths, which go back to the earliest days of our foundation over 30 years ago, and on which we have depended for moral sustenance throughout that time, may be summarised as:

- Adherence to Shari'a principles
- Close customer relationships - a partnership of equals
- Financial probity
- A local bank first and foremost - but with international reach

The future of our brand

Al Baraka with its presence in 15 countries, can claim to have a wide geographical spread extending from Indonesia to Algeria, servicing its customers through a network of 479 branches. Our greatest strength is the enviable bond we have with our customers. Today we have a Unified Corporate Identity that reflects the core values and the intrinsic strengths of the organisation. We are continuously building our capacities and strengthening our resources to provide a fair and equitable financial system, not only in the countries we operate in, but also as we reach out to other parts of the world. Our promise *"Your Partner Bank"* is aimed at rewarding efforts and contributing to the development of society, thus making Al Baraka the brand of choice for financial services, internationally.

Board of Directors & Shari'a Supervisory Board

BOARD OF DIRECTORS

Shaikh Saleh Abdullah Kamel
Chairman

Mr. Abdulla A. Saudi
Vice Chairman

Mr. Abdullah Saleh Kamel
Vice Chairman

Mr. Saleh Al Yousef
Board Member

Mr. Adnan Ahmed Yousif
Board Member and President & Chief Executive

Mr. Abdul Elah Sabbahi
Board Member

Mr. Ebrahim Fayez Al Shamsi
Board Member

Mr. Jamal Bin Ghalaita
Board Member

Mr. Yousef Ali Fadil Bin Fadil
Board Member

Dr. Bassem Awadallah
Board Member

Mr. Mohyedin Saleh Kamel
Board Member

Mr. Fahad Abdullah A. Al-Rajhi
Board Member

Mr. Salah Othman Abuzaid
Secretary to the Board

SHARI'A SUPERVISORY BOARD

Shaikh Dr. Abdul Sattar Abu Ghudah
Chairman

Shaikh Abdulla Bin Sulieman Al Mannea
Member

Shaikh Dr. Abdullatif Al Mahmood
Member

Shaikh Dr. Abdulaziz Bin Fowzan Al Fowzan
Member

Dr. Ahmed Mohiyeldin Ahmed
Member

Dr. Eltigani El Tayeb Mohammed
Secretary to the Shari'a Supervisory Board

INDEPENDENT DIRECTORS

Mr. Abdulla A. Saudi
Vice Chairman

Mr. Saleh Al Yousef
Board Member

Mr. Ebrahim Fayez Al Shamsi
Board Member

Mr. Jamal Bin Ghalaita
Board Member

Dr. Bassem Awadallah
Board Member

Board Committees

BOARD EXECUTIVE COMMITTEE

Mr. Abdullah Saleh Kamel
Chairman

Mr. Adnan Ahmed Yousif
Member

Mr. Abdul Elah Sabbahi
Member

Mr. Yousef Ali Fadil Bin Fadil
Member

BOARD AFFAIRS AND REMUNERATION COMMITTEE

Mr. Ebrahim Fayez Al Shamsi *
Chairman

Mr. Jamal Bin Ghalaita *
Member

Mr. Yousef Ali Fadil Bin Fadil
Member

BOARD AUDIT AND GOVERNANCE COMMITTEE

Mr. Saleh Al Yousef *
Chairman

Mr. Ebrahim Fayez Al Shamsi *
Member

Dr. Bassem Awadallah *
Member

BOARD RISK COMMITTEE

Mr. Abdul Elah Sabbahi
Chairman

Mr. Jamal Bin Ghalaita *
Member

Mr. Mohyedin Saleh Kamel
Member

Mr. Fahad Abdullah A. Al-Rajhi
Member

BOARD SOCIAL RESPONSIBILITY COMMITTEE

Dr. Bassem Awadallah *
Chairman

Mr. Adnan Ahmed Yousif
Member

Mr. Yousif Ali Fadil Bin Fadil
Member

Mr. Fahad Abdullah A. Al-Rajhi
Member

* Independent Director

Your Partner Bank

Board of Directors

Shaikh Saleh Abdullah Kamel
Chairman

Shaikh Saleh Abdullah Kamel, a Saudi Arabian national, is a well-known and highly respected international businessman and a pioneer of Islamic banking, with a lifetime of experience spanning more than 50 years. Shaikh Saleh holds a Bachelor of Commerce degree. He is the founder of Dallah Al Baraka Group and the founder of the Al Baraka Banking Group. He serves as a Director on the boards of a number of organisations and associations across the world. Currently he is Chairman of the following organisations: General Council for Islamic Banks and Financial Institutions; Jeddah Chamber of Commerce & Industry, the Islamic Chamber of Commerce and Industry and Dallah Al Baraka Holding Company E.C. As a renowned pioneer of Islamic banking and in recognition of his achievements and his role in promulgating Islamic economic principles – encapsulated in the message of his group: "Reconstruction of the Earth" - Shaikh Saleh Kamel has been awarded the highest of certificates, trophies, and accolades by many countries and organisations over his lifetime.

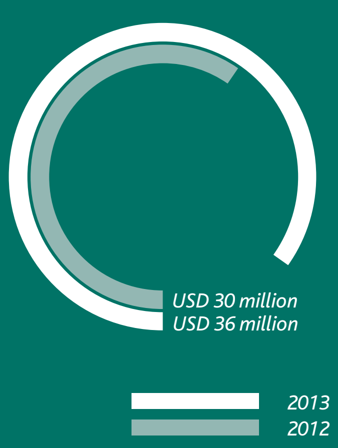
Mr. Abdulla A. Saudi
Vice Chairman

Mr. Saudi, a Libyan national, is a world-renowned and respected international banker with over 50 years' experience. He holds a Certificate in Management and Accounting. He worked at the Central Bank of Libya for 14 years, holding various positions including that of Manager of the Banking Department and Head of the Foreign Investment Department. He was the founder of Libyan Arab Foreign Bank, where he served as Executive Chairman between 1972 and 1980, establishing branches of the Bank worldwide. He was the founder of Arab Banking Corporation (B.S.C.), Bahrain and served as its President & Chief Executive from 1980 to 1994. He also founded Arab Financial Services (E.C.), Bahrain in 1982 and ABC Islamic Bank (E.C.) in the early 1980s. Mr. Saudi received an award from Georgetown University in Washington D.C. as a result of being voted one of the "Most Innovative Bankers" by the representatives of governments and international commercial bankers attending the International Monetary Fund and World Bank meetings in 1980. In 1991 he was awarded the accolade "Best Banker" by the Association of Arab American Banks in New York. He was the first to receive the "Arab Banker of the Year" award in 1993 from the Union of Arab Banks. In recognition of his role in the development of banking relationships between Arab and European states, Mr. Saudi has been honoured, over his career, with several gold medals and awards, notable amongst which are those bestowed in 1977 by the King of Spain and the President of Italy and the Grand Medal of the Republic of Tunisia in 1993. Also in 2012 he was awarded the Integrity Award by the Arab Union for Combating Forgery – Subordinate of the Arab League. He is currently the Executive Chairman of ASA Consultants W.L.L., Bahrain and Chairman of United Bank for Commerce and Investments, Tripoli, Libya.

'As bankers, it is our duty to invest the resources bestowed to us in the most ethical and moral ways.'

Al Baraka has distributed USD 36 million in dividends to its shareholders during 2013.

Total Dividends Paid



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Board of Directors (continued)

Mr. Abdulla Saleh Kamel
Vice Chairman

Mr. Abdulla Kamel, a Saudi Arabian national, studied Economics at the University of California at Los Angeles, USA. Mr. Abdulla Kamel has held a number of executive positions at Dallah Group over the years and has acquired over 25 years' experience in various fields. He headed the real estate and property management and central logistics division during the period 1988-1989, was President's Assistant for Trade Affairs 1989-1995 and worked as Vice President for Business Sector over the period until 1999 when he assumed his current position as President and CEO of Dallah Albaraka Group. Moreover, Mr. Abdullah Kamel is Chairman of Aseer Company, Chairman of Amlak Real Estate Development and Finance and Chairman of Okaz Press and Publishing Corporation. He is also Vice-Chairman, King Abdullah Economic City Eimaar, and Board Member of Aljazira Bank. Mr. Abdulla Kamel has been and remains very active in public and charitable activities through his membership of many international and local organizations and associations, such as Jeddah Chamber of Commerce (two times as Board Member), Young Presidents' Organization, Friends of Saudi Arabia, The Centennial Fund and the Board of Trustees of the Prince of Wales Business Leaders Forum.

Mr. Saleh Al Yousef
Board Member

Mr. Al Yousef, a Kuwaiti national, holds a Bachelor's Degree in Commerce from Kuwait University. Mr. Al Yousef is a Kuwaiti businessman with over 31 years' experience in the banking industry. He served as Chairman and Managing Director of The Industrial Bank of Kuwait K.S.C. from 1988 to 2005. Prior to that, Mr. Al Yousef held a number of executive positions with The Industrial Bank of Kuwait and the Central Bank of Kuwait. He is a past Chairman of ABC Islamic Bank (E.C.), Bahrain and of the Supervisory Board of Arab Banking Corporation – Daus & Co. Gmbh, Frankfurt. He served as a Director of the Financial Securities Group during 1986. He has also served on the boards of a large number of other financial institutions, including Gulf Bank K.S.C., Kuwait, Arab Banking Corporation (B.S.C.), Bahrain, Ahli United Bank B.S.C., London and Gulf Investment Corporation. He was Chairman and Managing Director of Afkar Holding Co. until September 2010 and Commissioner, Capital Markets Authority, Kuwait from September 2010 to February 2012. He is currently a Board Member of Al Baraka Bank Lebanon.

Mr. Adnan Ahmed Yousif
Board Member and President & Chief Executive

Mr. Yousif, is an International Banker, holds a Master of Business Administration degree, University of Hull, UK. Mr. Yousif has been a Director of Al Baraka Banking Group since its inception and President & Chief Executive since August 2004. He is also Chairman of Jordan Islamic Bank, Banque Al Baraka D'Algérie, Al Baraka Turk Participation Bank, Al Baraka Bank Ltd., South Africa, Al Baraka Bank Egypt, Al Baraka Bank Lebanon, Al Baraka Bank Syria, Al Baraka Bank Sudan and Al Baraka Bank (Pakistan) Ltd., Vice Chairman of Al Baraka Islamic Bank, Bahrain and Director of Al Baraka Bank Tunisia. He has over 38 years' experience in international banking, including involvement with numerous financial institutions and social organisations and has twice been the recipient of the "Islamic Banker of the Year" Award at the World Islamic Banking Conference, in December 2004 and December 2009. He was appointed Chairman of the Union of Arab Banks in April 2007 and re-elected for a further three-year term in April 2010. He was honoured 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 (ARADO) - an organisation 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.

Mr. Abdul Elah Sabbahi
Board Member

Mr. Sabbahi, a Saudi Arabian national, holds a Bachelor of Science degree in Accounting from the Faculty of Economics & Administration, King Abdulaziz University, Saudi Arabia. Mr. Sabbahi has had over 32 years' experience in international banking, the last 22 of which with the Dallah Al Baraka Group in Saudi Arabia. He is currently Vice President, Dallah Al Baraka Group. He also holds positions as Chairman of Al Baraka Bank Tunisia, Arab Leasing International Finance, Saudi Arabia and La Société de Promotion du Lac de Tunis. Mr. Sabbahi is also a Member of the Boards of Dallah Al Baraka Holding Co. E.C., Bahrain, Al Amin Investment Co., Jordan and a number of other international companies.

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Board of Directors (continued)

Mr. Ebrahim Fayez Al Shamsi
Board Member

Mr. Al Shamsi, a U.A.E. national, holds a Bachelor of Commerce degree. He brings with him over 41 years' varied experience in the financial services industry and in service of the U.A.E. Government. He is a former Chief Executive Officer of Emirates Islamic Bank, Dubai and has served as a Director of Arab Fund for Economic & Social Development, Kuwait over the period 1983-2010. Mr. Al Shamsi has been a Director of Al Baraka Banking Group since August 2006 and is also a Board Member of Al Baraka Turk Participation Bank and Al Baraka Bank Syria.

Mr. Jamal Bin Ghalaita
Board Member

Mr. Ghalaita, a U.A.E. national, holds a Bachelor of Science and Business Administration degree from the University of Arizona, USA. His career as a banker spans over 23 years, with key roles in the corporate, retail, trade finance and human resources sectors at Emirates NBD Group. His significant achievements include the planning for the launch of Emirates Islamic Bank and the establishment of several new areas of business at Emirates NBD, including Private Banking, Asset Management and Emirates Money. In addition, he is credited with overseeing the growth of the core Consumer Banking and Wealth Management business. He now serves as the Chief Executive Officer, Emirates Islamic Bank, a position he moved into in October 2011, from his previous post as Group Deputy Chief Executive Officer and General Manager, Consumer Banking and Wealth Management at Emirates NBD. Since his appointment he has driven unprecedented growth at Emirates Islamic Bank, marking the bank as the fastest growing in the country over the past few years. His focused approach has been recognized and acknowledged across the industry through multiple awards both locally and internationally, including the recognition of Emirates Islamic Bank as the "Best Islamic Bank" in the U.A.E. Mr. Ghalaita also serves as the Chairman of Emirates Islamic Financial Brokerage LLC and is a Board Member of Tanfeeth LLC and SHUAA Capital PSC.

Mr. Yousef Ali Fadil Bin Fadil
Board Member

Mr. Fadil, a U.A.E. national, is an experienced banker with a Bachelor's Degree in Mathematics & Computer Science from Gonzaga University, Spokane, Washington State, USA. He has more than 28 years' experience. During the period 1984-1998, Mr. Fadil held a number of senior positions in the National Bank of Umm Al Qaiwain. He then served Dubai Islamic Bank as Executive Manager for Investment over the period 1999-2002. In 2003 Mr. Fadil was appointed General Manager of the Emirates Financial Company. Mr. Fadil has also served as member of the Board of Directors of several financial institutions including, amongst others, Union Insurance Company, U.A.E., Bahrain Islamic Bank, Bosnia International Bank and is a past Board Member of Dubai Islamic Insurance Company. He is currently a Board Member of Al Baraka Islamic Bank, Bahrain, Ajman Bank and Gulfa Mineral Water.

Dr. Bassem Awadallah
Board Member

Dr. Awadallah, a Jordanian national, earned an M.Sc. degree and a Ph.D. in Economics from the London School of Economics and Political Science, UK in 1985 and 1988 and a Bachelor of Science in Foreign Service degree from Georgetown University, Washington D.C., USA in 1984. He has over 27 years' experience in a variety of fields. Dr. Awadallah worked in the investment banking field in the United Kingdom from 1986 to 1991. He then held a succession of positions in Jordan: as Economic Secretary to the Prime Minister (1992-1996); Economic Advisor to the Prime Minister (1996-1999); Director of the Economic Department at the Royal Hashemite Court (1999-2001); Minister of Planning and International Cooperation (October 2001-February 2005); Minister of Finance (April 2005-June 2005); Director of the Office of His Majesty King Abdullah II of Jordan (April 2006-November 2007) and Chief of the Royal Hashemite Court (November 2007-September 2008). Dr. Awadallah was chosen as a Lee Kuan Yew Fellow in Singapore in 2004 and a Young Global Leader by the World Economic Forum in 2005, and is the recipient of the Al Hussein Medal for Distinguished Service of the Hashemite Kingdom of Jordan, the Al Kawkab Decoration of the First Order of the Hashemite Kingdom of Jordan and the Al Istiqlal Decoration of the First Order of the Hashemite Kingdom of Jordan. In addition he has been awarded a number of high decorations from several countries in Europe and Asia. Dr. Awadallah is currently the Chief Executive Officer of Tomoh Advisory, a financial and strategic advisory practice based in Dubai, U.A.E.

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Board of Directors (continued)

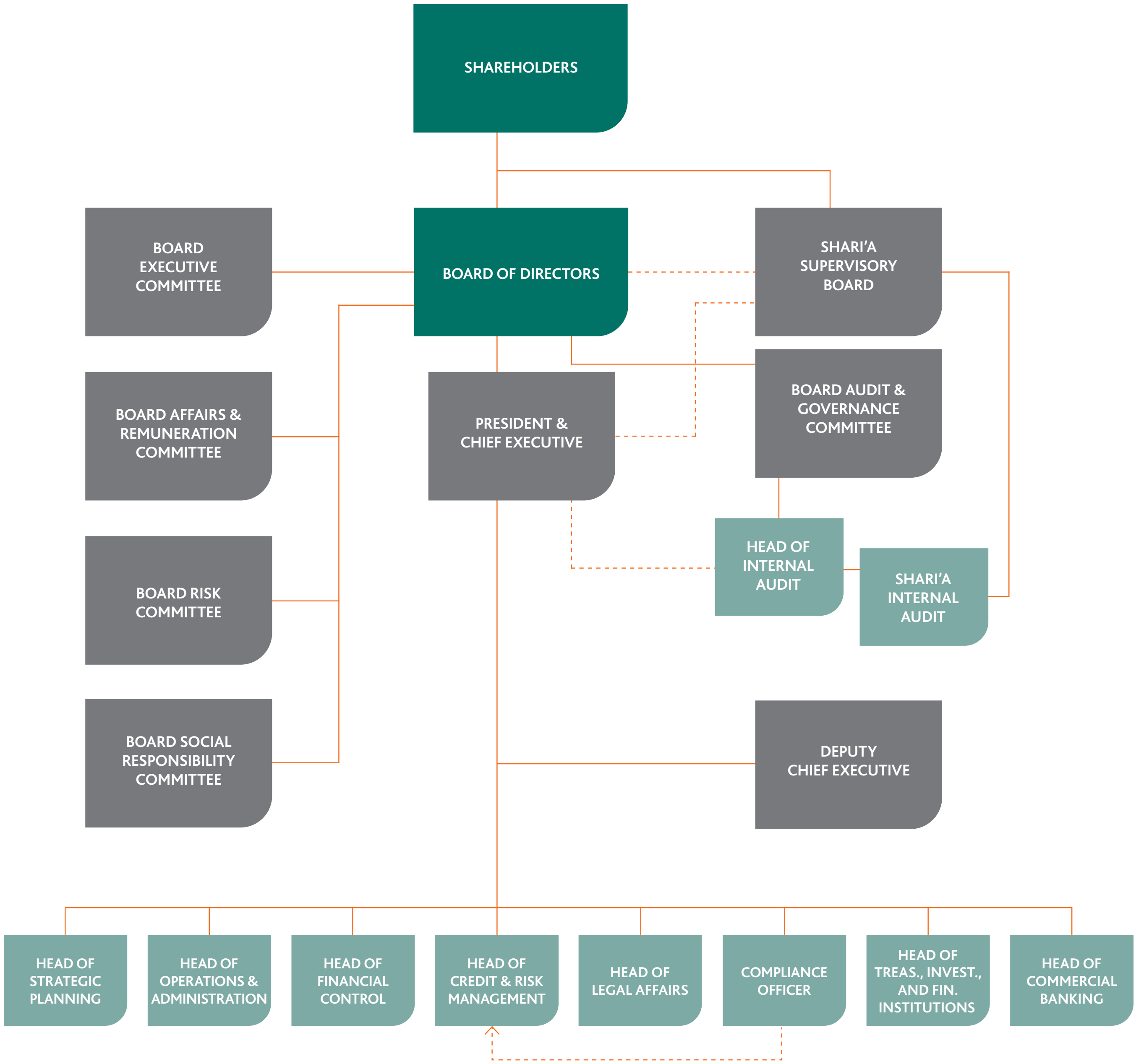
Mr. Mohyedin Saleh Kamel
Board Member

Mr. Mohyedin Kamel, a Saudi Arabian national, studied Economics at the University of San Francisco, USA. He is a prominent Saudi businessman with many years' experience, currently serving as Deputy Chief Executive Officer of Dallah Al Baraka Holding Company and Deputy Chief Executive Officer for Projects at Arab Media Company. Mr. Mohyedin Kamel has also served on the boards of many other companies and institutions, including as Chairman of the Board of Directors of Dallah Media Production Company and of Al Rabie Saudi Foods Co. Ltd., and member of the Board of Directors of, respectively, Dallah Real Estate Consulting Company – Egypt, Almaza Real Estate Development Company – Egypt, Arab Company for Real Estate and Tourism Investment – Egypt, Arab Radio and Television Network (ART) and Sports Events International Company, where he was Managing Director. He has also served as a member of the Management Committees of Dallah Al Baraka Holding Co., Jabal Omar Development Company, Halawani Brothers, Al Khozami Company, Saudi Research and Marketing Group, Dallah Health Co., Saudi Fund Equestrian and Okaz Organization for Press and Publication. Mr. Mohyedin Kamel is active in public and community work in Saudi Arabia and is a past member of the Board of Directors of Jeddah Chamber of Commerce and Industry.

Mr. Fahad Abdullah A. Al-Rajhi
Board Member

Mr. Al-Rajhi, a Saudi Arabian national, was appointed a Member of the Board of Directors of Al Baraka Banking Group in March 2011 and is also a Member of the Board of Directors of Al Baraka Turk Participation Bank. He has over 35 years' experience in a variety of business and financial fields. He holds a Bachelor of Science degree in Industrial Management (1978) from King Fahad University of Petroleum and Minerals, Saudi Arabia. Mr. Al-Rajhi is the Chairman of FAR Venture Holding Company, a position he has held since 2008, and a Member of the Board of Deutsche Gulf Finance. Earlier, he was a treasurer in Al-Rajhi Bank between February 1995 and May 2008. He is also currently serving as Board Member of Resort Cement Co., Najran Cement Co., Bukhait Investments Group and Tabuk Agricultural Development Co.

Head Office Organisation Chart



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Executive Management

Mr. Adnan Ahmed Yousif
President & Chief Executive

Mr. Yousif has more than 38 years' international banking experience. He has been a Director of ABG since inception and the President & Chief Executive since August 2004. He is the Chairman of Jordan Islamic Bank, Banque Al Baraka D'Algérie, Al Baraka Turk Participation Bank, Al Baraka Bank Ltd., South Africa, Al Baraka Bank Egypt, Al Baraka Bank Lebanon, Al Baraka Bank Syria, Al Baraka Bank Sudan and Al Baraka Bank (Pakistan) Ltd., Vice Chairman of Al Baraka Islamic Bank, Bahrain and Director of Al Baraka Bank Tunisia.

Mr. Yousif holds a Master in Business Administration degree from University of Hull, UK.

Mr. Majeed H. Alawi
Executive Vice President - Head of Internal Audit

Mr. Alawi has over 33 years of international banking experience, mainly in audit. He began his career at Banque National de Paris in Bahrain in 1981 as Head of Operations, subsequently moving to Arab Banking Corporation (B.S.C.)'s Internal Audit Department in 1988 as an audit team leader, where he carried out audits of the Head Office departments and the bank's branches and subsidiaries spread over Europe, the Americas, the Far East and across the Arab World. He joined ABG in 2000, when it was still under formation, to establish and head the Internal Audit Department, which is responsible for reviewing the activities of all ABG's subsidiary banks as well as of the Group's Head Office in Bahrain. The audit function also includes the review of controls over the IT system, as well as controls to ensure Shari'a compliance. Mr. Alawi reports directly to the Audit and Governance Committee of the Board of ABG, for whom he also acts as Secretary. He also participates as an observer member in the meetings of the Audit Committees of all ABG's subsidiaries.

Mr. Alawi is an FCCA – Fellow of the Chartered Association of Certified Accountants from UK (1980).

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Mr. K. Krishnamoorthy
Executive Vice President - Head of Strategic Planning

Mr. Krishnamoorthy has over 37 years of experience in financial and management reporting, corporate and structured finance, credit, strategic planning, project management, equity research, fund management and administration. He has worked in the Middle East and in North America. After spending several years in the accountancy field in India and Bahrain, Mr. Krishnamoorthy joined the investment banking subsidiary of Arab Banking Corporation (B.S.C.), where he served for 11 years before moving to the parent bank's Treasury Department to manage its mutual fund investment portfolio and the Treasury Mid-Office. Following this he spent 2 years as a partner in a regional investment bank in the Gulf and a further period heading the worldwide banking solutions business of a major Canadian IT solutions company in Toronto, Canada, subsequently joining ABG in 2004.

Mr. Krishnamoorthy is an ACA – Associate of the Institute of Chartered Accountants of India - and holds a B.Com. degree from Osmania University, India.

Mr. Abdulrahman Shehab
Executive Vice President - Head of Operations and Administration

Mr. Shehab has over 40 years of banking experience gained in senior positions with various international financial institutions, both Islamic and conventional. He commenced his career with Habib Bank Ltd. in 1973, later working at the Bahrain offices of Chase Manhattan Bank, Bank of America, American Express Bank and Bahrain Middle East Bank. After a successful career with Faysal Islamic Bank of Bahrain (now Ithmaar Bank), in 2002 he was appointed Assistant Chief Executive Officer – Operations at Bahrain Islamic Bank, subsequently joining ABG in May 2006. Mr. Shehab is a Board Member of Banque Al Baraka D'Algérie and Al Baraka Bank (Pakistan) Ltd.

Mr. Shehab holds a Master of Business Administration degree from University of Hull, UK.

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Executive Management (continued)

Mr. Hamad Abdulla Ali Eqab
Senior Vice President - Head of Financial Control

Mr. Eqab has over 20 years' experience in financial control and auditing. Before joining ABG in February 2005 he worked at Shamil Bank as Senior Manager, Internal Audit. Prior to this he was a member of the Audit team at Arthur Andersen. He is the Vice Chairman of the Accounting and Auditing Standards Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He is also a Board Member of Al Baraka Turk Participation Bank, Jordan Islamic Bank and Banque Al Baraka D'Algérie. In addition he serves as Chairman of the Board Risk Committee of Banque Al Baraka D'Algérie and of the Audit Committee of Al Baraka Turk Participation Bank, as well as being a member of each of the Audit Committees of Jordan Islamic Bank and Banque Al Baraka D'Algérie and a member of the Social Responsibility Committee of Jordan Islamic Bank.

Mr. Eqab is a Certified Public Accountant (CPA) and a Chartered Global Management Accountant (CGMA).

Mr. Jozsef Peter Szalay
Senior Vice President - Head of Credit and Risk Management

Mr. Szalay has over 39 years' international banking experience encompassing credit and risk management, corporate banking and trade finance. He commenced his banking career in international banking with Bank of Montreal, Canada and was later its Middle East Representative, initially based in Beirut, Lebanon and thereafter in London. He joined Gulf International Bank B.S.C. (GIB) in 1979 as Regional Marketing and Credit Officer for Central Europe based in London. He subsequently worked in various capacities in GIB within Credit and Business Development. In 2001 he was appointed Chief Credit Officer of GIB in Bahrain, responsible for credit, economics, legal and other related areas. He was also a member of the Group Risk Committee of GIB. Mr. Szalay has been a member of ABG's Executive Management team since September 2006.

Mr. Szalay holds an M.A. (Econ.) from University of Budapest, a Banking Certificate from the Institute of Canadian Bankers and is a graduate of the Advanced Management Program at INSEAD France.

Mr. Salah Othman Abuzaid
Senior Vice President - Head of Legal Affairs

Mr. Abuzaid has over 29 years' professional experience as, variously, a practicing advocate, a legal consultant to a number of local, regional and international law firms and a judge. After 20 years in legal practice in various capacities in Sudan, he moved to the Sultanate of Oman in 2001 to work for an Omani law firm associated with an international law firm and was admitted to practice before all Omani courts by the Omani Advocates Admission Committee. In 2004, he moved to Bahrain to join Al Baraka Islamic Bank as Manager, Legal Affairs. This was followed in 2007 by a move to ABG to take up the position of First Vice President - Head of Legal Affairs & Compliance, from which position he was subsequently promoted to Senior Vice President. During this time he has continued also to serve as Secretary to ABG's Board of Directors and three Board Committees.

Mr. Abuzaid has an LLB degree from the Faculty of Law, University of Khartoum, Sudan.

Mr. Khalid Al Qattan
First Vice President - Head of Treasury, Investments and Financial Institutions

Mr. Al Qattan has over 28 years of banking experience in Treasury and Operations. He commenced his banking career at United Gulf Bank, Bahrain as an Operations Clerk in 1983. In 1988, he joined Shamil Bank, Bahrain as Operations Clerk and was subsequently promoted to Manager in charge of the bank's Treasury operations. He was later appointed Treasury Manager at Eskan Bank, Bahrain and served as such between April 2006 and May 2007, where he was responsible for the overall liquidity management of the bank and also served on several management committees. In June 2007 he joined ABG as Vice President and was promoted to the position of First Vice President - Head of Treasury and Investments in 2008.

Mr. Al Qattan holds a Master of Business Administration degree from the University of Hull, UK.

Your Partner Bank

Directors' Report

***Saleh Abdullah Kamel** - Chairman*

Global and Regional Economies

The majority of the developed and the more sizeable developing countries' economies are beginning to show growth. In particular, the major drivers of the world economy – the United States, China, Japan and the eurozone countries of Europe – all appear to have turned the corner and to be facing a more positive future in terms of growth. Both the US and China performed well in the third quarter of 2013 and momentum appears to be building towards stronger economic performance to come, with the US achieving a 1.8% growth rate for the year as a whole and China overcoming a setback in the middle of the year to end with a 7.7% growth rate. The eurozone, although recording an aggregate 0.4% decline in annual GDP (with a marked diversity of results from its component members) looks set to return to positive growth in 2014. Japan's economic recovery continues, although not without setbacks, and is estimated to have ended the year with 1.7% growth. Among other important economies, Russia's grew by 1.5%, South Korea's by 2.7% and Canada's by 1.7%, while Britain finally seems to have emerged from its long stagnation, achieving 1.5% overall growth for the year, with 2.7% expansion projected for 2014.

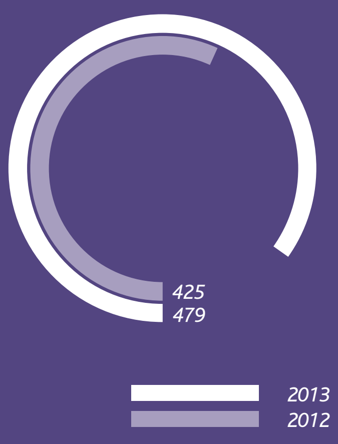
The emerging symbiotic relationship between developing and developed world, as the economies begin to move into positive territory in tandem, is exemplified in the economic performance of many of those countries in which ABG operates. Six out of the 12 economies recorded growth rates of 3.0% or above and it is likely that, when the final calculations have been made, three of the remaining six will prove to have grown by 2.0% or more in 2014.

Globally and regionally, the outlook is much brighter now than it appeared to be a year ago. Driven by a 5.2% surge in global trade, the world economy is now expected to grow by 2.7% in 2014. The likelihood of a strengthening US economy, a Chinese economy maintaining a growth rate above 7.0% and a gradual improvement in the eurozone economy, along with generally better prospects in most of the other major economies, certainly bodes well for the future.

‘We are committed to serving the greater society in all that we build.’

Al Baraka saw 13% network growth during 2013, with the opening of 54 new branches worldwide.

Total Number of Branches



Directors Report (continued)

2013 Review

The Group's share of total income from jointly financed contracts and investments, including its share as Mudarib, was $431 million, 6% higher than in 2012. Income from self financed contracts and investments and Mudarib share from managing off-balance sheet equity of investment account holders was 14% higher at $239 million. Including other operating income and revenues from banking services, the Group's total operating income was $909 million, 3% higher than the previous year. Total operating expenses also rose, however, by 7% to $489 million, resulting in a net income before provisions and taxation of $420 million, compared with $422 million in 2012. After allocation of prudential provisions and taxation, the net income for the year was $258 million, a rise of 10% compared with the $235 million earned in 2012.

An 8% rise in the customer accounts base, to $17.74 billion, together with other liabilities including long term borrowing at the subsidiary level, funded an expansion of the Group's banking assets. Growth occurred in all areas of the balance sheet except in the Musharaka financings, in Ijarah receivables and intangible and other assets. The Group's total assets at the end of the year stood at $20.97 billion, a 10% increase over 2012.

Once again, we were pleased to note that the majority of our subsidiaries were able to report a positive result for the year. Of the nine units that recorded a net profit, eight had increased their net income or reversed an earlier negative result, in addition to which, of those three which made a loss, two of them reported a reduced loss since 2012.

In light of the Group's performance in 2013, the Board of Directors has recommended a cash dividend distribution to the shareholders of 3.5% of the paid up capital, amounting to $36.69 million, after a transfer of $14.45 million to the legal reserve, with the remainder of the net income, amounting to $93.37 million, being allocated to retained earnings. The Board has also recommended a bonus dividend of 1 share for every 23 shares held, to be allocated from retained earnings and amounting to $45.58 million. The Board has further recommended a remuneration distribution of $1.00 million, to be paid following the approval of shareholders at the Annual General Meeting.

Ownership of shares in ABG by Board Members and Executive Management (with the exception of that of the Chairman) is not material and no major trading of such shares took place during 2013. Details of shares held by Directors and members of the Executive Management are provided in the Notes to the Consolidated Financial Statements.

(All figures in US Dollars unless otherwise stated)

Looking Ahead...

As the global economy continues its gradual recovery we believe the accumulative positive effects will have an invigorating impact on the economies of the countries in which ABG have a presence. The potential dangers, from the OECD side, chiefly relate to the somewhat anaemic nature of the recovery in the EU – and especially the eurozone – which will in turn impact on the trade and service flows between Europe and the MENA countries, and the consequential impact of a likely tapering of the US quantitative easing programme on emerging market economies such as India, Turkey, South Africa and Brazil during 2014.

We congratulate our operating units for putting in a good performance in the face of many difficulties. The Group has once again shown that its ongoing strategy remains sound and capable of delivering consistent growth and profitability.

We regard the maintenance of a sound risk and corporate governance culture as a permanent and never-ending process at ABG. We will therefore continue the task of strengthening internal controls, risk management processes and procedures to ensure the continuous improvement in asset quality, whilst always seeking to achieve an optimum cost:benefit ratio in all Group units and thus to deliver consistent, increasing returns to our shareholders.

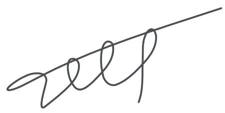
All of our units are actively involved in product development and will continue to introduce – and to share within the ABG family – new and innovative Shari'a compliant products and services designed to meet our customers' needs.

For Al Baraka Banking Group, as always we look to the future with one surety: that we go forward together with our customers, anticipating their needs and assisting them to build for the future in the knowledge that we stand behind them.

On behalf of the Board I should like to extend our thanks to Dr. Anwar Ibrahim, who resigned from the Board with effect from 16 July 2013, having served as a Member for nearly eight years. We are immensely grateful to Dr. Ibrahim for his wise guidance and devotion to ABG and the Group during his service.

In conclusion, I should like as always to extend, on behalf of the Board and Executive Management, our appreciation to our Shari'a Supervisory Board, the Central Bank of Bahrain, the Ministry of Commerce and Industry of Bahrain and all of our subsidiaries' regulatory authorities, for their support and guidance during 2013.

For and on behalf of the Board of Directors



Saleh Abdullah Kamel
Chairman

President & Chief Executive's Report

***Adnan Ahmed Yousif** - President & Chief Executive*

Management Discussion and Analysis

The year saw many of the countries in which ABG operates continuing to exhibit signs of economic recovery, the green shoots of which were just appearing last year. Most of our subsidiaries maintained - and indeed increased - their profitability, although in some cases these gains were hard won and often partially lost again through the impact of local currency depreciation against the US dollar. We were therefore pleased with the results presented by our subsidiaries, and to note that all had demonstrated sustainable performance, even in difficult circumstances.

ABG's consolidated total assets grew by 10% in 2013 to $20.97 billion as total financings and investments rose by 7% to $15.36 billion. Whilst, in absolute terms, the most part of that growth was seen in the Murabaha receivables which increased by $0.34 billion, in percentage terms this reflected a more moderate 3% expansion of that portfolio. In relative terms, the financing portfolios that experienced the greatest expansion across the Group were the Istisna'a – which surged by 49% - the Mudaraba, which rose by 45% and the Ijarah Muntahia Bittamleek, which recorded 31% growth. The significant increase in demand for these products was offset somewhat by a decline in popularity of Musharaka, where the exposure fell by 3%. As for the Group's investment portfolios, the strong growth in its trading securities, which more than doubled, is noteworthy, while the non trading investment portfolios recorded a remarkable growth of 9%.

In the main, growth was spread across the subsidiaries. This year, however, the impact on the assets and profitability of individual subsidiaries due to fluctuations in the exchange rates of their home currencies vis-à-vis the US dollar was greater than before, even converting increases into declines in some cases. For example, whereas the total assets of the Turkish, South African and Syrian subsidiaries expanded significantly in their local currencies, in terms of the US dollar this expansion was much less, or even negative. A similar impact can also be seen in the profitability recorded at those subsidiaries and also with the unit in Sudan.

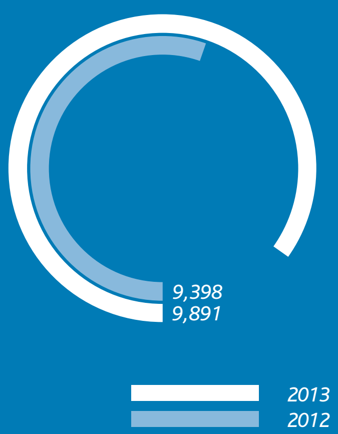
Al Baraka Türk Participation Bank (Al Baraka Turkey) recorded a 40% increase in total assets but due to the depreciation in the Turkish Lira this equated to only an 18% increase in US dollar terms. As before, the growth was mostly seen in its Murabaha financings, although its other financings as well as its investments, particularly its non-trading investments, also increased significantly. At Jordan Islamic Bank (Al Baraka Jordan) assets rose by 9% although, with a 27% increase

(All figures in US Dollars unless otherwise stated)

‘We are committed to the growth of our people. They are after all, what makes Al Baraka the bank it is today.’

During 2013, Al Baraka invested over USD 3 million in training and recruitment.

Total Number of Employees



President & Chief Executive's Report (continued)

in Ijarah Muntahia Bittamleek financings being almost fully offset by decreases in other financings and investments, most of the net growth was channelled into liquid assets. Al Baraka Egypt saw a 4% decrease in total financings and investments in US dollar terms, slightly more than the fall in total assets. At Banque Al Baraka D'Algerie (Al Baraka Algeria) total assets increased by 6%, as a 10% rise in total financings and investments and increases in fixed assets were offset in part by reductions in the values of intangible and other assets. Al Baraka Pakistan's total assets increased by 10%, mostly due to a rise in balances at other banks and Central Bank reserves, as a 14% rise in total financings was offset by an 25% drop in investments. Total assets at Al Baraka Islamic Bank (Al Baraka Bahrain) on the other hand grew by 21%, mostly on account of growth in its financings and investments, especially its Mudaraba portfolio, and a large rise in the other assets category.

An 8% overall increase in total financings and investments at Al Baraka Tunisia – where a 17% fall in total financings led by Murabaha sales receivables was more than offset by a major surge in non-trading investments - led to a 16% rise in the bank's total assets. At Al Baraka Syria, a 44% increase in total assets in Syrian Pounds was translated into a 23% fall in US dollar terms due to the steep drop in the value of the local currency. At Al Baraka South Africa, currency depreciation led to a 4% fall in the US dollar equivalent of its total assets, with the financings and investments portfolios down by 7% and its fixed, intangible and other assets also falling substantially. Al Baraka Lebanon's 19% rise in total assets was due to a 26% overall rise in financings and investments, with a 36% increase in its Murabaha receivables accounting for the lion's share. Al Baraka Sudan reported a 25% increase in total assets, reflecting a 27% rise in total financings and investments - with a strong 65% expansion in the Murabaha receivables supported by growth in the Istisna'a and Musharaka portfolios – and significant increases in liquid and fixed assets. Finally, at Itqan Capital, the latest member of the Group, total assets rose by 139%, reflecting the successful launch of its newly introduced Murabaha financing facilities as it began to utilise the shareholders' $27 million subordinated loan granted in 2013, with the balance of the funds temporarily expanding its trading securities portfolio.

At the Group level, financings and investments comprised the greatest part of its total assets, at 73%, with Murabaha receivables comprising 69% of total financings and investments, followed by non-trading investments constituting 14% and Ijarah Muntahia Bittamleek 6%. Murabaha receivables grew by 3% over 2012 to reach $10.63 billion, while non-trading investments rose by 9% to $2.19 billion and Ijarah Muntahia Bittamleek financings expanded by 31% to $0.94 billion.

Customer accounts, including equity of Investment Accountholders (IAH), grew by 8%, reflecting a 7% increase in the largest component, equity of IAH, while customers' current and other accounts grew by 11% and interbank deposits by 13%. Aggregate off-balance sheet equity of IAH grew by 19% to $0.71 billion, while contingents and commitments increased by 4% to $4.95 billion.

Total operating income of the Group rose by 3% to $909 million, as marginally lower revenues from banking services and other operating income and reduced Mudarib fees from managing off-balance sheet equity of IAH were more than offset by a 15% surge in the Group's self-financed income and a 6% rise in its share of income from joint financings and investments. Operating expenses at $489 million were however 7% higher than in 2012, which resulted in a net operating income of $420 million, slightly lower than that in 2012. However, following allocations for prudential provisions and taxation charge, the Group recorded a net profit of $258 million, 10% above that for 2012.

(All figures in US Dollars unless otherwise stated)

ABG's commitment to the development of the Islamic Finance industry was once again demonstrated by its sponsorship of the 34th Annual Islamic Economics Forum, held in Jeddah, Saudi Arabia. This annual gathering performs a unique role, acting as a 'think tank' for the industry and creating a forum for:

- Spreading knowledge of Islamic jurisdictions (Fiqh) with regard to contemporary economic and financial transactions;
- Considering problems faced by Islamic banks in the application of different modes of Islamic finance and exchanging views of scholars;
- Linking Fiqh to contemporary economic issues and supporting Islamic economic theory to confront competing theories;
- Enriching banking Fiqh and the Islamic Economic Library with profound discussion resulting in the issue of new Fatwas by renowned scholars;
- Meeting the needs of those concerned with Islamic banking Fiqh worldwide;
- Fulfilling the requirements of all Al Baraka units and other Islamic financial institutions in the field of Islamic banking theory and its applications;
- Linking the financing transactions of Fiqh with the principles of economics.
- Providing scientific reference for research, Shari'a committees and Shari'a Fatwas within the framework of Islamic banking; and
- Developing Islamic financing instruments which conform to technical and Shari'a standards.

The 34th Symposium for Islamic Economy considered issues addressing Zakat, dealing in gold and silver, participatory transactions and investment by agency.

ABG regularly sponsors a variety of Islamic and other conferences as part of its commitment to economic and social development. Amongst those ABG sponsored in 2013 – in coordination with a number of internationally renowned institutions - was the launch of the second Islamic Microfinance Challenge, a global contest inviting applications from providers of Shari'a compliant microfinance products to submit innovative ideas for consideration. This year's challenge was entitled: 'Islamic Microfinance Challenge 2013: Beyond Murabaha'.

ABG was honoured that Global Finance Magazine chose it to receive its annual 'Best Islamic Financial Institution in Middle East/Africa' award for its prominent role in the Islamic banking sector, ability to achieve consistent growth, its high professional standards and quality of service to its clients and the originality and innovation of its products and banking operations. At the same time, five of its subsidiaries – based in Jordan, Lebanon, Bahrain, Algeria and South Africa – were similarly honoured by 'Best Islamic Financial Institution' awards in their respective countries.

ABG was also awarded the 'Most Outstanding Institution for Contribution to Islamic Finance' award at the 10th Kuala Lumpur Islamic Finance Forum in October 2013, in recognition of the part played by the Group in the development of the Islamic finance industry, and was further honoured by Islamic Business and Finance Magazine's 'Best Regional Retail Bank – Middle East' Award at its prestigious Annual Islamic Business & Finance Awards ceremony in Dubai in December, its second such award in three years.

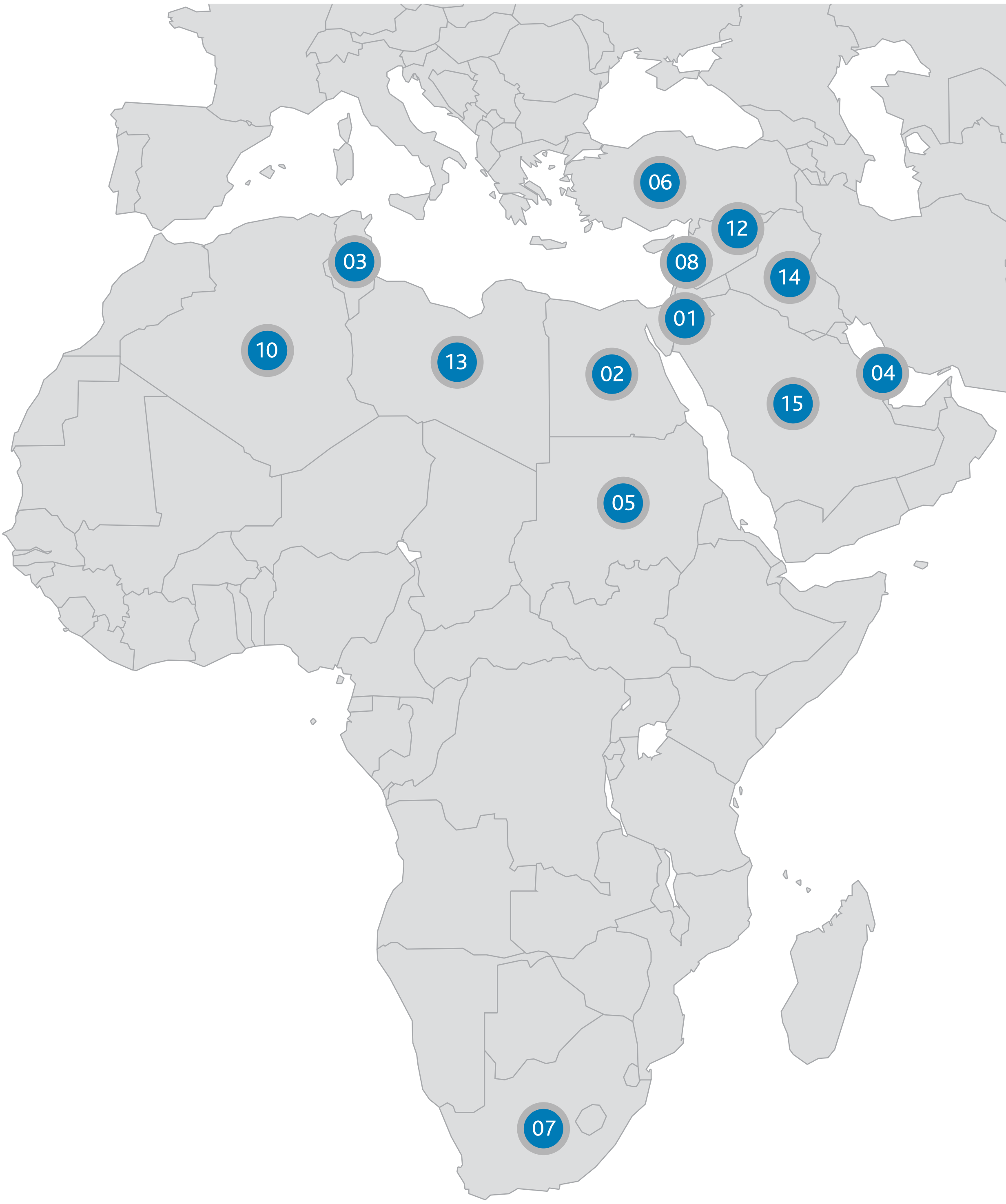
REVIEW OF UNITS

The following is a brief review of each of our subsidiaries, their activities and performance over the past year. All figures are stated in the US dollar equivalents of the audited local currency-based balance sheets and income statements, prepared in accordance with the Islamic Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (and IFRS, where AAOIFI was silent) and without any Group level consolidation adjustments.

Each unit is managed by its respective Board of Directors, whose reporting lines are ultimately to the Parent, ABG, but whose decision-making is decentralised within the Group's overall strategic direction and in full compliance with the regulations of the respective countries' Central Banks.

Your Partner Bank

President & Chief Executive's Report (continued)



AL BARAKA GLOBAL NETWORK

A Global Vision of Local Partnership


09
11

President & Chief Executive's Report (continued)

Al Baraka Türk Participation Bank
Founded 1985

The Turkish economy grew by an historically low 3.9% in 2013, above that of 2012 but a far cry from the 8.6% recorded in 2011. Its large current account deficit (7.5% of GDP at end-2013) continued to pressure the Turkish Lira, a situation which was not helped by the impending likelihood of a tapering off of the US Federal Reserve Bank's quantitative easing programme. These circumstances, combined with a stubbornly high inflation rate (at 7.5% only slightly below 2012's rate of 7.8%), compelled the Central Bank to maintain a higher than desired interest rate policy, threatening the weak economic recovery hinted earlier in the year. Lira depreciation was around 18% over the year but the weakness was sustained into the new year, compelling the Central Bank to more than double its repo rate from 4.5% to 10.0% in an effort to rally the currency.

For Al Baraka Turkey, the government's decision to issue its first sovereign Sukuk, amounting to $1.5 billion, offered some benefit as it paved the way for Turkish companies to raise funds through this medium, also incidentally permitting Turkish participation banks to have access to the liquidity window of the Central Bank. In addition to taking up a participation in the government's Sukuk, Al Baraka Turkey also successfully closed its own $200 million 10-year Tier 2 capital Sukuk issue, thus improving its overall capital ratio to a healthy 15.1%. The bank also concluded a highly successful syndicated 1 and 2-year mixed Murabaha financing, raising $196 million and €175.5 million.

Al Baraka Turkey's total assets rose in 2013 by 40% in Turkish Lira terms but by 18% in US dollar terms, to $8.14 billion, in light of the relative decline in the value of the Lira. The expansion was largely due to increased Murabaha financings, reflected in a 12% increase in sales receivables to $5.60 billion at year-end, together with a 46% expansion in the Ijarah Muntahia Bittamleek portfolio. On the liabilities side, a 26% rise in customer current and other accounts and a 12% increase in equity of IAH to $1.20 billion and $4.70 billion respectively, together with the aforementioned long term borrowing exercises, chiefly funded the asset expansion.

The bank's total operating income increased by 19% in Turkish Lira and 12% in US dollar terms to $403 million, mainly on account of the bank's own income on Musharaka financings and investments but also from its share of jointly financed income from financings and investment accounts, both as Mudarib and in its own right, and other operating income. The total income from jointly financed accounts and investments rose by 5% in Turkish Lira but fell by 1% in US dollars, to $359 million. After distribution to the equity of IAH of their share of the income, amounting to $243 million, the bank's share as fund owner and as Mudarib was 22% higher than the previous year, at $116 million. Its income from its own sales and investments increased by 16% in Turkish Lira and 9% in US dollar terms at $192 million, while other operating income and revenue from banking services made up the balance of operating income. Following deduction of operating expenses of $200 million - 4% up on 2012 - the net operating income was $202 million, 20% more than the previous year. After accounting for increased provisions and taxation, the net profit at $121 million was 12% above that of 2012.

With 30 new branches opened in 2013, the branch network stood at 167 branches at end-2013, including 1 branch in Iraq. The bank continued to install new ATMs across the country, expanding its network to 179 from 147 at the end of 2012. The bank's product range was again enhanced, with the introduction of finance packages tailored to the needs of small businesses (micro-finance), e-participation accounts, cumulative participation accounts and dentists' financing facilities.

For 2014, Al Baraka Turkey intends to maintain the momentum of branch expansion, opening 23 new branches to bring its network up to 190, in accordance with its current plan to establish a network of 330 branches by 2018. Its ATM network is set to expand by a similar order of magnitude.

(All figures in US Dollars unless otherwise stated)

Al Baraka Türk Participation Bank

Al Baraka Türk Participation Bank was established in 1985 and started operations in the same year. Al Baraka Türk currently renders its services through its 167 branches including 1 branch in Iraq, 69 of which are in Istanbul and 97 in the leading industrial and commercial cities.

Unit Head:	**Mr. Fahrettin Yahsi**
Title:	**General Manager & Board Member**
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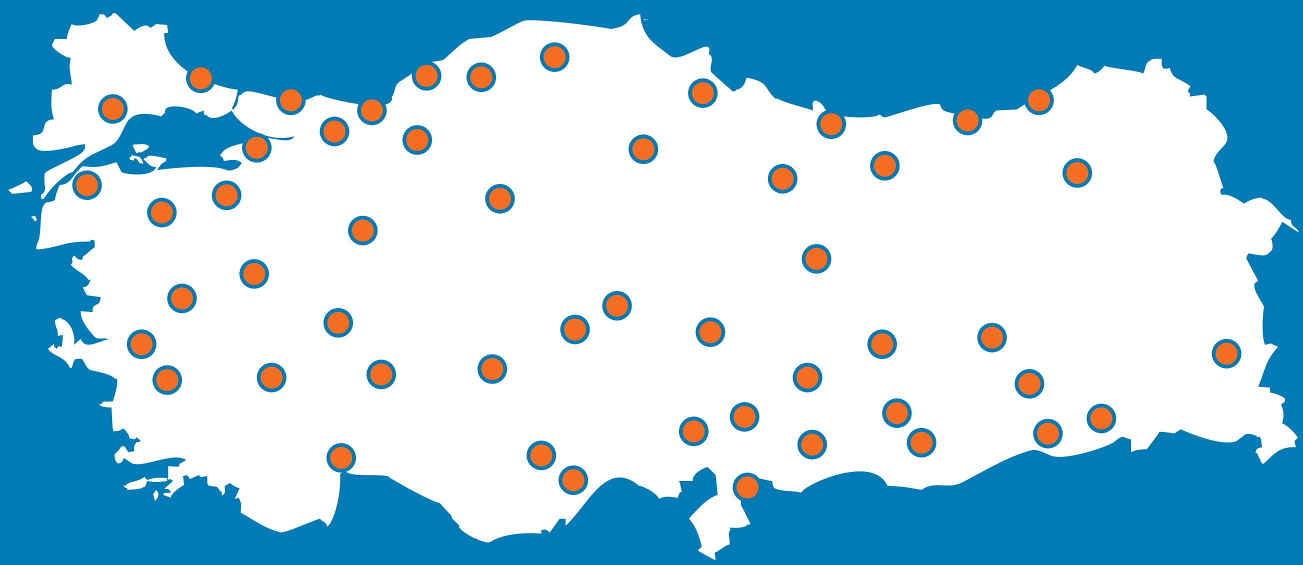

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President & Chief Executive's Report (continued)

Jordan Islamic Bank

Founded 1978

Jordan's economy continued to grow steadily, with the rate of growth reaching 3.2% compared with 3.0% in 2012 and 2.5% the year before. However rising oil and gas import prices, leading to an increase in its (traditionally negative) trade balance, placed a strain on its current account deficit which widened to -10.3% of GDP. Its budget deficit rose to -10.4% of GDP. Nevertheless, prospects for improvement over the next few years remain good. The rate of inflation, at 5.8%, is also forecast to moderate over time.

Although the weak economic performance at home clearly affected growth at Jordan Islamic Bank (Al Baraka Jordan) nevertheless the bank's total assets rose by 9% to $4.63 billion, funded by a 12% increase in customers current and other accounts and a 7% rise in equity of IAH. A 27% increase in Ijarah Muntahia Bittamleek coupled with a 10% increase in Musharaka financings more than compensated for a 44% drop in non-trading investments, with the balance of the increased liabilities largely being allocated to an increase in liquid assets.

Total income from jointly financed contracts and investments rose by 15% to $234 million of which the Murabaha contribution was $191 million or 17% above that for 2012, with the balance of the increased income emanating from Ijarah Muntahia Bittamleek contracts which contributed $37 million, a 24% gain. After accounting for the equity of IAH share – slightly up on 2012 at $97 million - and including the bank's share as Mudarib, the bank earned $137 million from this source which represented a 27% improvement. Including its income from its self-funded financings and investments, total operating income was 21% higher at $164 million. Total operating expenses stood at $72 million or 17% above those for 2012, leaving a net operating income of $92 million, 24% higher than the year before. After allocation of reduced provisions but increased taxation, the bank recorded a net profit of $64 million, 24% higher than in 2012.

Al Baraka Jordan opened 3 new branches during the year, bringing its total network to 80 branches and cash offices. The bank aims to expand its network over the next 5 years by 12 new branches and 8 cash offices to reach a total of 100 offices by 2018. It installed an additional 12 ATM machines, and now has a network of 134 machines as it aims for an eventual ATM network of 160.

The bank continued to introduce new products and services to its already impressive range. During the year it launched Iqra'a facilities, based on Ijarah Mawsoufah Bithimmah (forward contracts) to help customers finance tuition fees at schools, colleges and universities, and Labbayk, to assist in financing Hajj and Umra journeys. To these products it will add facilities to provide assistance for medical treatment in 2014. Its new Contact Centre, opened in 2013, incorporates a Call Centre to inform customers of its new services and assist them in applications. It is planning to introduce mobile banking for smart phones under a new system, adding to its existing 'i-banking' and SMS services. On the IT front it has been working on centralising its risk and credit management processes and implementing new scoring and rating systems.

In 2013 Al Baraka Jordan was honoured to receive the 'Best Islamic Retail Bank in Jordan' and 'Best Islamic Financial Institution in Jordan' awards from Global Finance Magazine, acknowledging its progress over recent years in continuing to develop and manage a first class financial institution.

Jordan Islamic Bank

Jordan Islamic Bank was the first Islamic bank in Jordan and was established in 1978 to carry on all types of financing, banking and investment activities in compliance with the provisions of the glorious Islamic Shari'a. The bank offers its banking, investment and financing services through its 80 branches including 15 cash offices, in addition to a bonded office, distributed throughout the Kingdom of Jordan.

Unit Head:	**Mr. Musa Shihadeh**
Title:	**Vice Chairman & CEO**
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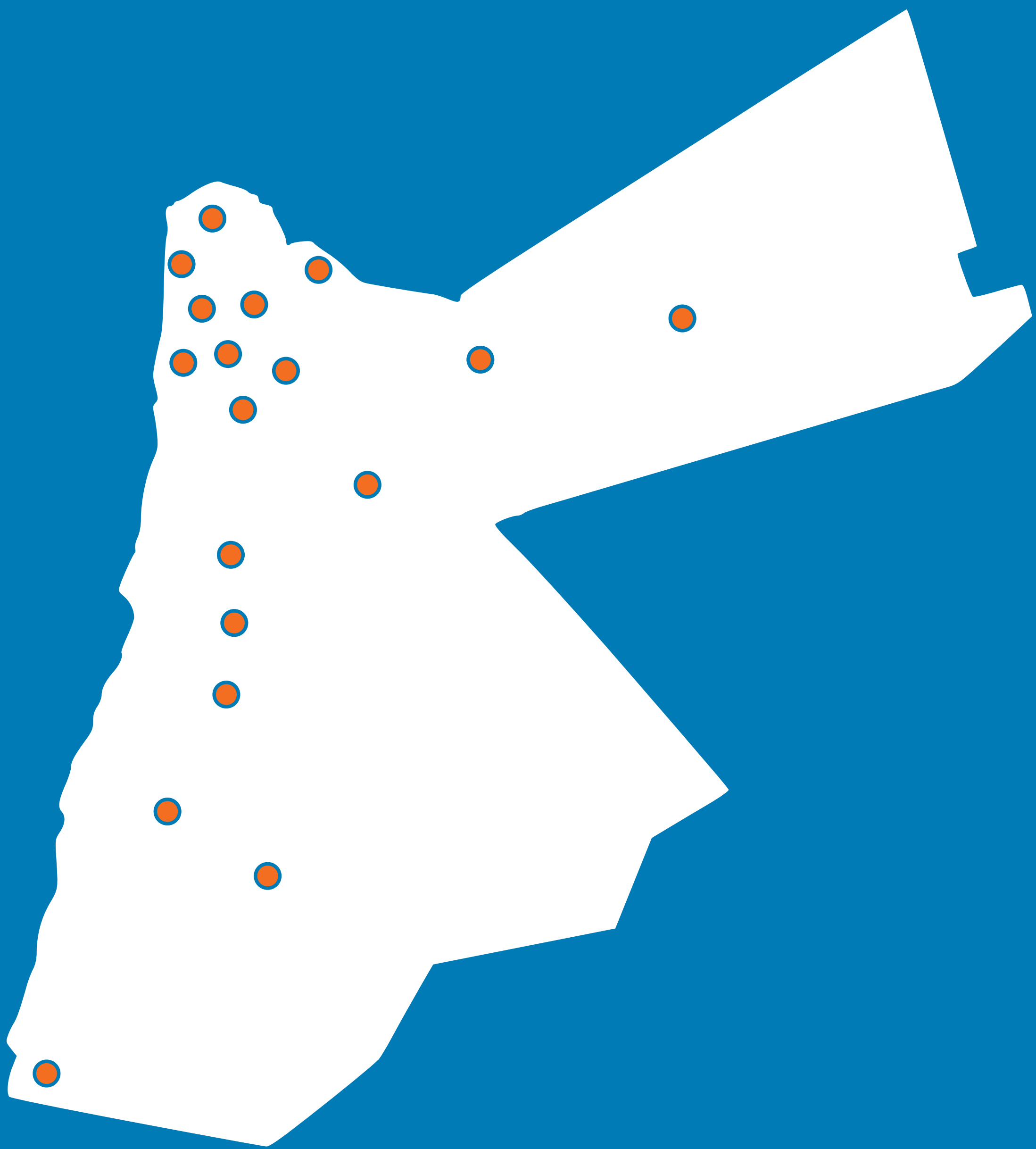
	jordanislamicbank.com



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Al Baraka Bank Egypt

Founded 1980

With the continuing uncertainty prevailing following the 'second wave of revolution' which began at the end of June 2013 with the arrest of ex-president Mohammed Morsi and his impending trial, the Egyptian economy has behaved relatively feebly in the past months. Notwithstanding increased expatriate workers' inward remittances and Suez Canal revenues in 2013, and a rise in value of shares on the Egyptian Stock Exchange, business and consumer confidence remains at a low ebb. Consequently, Egypt's GDP rose by only 2.0% in 2013, similar to 2012's performance, and growth looks set to be only slightly higher in 2014. The budget deficit, equal to -13.7% of GDP, is a worrying factor, although the current account deficit at -2.5% of GDP is sustainable. The rate of inflation over the year is estimated at 8.5%, up from 2012 but lower than in 2011. The Egyptian Pound meanwhile fell in value, ending the year at EGP6.87/US$ compared with EGP6.12/US$ at the end of 2012.

Al Baraka Egypt maintained its conservative financing policy in 2013. As a result its total assets rose by only 9% in Egyptian Pounds - in US dollar terms total assets actually fell by 3% to $2.62 billion - with most of the growth on the domestic currency balance sheet being seen in non-trading investments, Mudaraba financings and liquid assets, while Murabaha sales receivables fell back. Customer accounts including equity of IAH increased by 8% in Egyptian Pounds but contracted by 4% in US dollar terms.

The bank's total income from joint financings and investments rose in Egyptian Pound terms by 10%, of which the main contributors were Murabaha sales receivables (+16%) and Mudaraba financings (+18%), although in US dollars this healthy performance given the circumstances was transformed into a 3% decline to $222 million. After taking into account the share of the equity of IAH investors, which rose by 10% in Egyptian Pound terms, the share earned by the bank including its Mudarib fee was 9% higher (in US dollars, 3% lower at $84 million). After accounting for self-funded investments and financings, income from fees and commissions and other operating income, the total operating income increased by 14% in Egyptian Pounds but by only 1% in US dollars to $103 million. Total operating expenses increased by 22% in local currency (mainly attributable to increased staff, rental and other costs) but by only 8% in US dollars to $45 million. Net operating income was therefore $58 million, some 3% lower than in 2012. After allocating reduced provisions and taxation charge, the net profit for the year was $24 million, 5% over that for 2012.

Al Baraka Egypt opened 3 new branches in 2013, bringing the number of its branches to 26, plus 4 foreign exchange offices, spread across Egypt. It plans to open a further 5 branches in 2014, well on the way to meeting its target of a total network of 40 branches by 2018. As part of its plan to develop and upgrade all its old branches, it has purchased new premises in central Cairo to which it will move its Al Alfi branch and is refurbishing new premises recently acquired for its Muhiyi Eddin Abu al Ezz branch. Its ATM network has meanwhile been expanded to 24 in total. During the year it commenced work on furbishing its new main office premises in the New Cairo district, equipping it with up to date IT and other equipment, at the same time successfully completing the implementation of its Equation core banking system following its solo testing. In October it launched its Al Baraka Bronze Card, the first Islamic credit card in the Egyptian market. This issue will be followed by the Al Baraka Silver and Gold cards in 2014. It is also planning the launch of a new 3-year Sukuk, a relatively long-term saving product which it expects to be met with great interest.

Al Baraka Egypt was proud to have received several awards during 2013: the Tatweej Award was granted by the Tatweej Academy of the UAE as one of the best banks implementing Shari'a principles; the European Award for Best Practices bestowed by the European Society for Quality Research (ESQR); and the Majestic Five Continents Award for Quality and Excellence by the prestigious European Foundation Other Ways Management Association Club based in France.

(All figures in US Dollars unless otherwise stated)

Al Baraka Bank Egypt

Al Baraka Bank Egypt commenced its activities in accordance with Shari'a principles over 23 years ago and has grown as an Islamic institution to become one of the foremost in the Egyptian market. It provides a variety of services, products and savings deposit options to suit different requirements and financing programmes to meet the requirements of various sectors of the Egyptian market, in addition to credit facilities for companies and joint financings for large and important national projects. The bank currently has 26 branches and 4 foreign exchange offices, spread across the major Egyptian cities.

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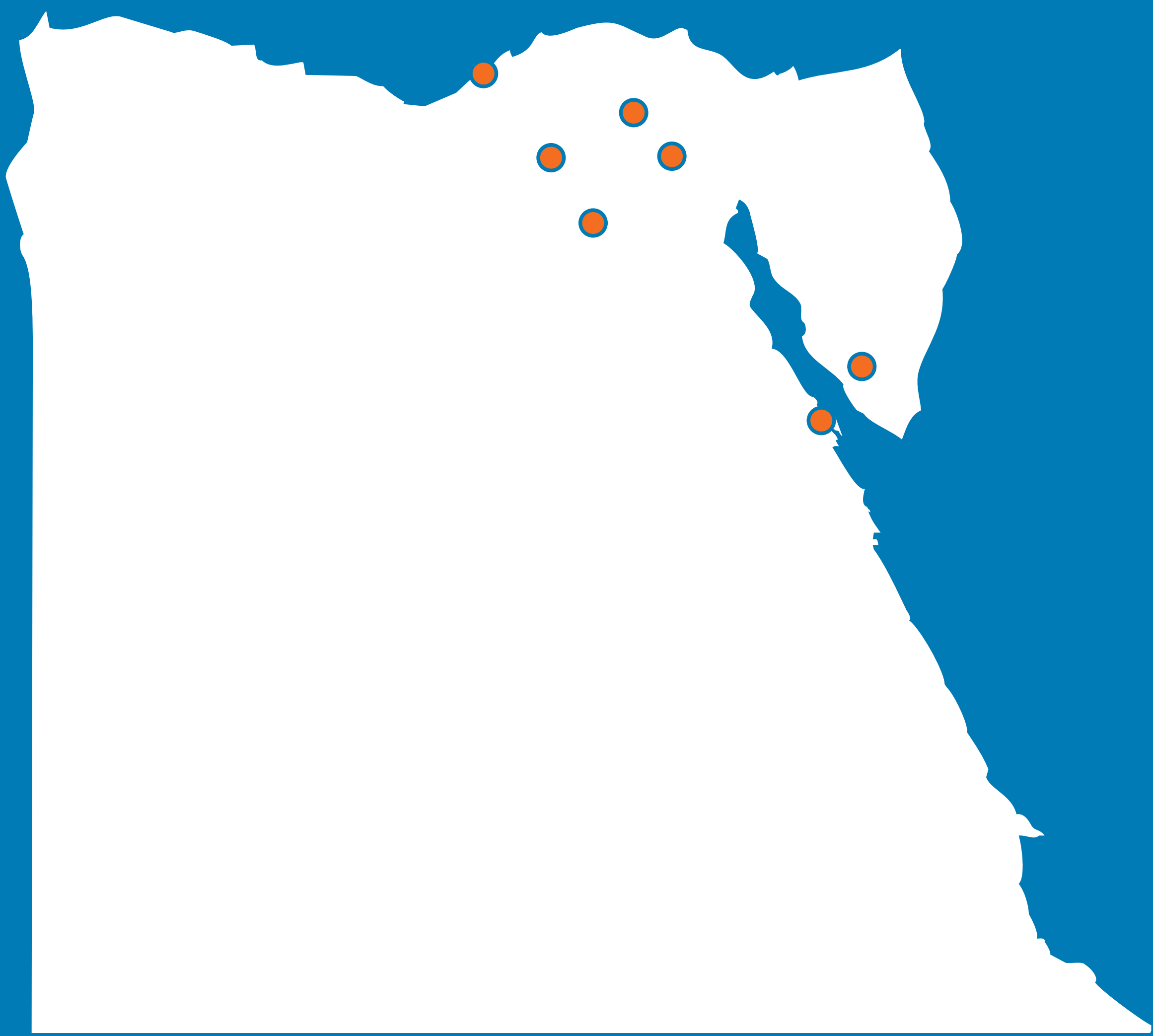

President & Chief Executive's Report (continued)

Banque Al Baraka D'Algerie S.P.A.

Founded 1991

The Algerian economy grew by 3.2% in 2013, a little above the previous 2.5% growth rate. The government maintained a budget deficit, which reached -2.5% of GDP, in pursuance of its development goals while, driven by a positive trade balance with high oil and gas revenues supported by a growing non-hydrocarbon sector, the current account surplus reached 3.2% of GDP, a little lower than in prior years. Consumer price inflation fell back to 3.6% from over 8.0% in 2012.

At the same time as taking steps, such as the recently inaugurated El Merk processing facility, to support continuation of its crude oil production, the government is pursuing its long term strategy of investing in non-hydrocarbon projects, as it seeks to diversify the economy and reduce the high level of unemployment. It has introduced new measures in its 2014 budget to encourage foreign investment.

In 2013 Al Baraka Algeria's total assets increased by 6% to $1.96 billion. Most of this expansion occurred through a 45% surge in the Ijarah Muntahia Bittamleek portfolio and increases also in Salam and Musharaka financings, offset by a 5% reduction in Murabaha sales receivables and a 21% drop in Istisna'a financings. Funding sources increased by 8%.

In keeping with the slightly reduced Murabaha portfolio, joint income from this source was 6% below the previous year. However, total income from joint financings and investments rose by 13% to $59 million, mainly as a consequence of the expanded Ijarah Muntahia Bittamleek portfolio. The bank's share of income from the jointly financed portfolios, after accounting for the share allocated to the equity of IAH and including its Mudarib fee, was 16% higher than in 2012, at $37 million. Nevertheless, with lower receipts from fees and banking commissions (due to regulatory restriction on fx spreads) and other operating income, its total operating income was 9% below that earned in 2012 at $102 million. As operating expenses were 7% higher at $39 million, the net operating income was 16% lower at $63 million. Even including a net recovery of provisions and a reduced taxation charge, the net profit for the year was 5% below that for 2012, at $51 million.

From the current 26 branches in 2013, Al Baraka Algeria intends to finalise the opening of 4 new branches in 2014, bringing the network up to 30, under a 5-year strategy that anticipates a total network of 50 by 2018. Work continued on the construction of its new headquarters building, which is expected to be inaugurated in 2014. Its ATM service is being expanded alongside the branch network, with 16 branches currently offering full service machines, including payment and transfer options, the intention being that all branches will eventually contain these services. 2014 is also expected to see the launch of its SMS and e-banking services. The bank meanwhile has continued to develop its product range, with finance for real estate rental introduced in 2013, in addition to microfinance and SME-geared facilities, a variety of Takaful insurance services and Hajj and Umrah savings accounts.

In 2013 Al Baraka Algeria was honoured with the award 'Best Islamic Financial Institution in Algeria' by Global Finance Magazine.

(All figures in US Dollars unless otherwise stated)

Banque Al Baraka D'Algerie S.P.A.

Banque Al Baraka D'Algerie was incorporated in May 1991 as the first Islamic Bank and operates under a commercial banking license issued by the Bank of Algeria. The main activities of the bank are retail and commercial banking. The Bank operates 26 branches.

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President & Chief Executive's Report (continued)

Al Baraka Islamic Bank B.S.C.

Founded 1984 - Bahrain

The Bahrain economy grew by 3.9% in 2013, similar to 2012, as its oil production was stable and international hydrocarbon prices remained at similar levels to 2012. The current account surplus was strong at 6.2% of GDP, although this is forecast to decline somewhat from 2014 onwards as the budget deficit, currently at -3.5% of GDP, continues to rise. Factors contributing to the expanding deficit include the cost of new social housing projects being constructed to help alleviate the shortage of affordable housing in the Kingdom and measures to try to bring down the level of unemployment. Inflation remained stable at 3.2%.

Al Baraka Bahrain was one of the first Islamic banks to be established in Bahrain, opening its doors in 1984. Later, it spread to Pakistan where it opened a number of branches from 1991 onwards, operating as a foreign bank under a commercial banking licence from the State Bank of Pakistan. It acquired a local bank in Pakistan in 2010, merging it and its own branches under a newly incorporated subsidiary to create the second largest Islamic retail banking institution in Pakistan.

In 2013 Al Baraka Bahrain's total Bahrain-based assets grew by 21% to $863 million. Most of the increase emanated from the 74% growth in its Mudaraba portfolio and in the other assets category, with important contributions also recorded in the Ijarah Muntahia Bittamleek portfolio, which grew by 12%, the Murabaha financings where the end-year sales receivables balance was 10% higher, and to a lesser extent also in the Musharaka portfolio and the non-trading investments. Asset growth was fuelled by a 24% increase in customer accounts including equity of the equity of IAH.

The bank's Bahrain-based total income from joint financings and investments was 6% higher at $25 million, largely as a result of healthy increases in the joint income from Mudaraba and Musharaka financings and to a lesser extent Murabaha sales receivables. However, after accounting to the equity of IAH for their share of the income and even after including its fee as Mudarib, the bank's share of this income was 5% lower than in 2012, at $12 million. Nonetheless, its income from self-funded financings and investments, fees and commissions and other operating income brought its total operating income up to $20 million, 10% above 2012's. Operating expenses being 2% below those in 2012 at $19 million, the net operating income – and net profit - was $1 million, a welcome reversal of the $5 million net loss suffered in 2012.

Over the years, Al Baraka Bahrain has developed a wide range of products and services, including a spread of personal, housing and automobile finance offerings, its Taqseet card (repayment by instalments) offering multiple Murabaha finance transactions to assist household in purchasing a wide variety of electronic and other household goods, and Takaful insurance. In 2013 it added to its Taqseet range by introducing an innovative new product, a variation of Taqseet 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 instalments over time, which can be applied to facilities financing education, medical treatment, travel and tourism, marriage, Hajj and Umrah. It also unveiled Taqseet facilities geared to expatriate residents in Bahrain and online banking services. For 2014, it plans to bring out Bancassurance policies to cover customers' automobiles, travel, fire and investments.

To its Bahrain ATM network it added a further 5 machines in 2013, bringing the overall number to 21. Its plan to open 2 new branches in 2013 having been deferred until 2014, the coming year will see expansion of the bank's branch network to 8, with the aim of expanding steadily thereafter to reach a total of 16 branches by 2018.

Al Baraka Bahrain was proud to be chosen as the 'Best Islamic Bank in the Kingdom of Bahrain' in February 2013 by the Foundation of Islamic Finance News, the Malaysia-based international institution specialising in news for the Islamic financial sector. The bank also won the 'Best Islamic Bank in Bahrain for 2012' award from Euromoney Magazine and 'Best Islamic Financial Institution in Bahrain' from Global Finance Magazine.

(All figures in US Dollars unless otherwise stated)

Al Baraka Islamic Bank B.S.C. - Bahrain

Al Baraka Islamic Bank was incorporated in Bahrain in February 1984 and operates as a retail Islamic bank. It obtained a commercial banking license in Pakistan in 1991. The bank operates 6 branches in Bahrain.

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President & Chief Executive's Report (continued)

Al Baraka Islamic Bank B.S.C. Bahrain (continued)

Al Baraka Bank (Pakistan) Limited

Founded 2010

The Pakistan economy, still beset by failure to recover from the energy shortages resulting from the 2010 floods, continued to weaken in calendar year 2013. For the fiscal year to June 2013 GDP growth was an adequate 6.1% but it has fallen since and is forecast to fall further to 3.9% for fiscal 2014. The budget deficit worsened to -8.0% for fiscal 2013, but is likely to improve somewhat in the current year, projected at -6.3%. The current account deficit, which had deteriorated in 2012 to -1.7%, improved a little to -1.0% by the end of the fiscal year to June 2013. The rate of inflation also moderated somewhat, to 7.5% compared with 11.0% for the calendar year 2012.

The weakened balance of payments position will however be assisted by the $6.64 billion IMF package approved in September 2013, in addition to a United States' aid injection. The State Bank of Pakistan, constrained by lower reserves, has been unable to provide strong support for the Pakistan Rupee, which has consequently lost more than 6% of its value against the US dollar over the last 6 months. The State Bank, however, maintained its economic stimulation policy by reducing its discount rate over the period.

Al Baraka Bank (Pakistan) Limited – Al Baraka Pakistan - began life in 1991 when it was established by Al Baraka Islamic Bank (Al Baraka Bahrain) as a foreign bank under a commercial banking licence granted by the State Bank of Pakistan. In 2009 Al Baraka Bahrain received the approval of the State Bank of Pakistan for its Pakistan arm to be licensed as a separate bank under the ABG umbrella. In October 2010 the bank's Pakistan branches were merged with those of Emirates Global Islamic Bank, the resultant new entity emerging as a subsidiary of Al Baraka Bahrain and one of the largest Islamic banks in Pakistan. The successful growth strategy was duly reflected in April 2013, when the bank proudly inaugurated its new Head Office building in Karachi.

Al Baraka Pakistan's total assets rose by 10% in 2013 to $825 million, with the main increases being in the Murabaha sales receivables and the bank's liquid assets. Musharaka, Istisna'a, Salam and Ijarah Muntahia Bittamleek portfolios also contributed, offset by a 25% reduction in non-trading investments. Customer accounts including equity of IAH helped to fund the expansion, growing by 10% over the year.

Notwithstanding the expansion in the asset base, total income from joint financings and investments fell by 13% to $53 million as, apart from Salam financings – the earnings from which rose by over 200% to nearly $4 million – and a small increase in Musharaka income, revenues were down across the board. Consequently, the bank's share of income from this source, including its share as Mudarib, produced earnings 3% lower at a little below $11 million. With the inclusion of income from its own sales and investments, fees and commissions and other operating income, however, its total operating income was 12% higher than the previous year, exceeding $23 million. Operating expenses having remained unchanged at $20 million, the net operating profit was transformed from under $0.2 million in 2012 to nearly $3 million. After provisions – significantly lower than for 2012 – and reduced taxation charge, the bank ended the year with a net loss of only $0.2 million, a significant improvement over 2012's $6 million loss.

The bank opened 16 new branches over the course of the year, focusing on the more rural/agricultural areas of the country. This brought its total network to 110 branches covering 63 cities and towns in Pakistan. Under its 5-year rolling plan it intends to have 230 branches established by 2018. It also created 2 new dedicated departments responsible for Public Sector & Institutional Relationships and Commercial & SME Banking, respectively. New products included savings accounts geared to regular savers, senior citizens and young savers, and an international debit card, in addition to an enhanced consumer automobile Ijarah product. For 2014 it plans the launch of SMS banking and Internet banking for personal customers, term deposits designed for senior citizens and a home financing product. It aims to expand its ATM network by 32 machines, bringing its total to 75.

(All figures in US Dollars unless otherwise stated)

Al Baraka Bank (Pakistan) Limited

Al Baraka Bank (Pakistan) Limited has been present in its erstwhile form of 29 branches of Al Baraka Islamic Bank B.S.C. since 1991. In October 2010, it acquired Emirates Global Islamic Bank to form Al Baraka Bank (Pakistan) Limited with a total of 110 branches.

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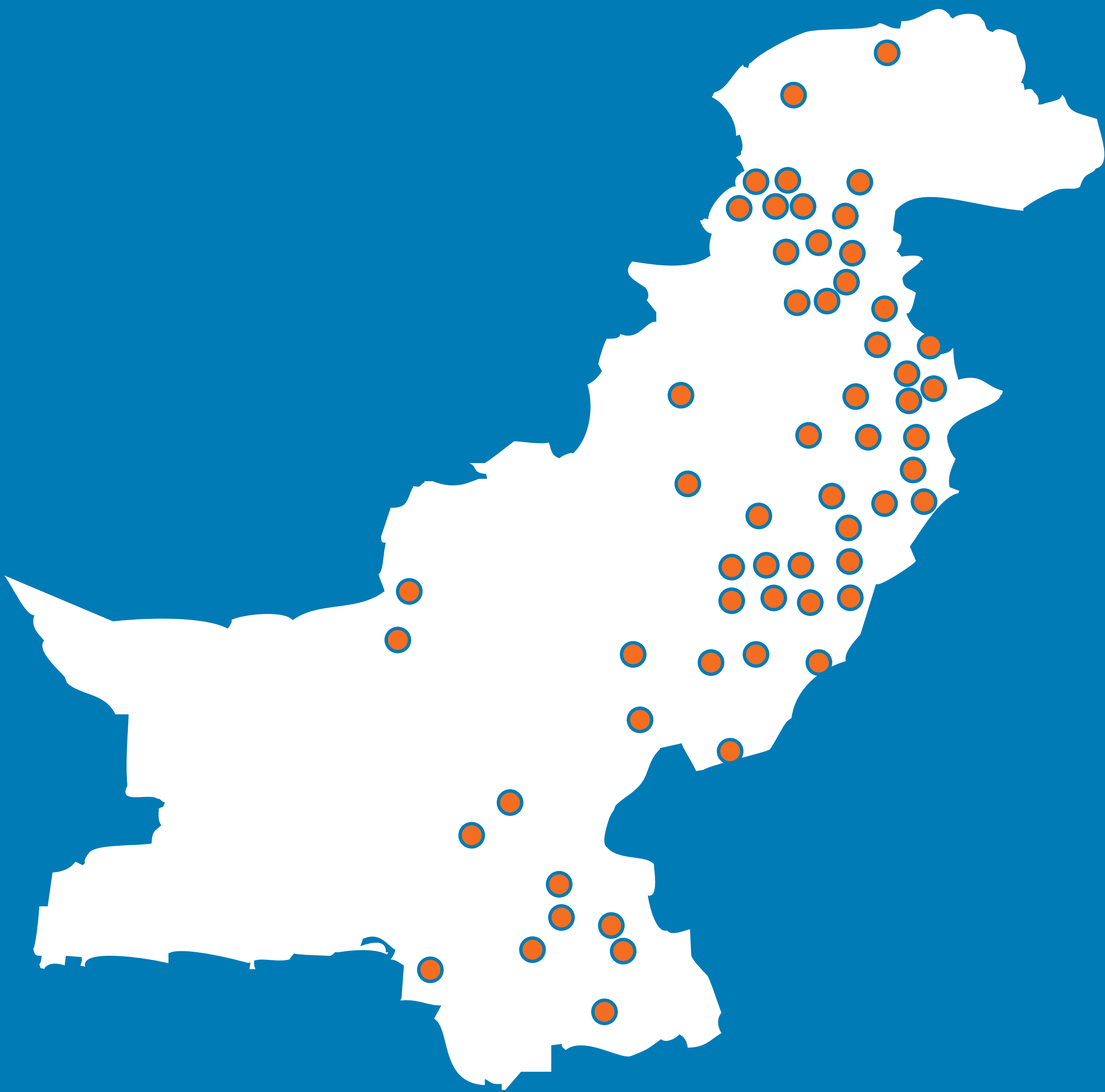

President & Chief Executive's Report (continued)

Al Baraka Bank Tunisia

Founded 1983

Tunisia's economic performance remained weak over 2013, with GDP growth restrained at around 2.7%, similar to that for 2012. The budget deficit was -7.0% of GDP and looks set to continue at a high rate as the government struggles to manage costs and reduce subsidies while revenues from tourism, energy, olive oil and mining remain down and trade volumes with the EU and Libya – some of its most important trading partners – continue to drop. The Securities and Stock Exchange stayed volatile during the year, while foreign direct investment continued to decline. These factors all contributed to the widening of the current account deficit to -8.2% of GDP. The rate of inflation was 6.1%, while the Tunisian Dinar continued to fall against international currencies, especially the euro and the US dollar. It is hoped that the government's negotiations with the IMF over reforms will lead to greater international support in time.

In these circumstances the maintenance of liquidity has been a priority to Tunisian banks, and the Central Bank has maintained its support through the refinancing window. The Central Bank has meanwhile begun the process of carrying out a comprehensive audit of the public banks, employing the services of three international consulting firms. It has also carried out a study on the provision of micro-finance and prepared a strategy to support this sector by providing credits and putting in place the necessary infrastructure for such financing – a measure that is welcome to those banks such as Al Baraka Tunisia that wish to expand into this area of financing. Also welcome was the passing by the Tunisian Constituent Assembly of a bill establishing the means by which Islamic instruments can be employed in economic transactions in the public and private sectors.

The most important event, from Al Baraka Tunisia's viewpoint, to have occurred during the year was the approval by the authorities to a change in its licence from an offshore bank to a full onshore bank. This welcome move, occurring in the year of the 30th anniversary of its founding in Tunisia, will establish the bank as a separately capitalised institution in its own right, whilst permitting it to conduct a greater range of retail activities in local currency and to expand accordingly.

Al Baraka Tunisia's total assets grew by 16% to $658 million in 2013, as a 40% drop in Murabaha sales receivables to $231 million was more than compensated by 59% growth in the Mudaraba portfolio and the expansion of its non-trading investments from $7 million to nearly $138 million, while the value of its fixed assets also rose strongly. Funding for this expansion was provided mainly from a $75 million shareholders subordinated loan.

Despite the growth in assets, the bank's total operating income was only 2% higher than that of 2012, at $21 million. Although its total income from joint financings and investments grew by 4%, after accounting to the equity of IAH investors for their share and including its Mudarib fee the bank's share at $14 million was 2% under that of the previous year, the inclusion of revenues from fees and commissions and other operating income accounting for the difference. Operating expenses were 13% higher at $12 million, leaving a net operating income of $8 million which, however, after allocating lower provisions than in 2012 and despite a higher taxation charge, led to a net profit of $6 million, 18% above that for 2012.

In preparation for the conversion of the bank to a Tunisian onshore institution, Al Baraka Tunisia has recently been adapting its new core banking IT system to accommodate the bank's expansion and development of its new activities. During the year it also launched its new Gold MasterCard, which was received well. It has also been preparing a range of new products to introduce to the market, including financings to facilitate the purchase by its customers of residential housing and automobiles and the financing of Hajj and Umrah pilgrimages. These products, together with the introduction of services permitting payment of bills and other transactions via mobile phones and other telephone banking services, and a Visa Platinum card, will be introduced in 2014.

The bank now plans to open its new business centre at its main branch, focusing on the needs of businessmen and enterprises, in 2014. At the same time, it has renewed its ambition to expand its branch network into all the most important areas of Tunisia and has purchased premises for 4 of the 10 branches to be opened in 2014, which will bring its total network to 18. Its long-term ambition is to open thereafter 10 branches a year so that it will have a network of 58 by 2018. Similarly, its current ATM network will be expanded in 2014 to 70 machines, dealing with local currency transactions, with 58 dealing in foreign exchange.

(All figures in US Dollars unless otherwise stated)

Al Baraka Bank Tunisia

Al Baraka Bank Tunisia was established in 1983. The bank has both offshore and local retail activities in accordance to Shari'a principles. The bank operates 8 branches across Tunisia.

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President & Chief Executive's Report (continued)

Al Baraka Bank Syria s.a.

Founded 2009

The ongoing conflict in Syria has taken a devastating toll on its economy, with estimates of the precipitous drop in GDP since 2011 of 3.7% in 2011, 18.8% in 2012 and 19.0% in 2013. The hardest hit economic sectors have been oil extraction and production, internal trade and transport, while both public and private investment have fallen sharply. The government's budget for 2014 includes an allocation of some $4.5 billion for subsidies, 44.2% of its total expenditure. From an exchange rate of SYP77/US$ at the beginning of the year, the Syrian Pound had fallen to SYP144/US$ at the end of 2013.

As a consequence of the fall in value of the Syrian Pound, the performance of Al Baraka Syria must be viewed in terms of the local currency alongside the currency of consolidation into Group accounts i.e. the US dollar. The bank focused on Treasury operations to compensate for the difficulties in identifying good quality local financing opportunities, in addition to the provision of indirect facilities (letters of credit, guarantees etc.) to its prime customers. The bank's total assets thus grew by 44% to SYP60.85 billion, but fell by 23% to $424 million in terms of the US dollar. Growth was largely seen in Mudaraba financings and in liquid assets, offset by falls in Murabaha sales receivables and Musharaka. Customer accounts and equity of IAH together rose by 23% in local currency terms but declined by 34% when expressed in US dollars.

The total operating income was higher in 2013 by 127%, at SYP3.75 billion – in US dollar terms this translated into a 14% increase to $28 million. Of this, the main contributor fell under the category of other operating income (partly reflecting the Treasury operations referred to above) which rose by 164% to SYP2.61 billion, with income from joint financings and investments – largely from Murabaha financings in absolute terms – being 45% higher at SYP558 million of which the bank's own share after distribution to IAH investors rose by 138% to SYP319 million. Total operating expenses amounted to SYP686 million ($5 million), producing a net operating income of SYP3.06 billion or $23 million. After allocations for (reduced) provisions and taxation write back, the net profit was SYP2.61 billion or $20 million.

The bank's network remained at 9 branches during the year as it put its branch expansion on temporary hold. However, it has established plans for opening a further 4 branches in 2014 if conditions allow, as part of its long term plans for a 30-branch network. It is also finalising its plan to relocate to new headquarters in Yafour, outside Damascus, having completed the bidding process for the construction of a six-floor building at Emaar 8th Gate, Damascus. It aims to launch a new Al Baraka Gold savings account shortly, the first product to facilitate customers' gold savings in the Syrian market.

Al Baraka Syria was proud to have obtained the ISO 9001:2008 Quality Management certification in 2013, the only Syrian bank to have achieved this to date.

(All figures in US Dollars unless otherwise stated)

Al Baraka Bank Syria s.a.
Al Baraka Bank Syria started its operations in accordance with Shari'a principles during 2009 and has grown as an Islamic institution offering a variety of financing products and services that suit different market segments and address their financial needs, via a chain of 9 branches spread across the major cities in Syria.

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President & Chief Executive's Report (continued)

Al Baraka Bank Limited
Founded 1989 - South Africa

The slowdown in the South African economy experienced in 2012 continued into 2013, when a growth rate of a mere 1.9% reflected the continuing effect on the country's export market of the slow recovery in its major eurozone and Chinese markets. As a result the current account deficit rose to -6.5% of GDP, while the budget deficit remained at about -4.8% of GDP, although this was a little better than had been expected. The rate of inflation remained high although stable at 5.8%. The Rand depreciated further, reaching ZAR 10/US$ by the end of the year.

Al Baraka South Africa's total assets rose in 2013 by 19% to ZAR4.41 billion in Rand terms but fell by 4% to $422 million in US dollars. The most important contributors to the rise were the Murabaha sales receivables, which grew by 16% to ZAR1.63 billion (in US dollar terms, fell by 5% to $156 million) and the Musharaka financings which rose 14% to ZAR2.12 billion (fell 8% to $202 million). On the liabilities side the customer current and other accounts grew by 63% to ZAR299 million and equity of IAH by 16% to ZAR3.64 billion.

The total income from joint financings and investments was 11% higher at ZAR291 million (6% lower at $30 million in US dollar terms), reflecting the expansion of the Musharaka book and Murabaha sales receivables. Following allocation to the equity of IAH investors and including its Mudarib fee, the bank's share amounted to ZAR138 million – 12% higher than for 2012 – or $14 million. Adding the bank's share of income from trading securities, non-trading investments, fees and commissions and other operating income, the total operating income was 16% higher at ZAR172 million ($18 million). Operating expenses totalled ZAR129 million ($13 million), leaving a 12% higher net operating income of ZAR43 million ($4 million) and, after allocating provisions and increased taxation charge, a net profit of ZAR29 million ($3 million) compared with ZAR26 million or $3 million in 2012.

Al Baraka South Africa was pleased with the results of its first full year of retail trading in foreign exchange, utilising an innovative Shari'a compliant contract designed internally. It intends to build on this success by establishing up to 10 outlets for retail foreign exchange services in the coming years. The bank is planning the issue of a ZAR150 million Sukuk in early 2014 once it receives official approval, which will add to its Tier 2 capital. Its Debit Card is to be internationalised shortly using EMV (chip enabled) technology and it will be introducing a Forward Exchange service for its clients during the year. Mobile banking services will be unveiled in the year ahead too, while a Wills and Administration of Estates department will be established for the benefit of clients. It plans also to open 1 new branch - in Pietermaritzburg - in 2014 to add to its existing network of 11, under its long term plan to add 5 branches to the network.

In 2013 Al Baraka South Africa was justly proud to be honoured with the 'Best Islamic Financial Institution in South Africa' award from Global Finance Magazine.

Al Baraka Bank Limited - South Africa

Al Baraka Bank Limited was established in 1989 and operates as a commercial Islamic bank. The bank has 3 corporate offices and 7 retail branches and a business office.

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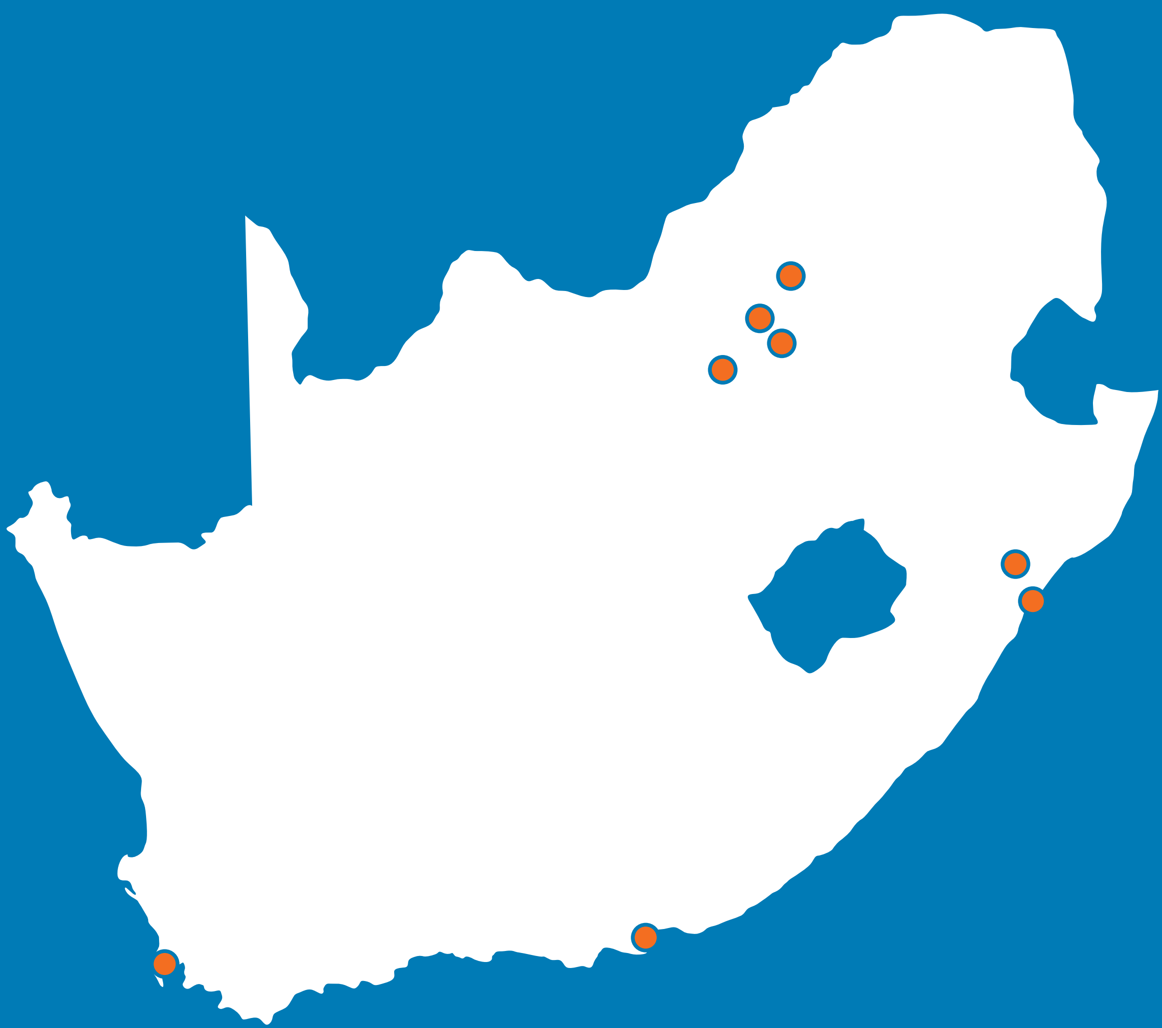

President & Chief Executive's Report (continued)

Al Baraka Bank Lebanon S.A.L.

Founded 1991

Both the Lebanese political scene and the economy, with its historically strong links with Syria, continue to be impacted by the civil war in Syria. Lebanon has been without a government for several months and negotiations between political parties seem to be making little progress. Activity on the Beirut Stock Exchange has fallen sharply on a year-to-year basis. Unemployment remains high and the influx of refugees from across the border – adding an estimated 30% to the Lebanese population - has imposed a strain on the country's resources. Tourism has fallen significantly. Reflecting these factors, the economy has performed weakly, with latest estimates of an optimistic 1.3% growth rate in 2013. The rate of inflation is estimated to have remained subdued, however, despite 9% wage increases for public sector workers. The current account deficit has stayed high and is estimated to be around -9.0% of GDP.

Total assets at Al Baraka Lebanon grew by 19% to $357 million in 2013. The biggest component as usual was the Murabaha sales receivables which rose by 36% to reach $150 million, with other contributors to the rise being chiefly Mudaraba financing, which expanded by 17%, trading securities, investments in properties and other assets. The growth was funded by customer accounts including equity of IAH which grew in aggregate by 19% to $307 million.

Total income from joint financings and investments was 5% down on the year at $12 million, as a 24% increase in Murabaha financing income was more than offset by a fall in income from investments. The bank's share including its Mudarib fee amounted to $6 million, a 9% decline from the previous year. With the inclusion of income from self-funded financings and other investments, fees and commissions from banking activities and other operating income, total operating income amounted to $9 million, 6% below 2012's figure. Operating expenses were 12% higher than the year before, at $10 million, leaving a net operating loss of $0.5 million and, after accounting for provisions charge, a net loss of $1.5 million for the year.

Determined to rise above the problems permeating the economy, Al Baraka Lebanon sought various avenues to encourage growth and assist business and individual customers alike. It signed a number of protocol agreements with Chambers of Commerce, various associations and investment funds to help promote Shari'a compliant financings to SMEs and entrepreneurs, and an agreement with the University of Lebanon to offer scholarships and practical training on Islamic banking operations. It is meanwhile implementing an action plan aimed at becoming SR ISO 26000 compliant and developing its training unit with the intention of it becoming a centre for Islamic banking education and training in Lebanon, offering courses and workshops in these fields externally. Al Baraka Lebanon was honoured during the year to receive the 'Best Islamic Financial Institution in Lebanon' award from Global Finance Magazine.

New products announced in 2013 include a credit and charge card designed to appeal to ladies and providing discounts, gifts and other free services available at a select group of suppliers and service providers, in addition to enhanced ATM services and online banking services. A number of other new products are being developed to be launched in 2014, including SMS banking, a banking application for mobile phones, a 24 hour customer interaction centre and a prepaid MasterCard for international travel. Two new ATMs have been installed during the year. These new products expanded the existing range of facilities which, inter alia, provide assistance to customers to finance residential housing, car purchases, dentists' equipment, wedding expenses, Hajj and Umrah insurance and travel costs, school and university fees, a wide variety of current and investment accounts and several different credit, debit and charge cards.

Al Baraka Bank Lebanon S.A.L.

Al Baraka Bank Lebanon was founded in 1991 and operated under a commercial banking licence until 2004 when an Islamic Banking Law was instituted and the Bank obtained an Islamic banking licence. Its activities comprise retail and commercial banking in accordance with Islamic Shari'a principles. The Bank operates 7 branches in various Lebanese cities.

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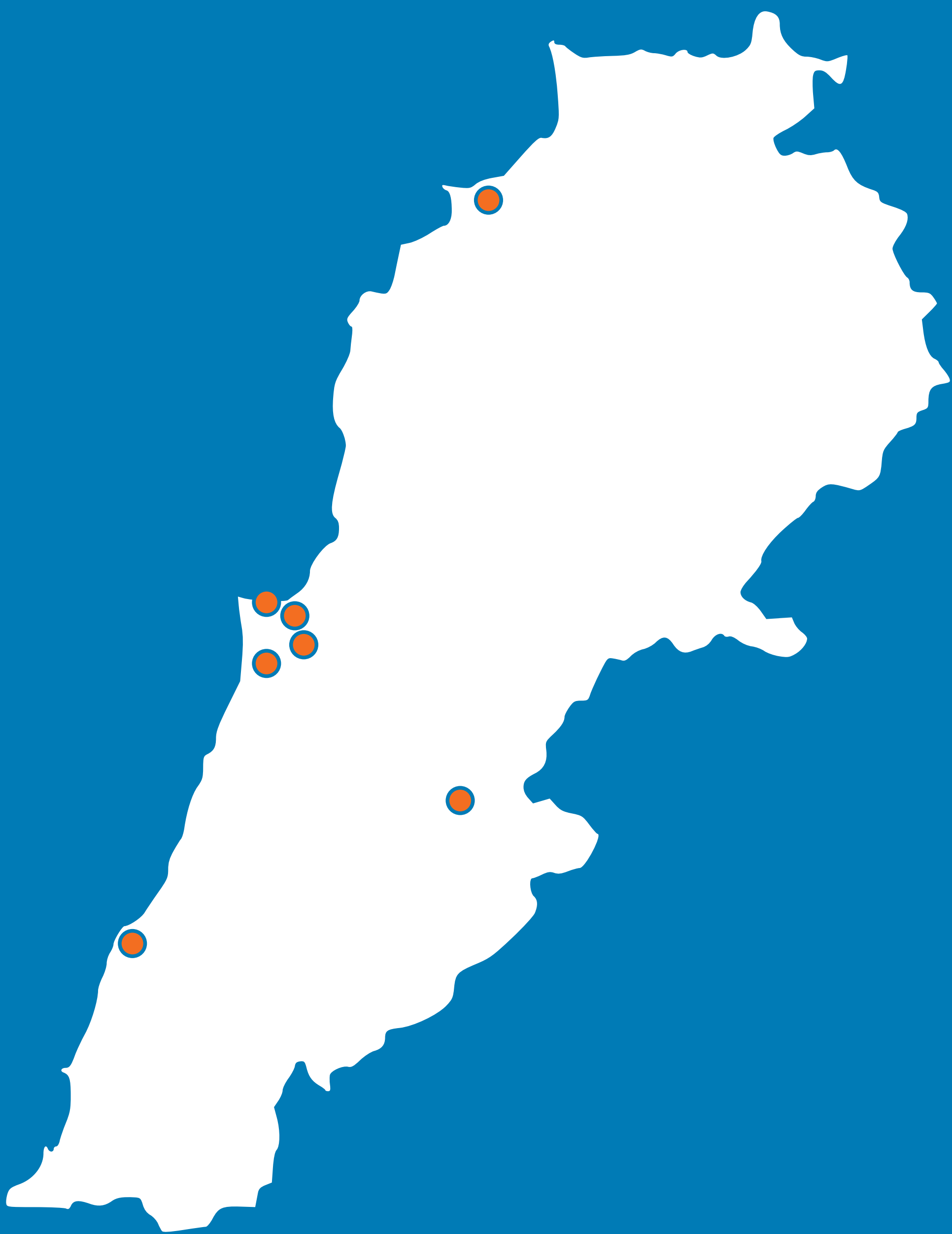

President & Chief Executive's Report (continued)

Al Baraka Bank Sudan

Founded 1984

The Sudanese economy is estimated to have grown by 3.0% in 2013, aided by increased domestic oil production, oil transportation levies from South Sudan – which have started to flow through as a result of the two countries reaching a level of agreement on the matter – and gradually rising gold production. The economy was however adversely affected by the steps taken by the government to reduce petrol subsidies and increase taxation and customs duties. The Sudanese Pound continued its decline against international currencies, reaching SP5.7/US$ compared with SP4.4/US$ at the beginning of the year. The rate of inflation also increased, reaching 29.4% according to local sources.

In 2013 Al Baraka Sudan's total assets rose by 25% to SP1.85 billion or in US dollar terms $311 million. Most of the increase emanated from a 64% expansion in the Murabaha sales receivables but other important contributors included the Istisna'a, Musharaka, and Salam portfolios which grew by 69%, 23% and more than 600% respectively while fixed and other assets also grew significantly. Customer current and other accounts rose by 12% to SP872 million ($146 million) while the equity of IAH increased by 37% to SP367 million ($62 million).

In line with the increase in earning assets, the total operating income expanded by 29% to SP142 million ($25 million – although, due to exchange rate movements over the year, this represents a 6% decline over 2012). The income from joint financings and investments amounted to SP100 million ($18 million) and, after accounting to the equity of IAH investors, the bank's share including its Mudarib fee was SP86 million ($15 million). However, its income from self-funded financings and investments, fees and commissions and other operating income contributed SP56 million ($10 million) to the total. After operating expenses, 36% higher at SP82 million ($14 million), the net operating income was SP61 million ($11 million) which, following lower provisions but higher taxation charge, resulted in a net profit of SP50 million or $9 million, comparing well with the $5 million reported in 2012.

The bank opened 1 new branch in 2013, in Omdurman, in addition to an exchange office in Kosti, bringing its network to a total of 27 branches. It intends to revert to its network expansion programme by opening at least 1 new branch a year to reach 32 by 2018. Its ATM network now covers 36 sites and is expected to expand similarly. During the year it completed the centralisation of its electronic clearing processes, contributing to an overall increase in efficiency. On the product front, it continued to expand its mortgage portfolio aimed at Sudanese workers abroad and to increase financing facilities to the mining and export sectors. In 2014 it will be launching a mobile banking service, incorporating a bill payment service which may be utilised through either mobile phone or the bank's ATMs, and plans to launch an education funding facility as well as expand on the range of Takaful products it offers.

(All figures in US Dollars unless otherwise stated)

Al Baraka Bank Sudan

Al Baraka Bank Sudan was established in 1984 and its activities comprise retail, corporate, commercial and investment banking. The bank operates 27 branches.

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President & Chief Executive's Report (continued)

Itqan Capital

Founded 2007

The Saudi Arabian economy remained in a moderately healthy state in 2013 with the GDP growth rate estimated at 2.9% and rising. GDP growth is projected to remain positive over the next few years, backed by rising state and private sector investment and a supportive fiscal policy. The budget surplus was equal to 6.1% of GDP while the current account surplus was 18.4% of GDP. Inflation was contained at an annual rate of 3.7%.

ABG purchased 60% of the issued shares of Al Tawfeek Financial Group in 2012 and the name of the Company was subsequently changed to Itqan Capital. Although the Company is a direct subsidiary of Al Baraka Islamic Bank, in light of a management contract agreed between ABG and Al Baraka Islamic Bank whereunder the control and management of the Company is transferred to ABG, it is treated as a direct subsidiary of ABG in the consolidation of the accounts. Itqan Capital is a Saudi Arabia based investment company licensed by the Capital Market Authority, engaged in asset and portfolio management, custody, debt and equity arrangement and the provision of research and advisory services. It specialises in the generation of investment opportunities to pension funds, foundations, charities, endowments, private and public companies, high net-worth individuals and family offices. It is strategically important to the Group as it gives ABG access to the extensive base of investors in Saudi Arabia and the opportunity to introduce them to the Group's wide range of Shari'a compliant products.

In February 2013 Itqan Capital's major shareholders injected $26.6 million as a subordinated loan. Deployment of these funds will be spread over two or more years but is focused mainly on building a sustainable income stream, with a portion set aside for product development. In March the Company successfully closed its second real estate income fund (REIF-II), at the same time announcing the distribution of its first dividend under REIF-I, delivering a 7.5% return to investors. In April and May it launched its first and second portfolio management product, Al Joud Liquidity Management Program and Real Estate Income Portfolio Management Program (REIP), respectively. In October it established the first joint private equity fund focused on investments in the education sector. Finally, at the end of the year it launched REIF-III, its third real estate income fund.

At the end of 2013 Itqan Capital's total assets, reflecting the shareholders' subordinated loan injection, rose from $17 million to $41 million. Its total operating income amounted to $1.7 million (compared with less than $1 million in 2012), comprising mainly its total income from self financed investments and its fees from banking services. Its operating expenses amounted to $4.5 million, slightly less than that for 2012, of which staff costs and related expenses made up over 70%. The resultant operating loss – and net loss for the year - was a little under $3 million, compared with a net loss of almost $4 million in 2012.

For 2014, the Company plans to maintain the momentum of its successful product development with, in addition to extensions of existing products unveiled in 2013, new issues including a Securitization Fund, a Global Real Estate Fund and a Fund of Funds. Internally, it will concentrate on enhancing its technology and processes, including the introduction of Cloud-based technology and the further development and strengthening of compliance, corporate governance, anti-money laundering and other processes. It also aims to open 1 branch as part of its 5-year plan to have 5 branches established across the region by 2018.

(All figures in US Dollars unless otherwise stated)

Itqan Capital

Itqan Capital is a Saudi Arabia based investment company licensed by the Capital Market Authority, engaged in asset and portfolio management, principal investment, debt and equity arrangement, Itqan Capital aspires to be the Kingdom's pre-eminent provider of investment offering to pension funds, foundations, charities, endowments, private and public companies, high net worth individuals and family offices.

Unit Head:	**Mr. Adil S. Dahlawi**
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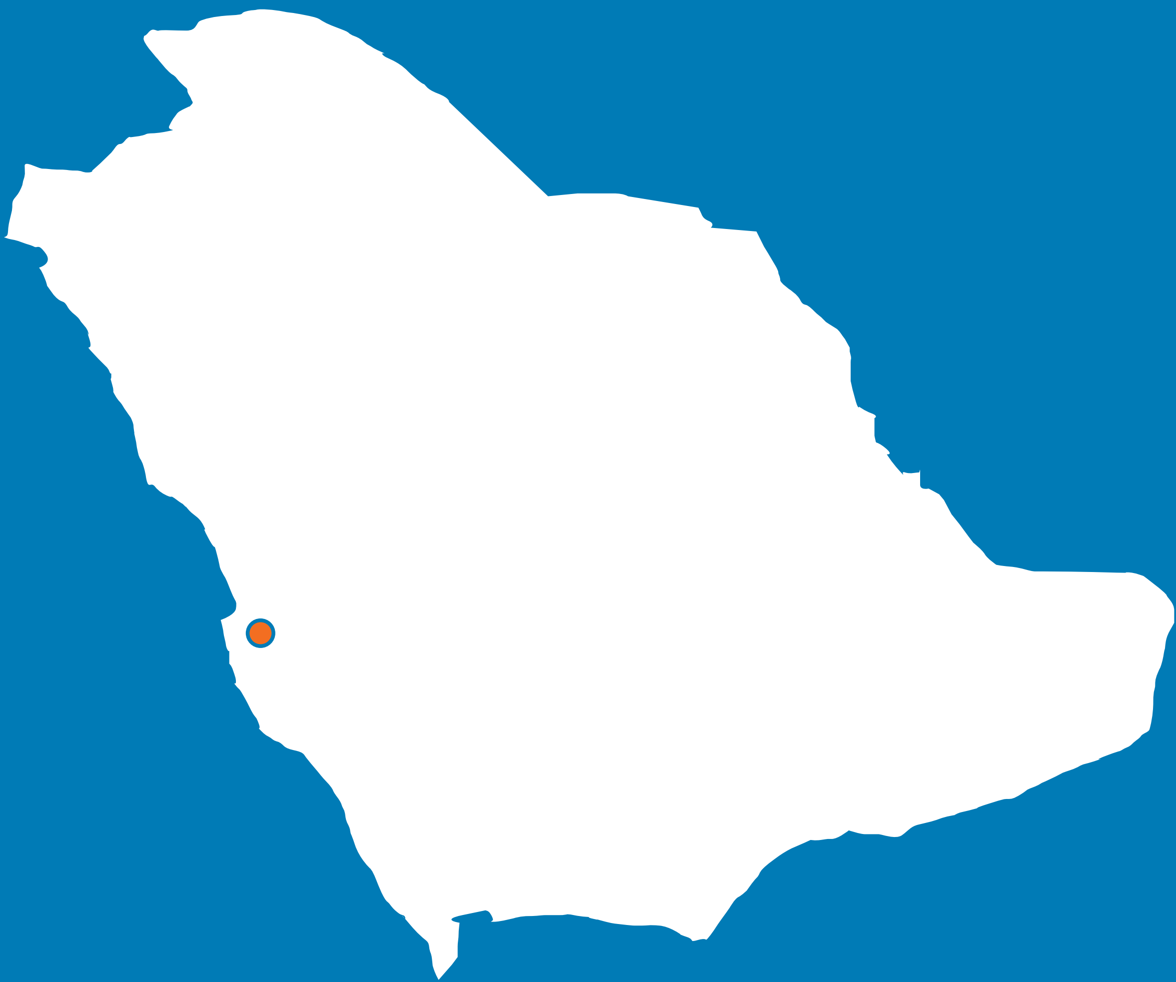

Al Baraka Banking Group Representative Office, Indonesia
Founded 2008

Unit Head:	**Mr. Moesfian Mokhtar**
Title:	**Chief Representative**
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Indonesia's economic growth in 2013 is estimated to have been 5.6% compared with 6.3% in 2012. The current account remained in deficit at -3.5% of GDP having swung into deficit in 2012 from a small surplus in 2011. The budget deficit was -3.3% of GDP but is improving. The rate of inflation increased to 7.1% from 4.4% however. The Indonesian government's policy is to boost economic growth and investment, but it is proposing to cut fuel subsidies substantially in 2014, a controversial step.

The Indonesian government's policy in recent years has been one of encouragement of Islamic banking in the country, with a long term target of increasing Islamic banking assets to 5% of total banking assets. Islamic finance in Indonesia began to expand from 2008, from which base it has shown strong growth. The favourable regulatory environment, growing economy and the fact that Indonesia has the largest Muslim population in the world, makes Indonesia an attractive destination for Islamic banks, including ABG.

ABG's representative office serves as a base for the Group to conduct research on local banks and their potential for acquisition and for assessing the business potential of the country from the Group's perspective. The representative office is also responsible for maintaining contact with regulators and major banking groups in Indonesia and for preserving the image and brand value of the Group. With trade flows between Indonesia and many of the countries where the Group operates growing rapidly, the Indonesia Representative Office pro-actively identifies business opportunities and generates leads that are directed towards ABG subsidiaries.

Al Baraka Banking Group Representative Office, Libya
Founded 2011

Conditions in Libya currently render economic statistics rather unreliable, but GDP is estimated to have increased by about 1.5% in 2013. The current account was in surplus, at about 4.8% of GDP, with a small budget deficit forecast for the year as a whole. The inflation rate was steady at about 3.2%. The economy is at a difficult point as the government attempts to stabilise the environment so that the economic infrastructure, seriously damaged during the revolution, can be addressed and much needed reforms put in place.

Following the end of the revolution in 2011, as the situation began to return to normality albeit amid sporadic instances of uncertainty, ABG commenced operations at its new representative office in early 2013 in order to place the Group advantageously in the promising Libyan banking market. The representative office is tasked with supporting and liaising with the other ABG units to seek to generate business, establish and maintain relationships with local regulators and banks and explore other appropriate business avenues.

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‘We believe that we have a particular obligation to society, through patronage and sponsorship of educational and social projects.’

Corporate Governance

ABG was formed in 2002 to bring together 10 individual banks, sharing common ownership and ethical vision but separate in all other respects, under a single management group focused on the achievement of strong yet sustainable financial returns and the building of consistent shareholder value over the long term. From the beginning ABG regarded the inculcation of a disciplined corporate governance and risk management culture as a fundamental prerequisite to effective management of the Group. The adoption and maintenance, through continual and vigilant review, of the highest standards of corporate governance and risk management have thus been key to building a strong, ethical, responsible organisation, establishing an overarching governing structure under which the functions, roles and responsibilities are clearly divided between the Board of Directors and Executive Management, officers and staff of the organisation.

THE BOARD OF DIRECTORS

The Board of Directors is responsible for the establishment and oversight of the Group's business strategy and priorities, for setting its high-level policies and for overall management, and is accountable to shareholders for the financial and operational performance of the Group. It is responsible for the raising and allocation of capital, monitoring of Executive Management and its conduct of the Group's operations, for making critical business decisions and for building long-term shareholder value. The Board ensures that the Group manages risk effectively, through approving and monitoring the Group's risk appetite and identifying and guarding against the longer term strategic threats to the business.

The Board is also responsible, inter alia, for:

- setting and reassessing periodically the Group's corporate goals and objectives;
- establishing policies to further the achievement of the Group's corporate goals and objectives;
- establishing and regularly reviewing the management structure and responsibilities and monitoring the effectiveness of Executive Management including its ability to plan and execute strategies;
- holding Executive Management accountable for results;
- putting in place adequate policies and processes for approving budgets and reviewing performance against those budgets and against key performance indicators;
- ensuring that an adequate, effective, comprehensive and transparent corporate governance framework is in place;
- establishing and approving policies and procedures designed to ensure ethical behaviour and compliance with laws and regulations, auditing and accounting standards and the Group's own corporate governance policy;
- ensuring that ABG and its subsidiaries' operations are supported by an appropriate control environment i.e. that Internal Audit, compliance, risk management and financial control and reporting functions are well resourced and structured;
- ensuring that the Group's operations are supported by a reliable, sufficient and well integrated information system;
- recognising and communicating to Executive Management the importance of the internal audit function at ABG and its subsidiaries, periodically reviewing internal control procedures and taking measures to enhance the function of internal audit and to act in a timely and effective manner on its findings; approving the writing off of credit facilities and investments where appropriate, in accordance with the Group's policies and procedures;
- approving strategic investments by ABG and its subsidiaries;
- monitoring potential conflicts of interest and preventing abusive related party transactions;
- approving material transactions outside the normal course of business or in excess of the limits of approval authority delegated to Executive Management;
- ensuring the preparation of financial statements which accurately disclose the Group's financial position, on a regular and consistent basis, and for reviewing and approving for dissemination its periodic financial statements and annual reports;
- approving all significant changes in the Group's accounting and reporting policies;
- ensuring compliance with all relevant requirements of Shari'a and Islamic Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI);
- ensuring that the Group establishes and maintains an approved employee Code of Conduct and is in compliance therewith;
- ensuring that the control environment maintains necessary client confidentiality and that clients' rights and assets are properly safeguarded ;
- convening and preparing the agenda for shareholder meetings;
- ensuring the equitable treatment of all shareholders including minority shareholders; and
- performing any other functions required of the Board of Directors under applicable laws and regulations.

In its regular review of the Group's strategy, the Board reviews the Group's business plans and the inherent level of risk in those plans; assesses the adequacy of capital to support the business risks of the Group; sets performance objectives; and oversees major capital expenditures, divestitures and acquisitions.

Corporate Governance (continued)

The Board of Directors has overall responsibility for the Group's system of internal control and its effectiveness and for defining and enforcing standards of accountability that enable Executive Management to achieve the Group's corporate objectives. The Board ensures that the systems and controls framework, the Board structure and the organisational structure of the Group are appropriate for the Group's business and associated risks and regularly assesses the systems and controls framework to that end. There are established and ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group, which are regularly reviewed by the Board. The Group's system of internal control provides for a documented and auditable trail of accountability and applies across its operations, is designed to ensure effective and efficient operation and compliance with all applicable laws and regulations, and seeks to manage risk with a view to avoiding material errors, losses and fraud.

In meeting its responsibility to ensure efficient governance in all matters related to ABG, the Board has established a written compliance policy governing the Group's compliance with all applicable laws and regulations, in particular those enacted by the Central Bank of Bahrain (CBB) and other local regulators. The Board has delegated responsibility for monitoring compliance to the President & Chief Executive, which responsibility is carried out through a dedicated Compliance Department, whose mandate covers all aspects of compliance including: formulation of effective policies and processes for the management of the Group's compliance risk; assisting Executive Management and staff in managing risk; advising on laws and regulations and applicable compliance standards; disseminating compliance policies and providing guidelines to ABG staff members; ensuring an effective compliance methodology; providing periodical reports to the Board in connection with compliance controls; and implementing operational controls, Robust Anti-money laundering (AML) and Know Your Customer (KYC) framework. ABG is in the continuous process of enhancing its compliance framework and that of each of its subsidiaries.

In October 2010 the CBB introduced new requirements to be met by all licensees under Volumes 2 and 6 of Module HC of its Rulebook, with respect to corporate governance principles in line with the Principles relating to the Corporate Governance Code issued by the Ministry of Industry & Commerce of the Kingdom of Bahrain, international best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision and related high level controls and policies. ABG conducts annual detailed internal assessments to ensure compliance with these requirements and has set specific milestones for implementation of any identified shortfalls. The CBB, ABG's shareholders, the Board of Directors and Executive Management have all been fully apprised of any such shortfalls and the milestones set. Accordingly, ABG has applied for and received the consent of the CBB to the appointment of the Chairman of the Board of Directors notwithstanding that he is not an independent director as defined in the CBB Rulebook. The Board Audit and Governance Committee members possess adequate awareness of Shari'a principles in relation to Islamic banking transactions and are therefore competent to oversee the audit of Shari'a-related governance issues. ABG ensures on a continuous basis that the minority shareholders of the Group are well represented on the Board of Directors through the independent directors, who have additional responsibility for protection of the rights of minority shareholders.

The Board of Directors meets regularly (at least four times a year) and has a formal schedule of matters reserved to it, considering key aspects of the Group's affairs referred to it for decision. The Board reviews the Group's strategy and financial plans, all proposed material changes to the Group's policies, structure and organisation, reports provided to it on the operations of the Group (with emphasis on organisational development, risk management and information technology development) and the performance of Executive Management. All Directors attend all Board meetings whenever possible and in any event not less than 75% of meetings in any year, and maintain informal contact between themselves in between meetings.

The Chairman is responsible for leadership of the Board and for its efficient functioning. He ensures that all members receive an agenda, minutes of prior meetings and background information in writing before each Board meeting and between meetings when necessary. The Board and its Committees are supplied with full and timely information to enable them to discharge their responsibilities. In this respect, the Board, its Committees and all Directors individually have access to Executive Management, external legal or other professional consultants and advisors at the Group's expense, and to the Board Secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed. The Board encourages participation by members of Executive Management at Board meetings if appropriate regarding matters which the Board is considering and where the President & Chief Executive believes management should have exposure to the Board.

Under ABG's Articles of Association the Board of Directors shall consist of not less than five and not more than fifteen members. Members of the Board of Directors hold office for a three-year renewable term, although the term of office may be extended at the request of the Board for a period not exceeding six months with the approval of the Minister of Industry & Commerce of Bahrain.

There is no maximum age limit at which a Director must retire from the Board of Directors. Each Director's membership of the Board shall terminate upon the expiry of his/her term, or upon the resolution of the shareholders in General Meeting, or as a result of one of a number of specified events or circumstances, including:

- the original appointment being found to be contrary to the provisions of ABG's Articles of Association;
- abuse by the individual of his/her position as director;
- the individual's failure to attend three consecutive Board meetings without lawful excuse notified in writing to the Board;
- upon the individual's formal resignation from the Board following reasonable prior notice; or
- occupation of any other remunerative office within ABG unless specifically approved by the Board of Directors.

When an announcement is made requesting nominations for the position of membership of the Board of Directors whose 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 for approval to the CBB in order to ensure compliance with the CBB's "Fit and Proper" criteria. The names of all nominated individuals so approved by the CBB are then submitted to the shareholders at the next AGM for consideration and election. Election of ABG Directors takes place in accordance with the rules and procedures set out in the Commercial Companies Law and ABG's Articles of Association.

Each new director elected to the Board has a written appointment agreement with ABG, detailing the powers, duties, responsibilities and obligations of that director and other relevant terms and conditions of his appointment.

There are currently twelve Directors on the Board, who have varied backgrounds and experience and who are individually and collectively responsible for performing the responsibilities of the Board and for exercising independent and objective judgement. No individual Director or group of Directors has unfettered powers of decision making or dominates the Board's decision making. Other than the President & Chief Executive all Directors are non-executive and fully independent of management and are individually responsible for scrutinising and challenging management decision making and performance. The posts of Chairman, Vice Chairman and President & Chief Executive are held by different Directors and the President & Chief Executive has separate, clearly defined responsibilities. The Board and its Committees are regularly assessed with respect to their size and composition, while individual Directors are assessed annually for their effectiveness, contribution and independence in light of interests disclosed and conduct. The independence or non-independence of directors is reviewed annually.

ABG does not provide for any performance-linked stock incentives for the Board or Executive Management. All directors are remunerated solely by means of an annual retainer fee and sitting fees paid for each meeting attended, in addition to reimbursement of travel expenses as appropriate.

The Board of Directors has adopted a formal Code of Business Conduct and Ethics applicable to Directors and Executive Management, officers, employees and agents, consultants and others representing or acting for the Group. Details of the Code are provided in the Additional Public Disclosures section of this report.

In line with international best practice and the CBB Rulebook, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of five independent directors as defined in the CBB Rulebook.

In 2013 the members of the Board were:

Non-Executive Directors

1. Shaikh Saleh Abdullah Kamel – Chairman
2. Mr. Abdullah Saleh Kamel – Vice Chairman
3. Mr. Abdul Elah Sabbahi
4. Mr. Yousef Ali Fadil bin Fadil
5. Mr. Mohyedin Saleh Kamel
6. Mr. Fahad Abdullah A. Al Rajhi

Independent Directors*

1. Mr. Abdulla A. Saudi – Vice Chairman
2. Mr. Saleh Al Yousef
3. Mr. Ebrahim Fayez Al Shamsi
4. Mr. Jamal bin Ghalaita
5. Dr. Bassem Awadallah

Executive Director

Mr. Adnan Ahmed Yousif – President & Chief Executive

All current Directors were elected for a 3-year term on 23 March, 2011.

* Dr. Anwar Ebrahim was an Independent Director until his resignation with effect from 16 July 2013

Corporate Governance (continued)

BOARD COMMITTEES

The Board has put in place a number of Board committees, membership of which is drawn from the Board membership and to which it has delegated specific responsibilities. The principal Board committees are:

Board Executive Committee

The Board Executive Committee is chaired by Mr. Abdullah Saleh Kamel and the other members are Mr. Adnan Ahmed Yousif, President & Chief Executive, Mr. Abdul Elah Sabbahi and Mr. Yousef Ali Fadil bin Fadil. The Board Executive Committee comprises a minimum of four Directors and meets at least two times a year. The Board has delegated to the Board Executive Committee, under a formal written charter adopted by it, the responsibility to make recommendations to the Board, for the Board's approval, concerning the Group's overall strategies and business plan, or any significant change to them, or any major change to its capital or organisation structure, assets or investments.

Board Affairs and Remuneration Committee

The Board Affairs and Remuneration Committee operates in accordance with a formal written charter adopted by it. The Committee is chaired by Mr. Ebrahim Fayez Al Shamsi and its other members are Mr. Jamal bin Ghalaita and Mr. Yousef Ali Fadil bin Fadil. The Committee meets at least twice a year and considers all material elements relating to remuneration policy, including, inter alia, the approval of the remuneration of the Directors, based on their attendance at Board and Committee meetings, and recommendation to the Board of the level of remuneration of the Executive Management members and other ABG employees under an approved performance-linked incentive structure. The Committee also performs the role of a Nominations Committee as described below.

The Committee conducts an annual evaluation of the performance of the Board, Board Committees and the President & Chief Executive. When an issue relating to the personal interest of a Director is discussed in the Committee, the interested Director withdraws from the meeting and abstains from voting. The Committee is responsible for identifying persons qualified to become members of the Board or the chief executive officer, the chief financial officer, the Board Secretary and other executive officers considered appropriate (with the exception of the Head of the Internal Audit Department) and for making recommendations accordingly. It is also responsible for inducting, educating and orienting new Directors and for conducting seminars and other training programmes from time to time for Members of the Board.

The Board Audit and Governance Committee

The Board Audit and Governance Committee is chaired by Mr. Saleh Al Yousef. Other members are Mr. Ebrahim Fayez Al Shamsi and Dr. Bassem Awadallah. The Committee is governed by a formal written charter adopted by it and approved by the Board. The Committee meets formally at least four times a year. External auditors attend at least one meeting annually. The external auditors, moreover, have unrestricted access to the Committee and its Chairman throughout the year.

The Board of Directors has delegated to the Board Audit and Governance Committee the responsibility for ensuring that an effective internal auditing, continuous internal controls monitoring, sound system of accounting, and financial control is in place. The Committee achieves this through regular review of internal audit reporting, review of external auditors management letters, review of central banks inspection reports, and review of the Group's accounting and financial policies, financial reporting and disclosures and review of the adequacy and effectiveness of the internal control procedures at the Head Office and in ABG's subsidiaries. The Committee considers all matters relating to financial control and reporting, internal and external audits and their scope and results, risk management and compliance with regulatory and legal requirements, accounting standards and Shari'a requirements. It also considers and approves the annual audit plans, ensures coordination between the internal and external auditors, monitors the independence, qualifications, effectiveness and performance of the external auditors and makes recommendations to the Board regarding the appointment, retirement and remuneration of the external auditors and the appointment of the Head of the Group's Internal Audit Department.

The Committee reviews the Group's annual and interim financial statements to recommend their approval to the Board of Directors, the adequacy of provisions and any reports by external consultants on specific investigative or advisory engagements.

The Committee ensures that there are in place systems of control appropriate to the business of the Group and the information needs of the Board, including systems and functions for identifying and monitoring risk, the financial position of the Group and compliance with applicable laws, regulations and best banking practices and that all such information is produced on a timely basis. The various internal controls and processes are subject to independent review by the Group's Internal Audit Department, which reports directly to the Committee. Management letters and Issues of Importance issued by external auditors and inspection reports issued by the inspector team of the Central Bank of Bahrain or of any local central bank where

ABG operates or issued by other regulatory authority are reviewed by the Committee once issued. The reports of all these bodies are forwarded to the Board Audit and Governance Committee who, acting on behalf of the Board, ensures that appropriate corrective action is taken where required. The Committee is informed directly by Internal Audit's reports submitted to it and by its discussions with external auditors of the work undertaken by them and their conclusions and recommendations.

The Committee also oversees and monitors the implementation of the corporate governance policy framework, providing the Board with reports and recommendations based on its findings.

The Board has adopted a 'whistleblower' programme under which employees can confidentially raise concerns about possible improprieties in financial or legal matters. Under the programme, concerns may be communicated directly to any member of the Board Audit and Governance Committee or alternatively to an identified officer or employee who in turn reports the matter to the Committee.

Board Risk Committee

The Board Risk Committee is chaired by Mr. Abdul Elah Sabbahi, with its other members being Mr. Jamal bin Ghalaita, Mr. Fahad A. Al Rajhi and Mr. Mohyedin Saleh Kamel. Membership of the Committee comprises a minimum of four Directors, all of whom must be non-executive directors. The Board Risk Committee meets formally at least twice a year but will meet more frequently at the request of the Chairman of the Committee. It can call for the attendance of the President & Chief Executive, Head of Credit and Risk Management and other senior executives of the Group at any of its meetings. The Group's risk appetite is determined by the Board based on the recommendations of the Board Risk Committee. The Board Risk Committee is responsible for setting acceptable levels of risks to which the Group may be exposed, for approving management's strategy for the managing of risk and for ensuring that all necessary steps are taken by management to identify, measure, monitor and control risk. The Committee's objective is to oversee the Group's risk management systems, practices and procedures to ensure effective risk identification and management and compliance with internal guidelines and external requirements. The Committee reviews issues identified by the Internal Audit and Compliance departments of ABG and/or any of its subsidiaries, such as weaknesses or breakdowns in controls.

Board Social Responsibility Committee

The Board Social Responsibility Committee is chaired by Dr. Bassem Awadallah and other members are Mr. Adnan Ahmed Yousif, Mr. Yousef Ali Fadil Bin Fadil and Mr. Fahad Abdulla Al Rajhi. The Committee leads the Al Baraka Social Responsibility Programme. The Committee oversees the formulation of policies and strategies by the Executive Management and the Management Committee of Social Responsibility in making ABG and all its subsidiaries a model Islamic banking group offering banking and financial services in a socially responsible manner and in conformity with the objectives of Shari'a.

The Committee aims to adhere to the spirit of Islamic finance that enjoins social responsibility as a principal feature of Islamic banking and finance. The Committee demonstrates its commitment to the inherent social responsibility spirit of Islamic finance by setting various quarterly and annual targets for the Executive Management.

The Committee comprises four Board Members and is chaired by an independent Director. All minutes and reports of meetings of the Committee are disseminated to all members of the Board of Directors.

Corporate Governance (continued)

DIRECTORS' ATTENDANCE AT MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES IN 2013

Name of Board / Committees	Members' Name	No. of meetings in 2013	Dates of the meetings	No. of meetings attended	Details of Attendance
	Shaikh Saleh Abdullah Kamel			2	Attended 20/2, 16/7
	Mr. Abdulla A. Saudi			6	
	Mr. Abdullah Saleh Kamel			5	Except 12/5
	Mr. Saleh Al Yousef		20/02/2013	5	Except 20/2
	Mr. Adnan Ahmed Yousif		19/03/2013	6	
	Dr. Anwar Ibrahim*		12/05/2013	-	
Board of Directors	Mr. Abdul Elah Sabbahi	6	16/07/2013	6	
	Mr. Ebrahim Fayez Al Shamsi		10/11/2013	6	
	Mr. Yousef Ali Fadil Bin Fadil		26/12/2013	6	
	Mr. Jamal Bin Ghalaita			4	Except 16/7, 26/12
	Dr. Bassem Awadallah			6	
	Mr. Mohyedin Saleh Kamel			6	
	Mr. Fahad Abdulla A. Al-Rajhi			5	Except 26/12
	Mr. Abdullah Saleh Kamel		30/01/2013	4	
Board Executive Committee	Mr. Abdul Elah Sabbahi	4	02/05/2013	4	
	Mr. Yousef Ali Fadil Bin Fadil		12/09/2013	4	
	Mr. Adnan Ahmed Yousif		16/12/2013	4	
			20/02/2013		
	Mr. Saleh Al Yousif		12/05/2013	5	Except 20/2
Board Audit and Governance Committee	Dr. Anwar Ibrahim*	6	16/07/2013	-	
	Mr. Ebrahim Fayez Al Shamsi		04/08/2013	6	
	Dr. Bassem Awadallah		10/11/2013	6	
			26/12/2013		
Board Affairs and Committee Remuneration	Mr. Ebrahim Fayez Al Shamsi		09/01/2013	4	
	Mr. Jamal Bin Ghalaita	4	17/04/2013	3	Except 3/7
	Mr. Yousef Ali Fadil Bin Fadil		03/07/2013	4	
			06/10/2013		
	Mr. Abdul Elah Sabbahi		13/02/2013	4	
Board Risk Committee	Mr. Jamal Bin Ghalaita	4	12/05/2013	4	
	Mr. Fahad Abdulla A. Al Rajhi		03/07/2013	4	
	Mr. Mohyedin Saleh Kamel		10/11/2013	3	Except 3/7
Board Social Responsibility Committee	Dr. Bassem Awadallah			2	
	Mr. Adnan Ahmed Yousif	2	19/03/2013	2	
	Mr. Yousef Ali Fadil Bin Fadil		10/11/2013	2	
	Mr. Fahad Abdulla A. Al Rajhi			2	

* Resigned with effect from 16th July 2013

SHARI'A SUPERVISORY BOARD

ABG's Shari'a Supervisory Board (SSB) is elected by the shareholders at Annual General Meeting upon recommendation by the Board of Directors. The SSB is actively involved in the development of the Group's products and services and certifies or oversees the certification by individual subsidiaries' SSBs of every product and service accordingly as complying with the standards and principles of Shari'a.

The SSB operates within its own charter which covers its policies, procedures and responsibilities. In carrying out its responsibilities, the SSB has full access to the Board, Executive Management and management and officers of the subsidiaries. In addition to reviewing and advising on Shari'a compliance of all products and services, it oversees the audit of the operations of the Group from a Shari'a perspective.

The SSB meets at least 6 times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended, with travel expenses reimbursed as appropriate. Its members are not paid any performance-related remuneration.

EXECUTIVE MANAGEMENT

The Board of Directors has delegated to the Group's Executive Management Team the primary responsibility for implementing the strategy of the Group, identifying and evaluating significant risks to the business of the Group and for the design and operation of appropriate internal controls. Its other responsibilities include: ensuring that resolutions of the Board of Directors are carried out; ensuring that the Group operates at all times in accordance with the principles of Shari'a and that the decisions and recommendations of the Shari'a Supervisory Board are carried out; providing the Board of Directors with analyses, assessments and recommendations regarding the Group's activities and supplying the CBB with all information required under the CBB Law and relevant regulations. In meeting these responsibilities, Executive Management has established a system for filtering down to Group units strategic and other central decisions taken at the parent level, thus ensuring the implementation of Groupwide policies and common operational processes and procedures.

As at the end of 2013, the Executive Management Team consisted of the President & Chief Executive and the Heads of Financial Control, Internal Audit, Strategic Planning, Credit and Risk Management, Treasury, Investments and Financial Institutions, Operations and Administration and Legal Affairs. All members of the Executive Management Team have been provided with a written appointment agreement specifying the rights and obligations attaching to the office of that member.

Executive Management also exercises control via the following Committees, which have the following specific responsibilities:

Executive Management Committee

The Executive Management Committee's role is to oversee the implementation of the strategic objectives of the Group in relation to its business direction, operations, risk, expansion plans and overall policies and procedures. The Committee is chaired by the President & Chief Executive with the remaining membership comprising the Heads of Strategic Planning, Operations and Administration, Credit and Risk Management and Treasury, Investments and Financial Institutions, with the Heads of Financial Control, Legal Affairs and Internal Audit as observer-members.

Asset and Liability Committee

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 ABG and the Group and sets balance sheet growth targets, besides monitoring the distribution of profits to investors. The Committee is chaired by the President & Chief Executive and its remaining members are the Heads of Treasury, Investments and Financial Institutions, Credit and Risk Management, Strategic Planning, Financial Control and Operations and Administration, together with a senior member from the Bahrain based subsidiary, Al Baraka Islamic Bank (Al Baraka Bahrain).

Head Office Credit Committee

The Head Office Credit Committee is the authority that approves credits and considers issues of Group credit policy and Group credit exposures, problem credits and provisioning levels. The Head Office Credit Committee is chaired by the President & Chief Executive, with the remaining membership being drawn from among the Executive Management.

Management Risk Committee

The Management Risk Committee's role is to assist the Board Risk Committee in managing and controlling risks and to introduce and support such measures which enhance the efficiency of risk management policies, procedures, practices and controls within the Group. It is chaired by the President & Chief Executive with remaining membership comprising the Heads of Credit

Corporate Governance (continued)

and Risk Management, Operations and Administration and Financial Control, and the Manager of Credit Review and Analysis.

Head Office IT Steering Committee

The Head Office 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 standardisation in information and operation management. Membership of the Committee is comprised of the Heads of Operations and Administration, Financial Control, Strategic Planning and Credit and Risk Management, together with senior support nominees drawn from the Group.

Human Resources & Compensation Committee

The role of the Human Resources & Compensation Committee is to review the Human Resources policies, management and planning at the Group's Head Office. Membership of the Committee is comprised of the Heads of Operations and Administration, Strategic Planning and Financial Control.

Head Office Insiders Committee

The Head Office Insiders Committee was set up in accordance with the guidelines issued by the CBB and the Bahrain Bourse (BB) and is aimed at ensuring the maintenance of a fair, orderly and transparent securities market and enhancing and developing the practices relating to the risk management systems and internal controls within listed companies and other similar institutions. The Committee is responsible for monitoring and supervising issues relating to insiders in order to regulate their dealings in the Group's securities and to ensure that Group insiders are acquainted with and aware of the legal and administrative requirements regarding their holdings and dealings in the Group's securities, in addition to preventing the abuse of inside information by such insiders. The Committee is chaired by the President & Chief Executive and the other members are the Heads of Internal Audit, Legal Affairs, Operations and Administration and Investors' Relations.

Other committees

The Executive Management forms ad hoc committees as and when required to address specific initiatives in which the Group may be engaged from time to time.

COMPLIANCE, POLICIES AND PROCEDURES

Group Compliance

In accordance with its resolve to apply and maintain the highest standards of compliance, ABG has appointed a Compliance Officer who is responsible for formulating Group compliance strategy and a Group compliance management framework, reflecting the following core principles and practices which are embedded throughout the Group:

- complying with both the letter and spirit of all laws, rules and regulatory standards applicable to it and each of its subsidiaries;
- ABG and each of its subsidiaries conducting themselves strictly in accordance with all regulatory and ethical standards;
- encouraging a strong compliance culture, under which compliance is deemed to be the responsibility of every individual in the Group; and
- maintaining a strong corporate governance environment at all times.

Group compliance in ABG is an independent function responsible for:

- proactively identifying and evaluating compliance risks;
- developing compliance policies, programmes and plans and implementing procedures;
- monitoring, managing, mitigating and reporting compliance risks;
- monitoring, investigating and reporting compliance breaches, incidents and risks; and
- advising management and staff on compliance and regulatory matters.

The Compliance Officer reports directly to the President & Chief Executive. He provides an independent oversight on behalf of the Board of Directors whenever deemed necessary by the Board. In addition, the Compliance Officer has the right and the authority to contact the CBB as and when considered necessary. The Compliance Officer is supported by dedicated Compliance functions in all ABG subsidiaries. At the Group level the Compliance Officer is responsible for coordinating the identification and management of the Group's compliance risk in collaboration with local Heads of Compliance in each of the subsidiaries.

Throughout its network of offices, ABG has developed written guidelines to staff on the appropriate implementation of laws, regulations, rules and standards through policies and procedures, including the Compliance Policy. ABG's Compliance Policy requires all subsidiaries, officers and staff to comply with all relevant laws, rules, regulations and standards of good market practice.

In the Group, compliance risks fall broadly under the following categories:

- Regulatory compliance and Corporate Governance;
- Anti-money Laundering and Countering Financing of Terrorism (AML/CFT);
- International sanctions; and
- Foreign Account Tax Compliance Act (FATCA).

Regulatory Compliance and Corporate Governance

At the Group level ABG is continuing to develop Group policies for managing its compliance risks in all the above categories, which are cascaded down to its subsidiaries. Thereafter, suitable local policies in line with local regulatory requirements are developed and implemented. In addition, the Group has a strict Code of Conduct to which all employees are required to adhere at all times. As mentioned above, ABG has also developed a Whistleblower Policy, which provides a formal channel for staff to report any unethical conduct or corporate wrongdoing. Staff members are encouraged to report their concerns through communication channels which protect their identities, without fear of reprisal or victimisation. Reportable disclosures may include legal or regulatory wrongdoing, fraud or any other malpractice. Other policies such as Corporate Governance, Fair Treatment of Customers, Insider Trading and other such compliance-related policies are in the course of being developed or enhanced.

Anti-money Laundering and Countering Financing of Terrorism

Risks relating to financial crime are managed proactively at the Group and subsidiary levels. The Group is committed to adherence to laws and regulations with respect to AML/CFT and to the recommendations of the Basel Committee and Financial Action Task Force which in turn are reflected in the AML/CFT policies of the subsidiaries. The Group has strict Know Your Customer policies which include detailed requirements for identification and verification of customers. These policies preclude all operating units from establishing a new business relationship until all relevant parties to the relationship have been identified and verified and the nature of the business they expect to conduct has been established.

In line with the requirements of the CBB and Group AML Policy, Money Laundering Reporting Officers (MLROs) are appointed in all subsidiaries. The MLROs are responsible for ensuring compliance with all relevant laws, regulations and policies in respect of AML/CFT and for reviewing and reporting to their respective host regulators of any suspicions concerning a customer or a transaction.

At the Group level, ABG has appointed a Group MLRO whose responsibilities include formulating, issuing and implementing the Group's AML strategies and policies on an ongoing basis, coordinating the activities of each subsidiary's MLRO, overseeing appropriate AML training for all relevant staff and reporting to the Board Audit and Governance Committee and the Board of Directors on critical money laundering issues.

International Sanctions

Owing to a raft of sanctions imposed by local and international regulatory bodies, sanctions compliance is one of the primary challenges faced by banks, particularly those operating across multiple geographies. Breaches of sanctions expose banks to regulatory, reputational and commercial risks, including financial losses.

Being mindful of such risks, the Group has a Sanctions Policy in place to ensure adherence to all relevant sanctions orders. This Sanctions Policy sets out various restrictions and prohibitions relating to customers and transactions subject to sanctions. These restrictions sometimes extend beyond the strict requirements of applicable laws in order to safeguard the Group's good reputation and standing.

Group strategy and policy for managing sanctions risk is determined at the Group level and implemented throughout ABG's subsidiaries. Increasing attention to sanctions compliance and implementation of screening systems is being directed towards managing and minimising sanctions risk. Being mindful of its responsibilities in this regard, the Group is committed to further enhancing its sanctions risk management framework.

Foreign Account Tax Compliance Act (FATCA)

US legislation known as FATCA is aimed at preventing tax evasion by US citizens and residents by hiding their assets in accounts with non-US banks became law in 2010. FATCA requires Foreign Financial Institutions (FFIs) such as ABG and its subsidiaries to enter into FFI agreements under which they agree to identify and provide the US Internal Revenue Service (IRS) with information on accounts held by US persons and US owned foreign entities, or otherwise face 30% withholding tax on certain payments made to the FFI. In addition, FFIs will be required to withhold tax on certain payments made to FFIs that have not entered into an FFI agreement and on payments made to account holders who do not respond to requests to confirm their US person status and/or do not agree to the FFI reporting certain account related information to the IRS.

Corporate Governance (continued)

The IRS has offered Intergovernmental Agreements (IGA) Model 1 and 2 in connection with the implementation of FATCA. The Bahrain Government has announced that it expects to enter into an IGA Model 1 with the US. Some other jurisdictions where ABG subsidiaries operate have also made similar announcements. It is anticipated that an IGA would reduce the compliance costs and operational burdens of FATCA. If the IGA agreements with the US are signed within the deadlines established by the FATCA regulations, ABG subsidiaries will be required to report the necessary US account-related information to their nominated local authorities; otherwise, in accordance with FATCA requirements, the FFIs will be required to provide such information directly to the IRS.

Realising that FATCA regulations will impact all FFIs and their customers worldwide, ABG has made substantial investment to ensure that it will be able to adhere to the requirements of FATCA from compliance and reporting perspectives across all jurisdictions in which it operates. From the outset, all necessary steps were taken to address the new legislation and to build awareness of it in all ABG subsidiaries. A Group FATCA strategy and policy has been developed and is in the course of being implemented throughout the Group. As a result, the Group expects to be ready in time for registration with the IRS and to be FATCA compliant in accordance with the effective dates announced by the US authorities.

Group Disclosure Policy

The Group communication strategy aims to help achieve the Group's objective of keeping the market informed of material information. The Group's communications with the market ensures compliance with the CBB's directives as detailed in the Public Disclosure Module of its Rulebook, Volume 2, Part A and the CBB Disclosure Standards as specified under the CBB Capital Markets Regulations.

Material information is any information, financial or non-financial, relating to the business and affairs of the Group and ABG's subsidiaries that results in, or would reasonably be expected to result in, a significant change in the market price of the Group's shares or in the decision of a prudent investor to sell, buy or hold the Group's shares or cause to change a prudent investor's decision to transact or refrain from transacting with the Group or its units. Material information consists of, but is not limited to, both material facts and material changes relating to the business and affairs of the Group and ABG's subsidiaries.

The Group is committed to adhering to all the requirements outlined in the CBB's Rulebook, Public Disclosure Requirements section.

In order for the Group to be in full compliance with the CBB disclosure requirements as specified in the abovementioned Rulebook, the Group will disclose all the required information in its published quarterly reviewed financial statements and its annual audited financial statements and any applicable ad hoc information requirement of the CBB from time to time.

As a listed company on the BB and NASDAQ Dubai, ABG is committed to adhering on a timely basis to all periodic information dissemination requirements of the BB and NASDAQ Dubai, as stipulated in their respective directives and rulebooks in this respect.

Additionally, the Group will publicly disclose and broadly disseminate material information immediately upon becoming aware of circumstances or events that underlie such material information or when a decision to implement a material change is made by the Board of Directors or Executive Management of the Group.

As a listed company, ABG adheres to a strict policy which delegates to certain specific individuals the authority to issue press releases or announce to the public information, financial or non-financial, on the Group. Only the following persons are authorised to make public information via the media:

- Chairman of the Board of Directors
- Vice-Chairmen of the Board of Directors
- President & Chief Executive

In the event that any of the abovementioned persons is requested to make statements relating to the financial statements, financial indicators or general financial performance of the Group, that person will consult and/or confirm with the Head of Financial Control with regard to the accuracy, timeliness and reliability of the information prior to making any public announcements.

The Group mails its Financial Statements and Prudential Returns to the CBB, BB and NASDAQ Dubai on a quarterly and an annual basis, following which the Group makes this information available on its website.

Press releases are posted on the Group's website and published in a minimum of one local newspaper either in Arabic or English. Persons authorised by the Group to make public disclosures will not make any announcement on a one-to-one basis before disseminating the information on the Group's website or in local newspapers.

The Group has in place effective procedures for dealing with complaints received from its shareholders and stakeholders. Different channels have been established to enable communication with investors, including through the offices of the Registrar, an online enquiry centre on the Group's website and dedicated telephone and facsimile lines. All complaints received are transmitted to the concerned department, Executive Management and the Board. In accordance with the CBB's disclosure requirements, the Group maintains at least three years' financial information on its website.

Regulation

The Group complies with all the regulatory requirements governing Islamic Banks issued by the CBB, which include, inter alia, regulations governing the Group's capital adequacy, asset quality and risk management, liquidity and fund management and corporate governance.

The CBB as the home supervisor sets and monitors ABG's capital requirements on both a consolidated and an unconsolidated basis, while ABG's banking subsidiaries are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements.

The CBB requires each Bahrain-based bank or banking group to maintain a minimum ratio of total capital to on- and off-balance sheet risk-weighted assets of 8% on a single bank basis and 12% on a consolidated basis, which requirement exceeds the 8% minimum ratio guideline of the Basel Committee on Banking Supervision under its 1988 Capital Accord. A new Capital Accord (Basel II) announced by the Basel Committee replaces the 1988 Accord and is designed to achieve a more sophisticated degree of risk differentiation in establishing the amount of capital that banks should allocate to different categories of their credit risk exposure, in addition to including a capital charge for operational risk and incorporating an earlier guideline in relation to capital charges for market risk. Regulators have been given wider discretion to increase or decrease capital requirements for banks according to their individual circumstances. The new rules also require greater transparency of published information relating to bank risk management. Subsequently, in 2010 global banking regulators agreed on a further package, known as Basel III, which sets a new minimum key capital ratio requirement of tier one capital to assets of 4.5%, together with a buffer of a further 7.0%, failure to achieve which will result in banks facing restrictions on their dividend payments and discretionary bonuses. As a second measure under Basel III, a new 5.0% minimum liquidity coverage ratio has recently been introduced. These measures are to be implemented gradually over a period extended to 2019.

The Group took all necessary steps to achieve in time the required degree of sophistication in risk assessment to enable it to comply with the requirements of Basel II as stipulated by the CBB. It has adopted the Basic Indicator Approach for operational risk and the Standardized Approach for credit and market risk under the CBB's Rulebook and the Group has been adhering to the requirements of the CBB under Basel II since July 2007. It is also set to comply with the Basel III requirements when they are fully introduced.

Pursuant to the Group's Compliance Policy, which was approved and adopted by the Board of Directors in November 2009, ABG has appointed a Compliance Officer, whose role is to assist management to ensure the Group's adherence to the Group Compliance Policy, in particular that all Group activities are conducted in conformity with all applicable laws and regulations and in accordance with best practice.

Financial Performance Monitoring

Executive Management has in place various measures that help monitor and control the activities of the Group worldwide. A comprehensive financial consolidating procedure exists and is working effectively, whereunder all subsidiaries submit their financial data in a format that is compatible with Islamic Accounting Standards issued by AAOIFI and with International Financial Reporting Standards (IFRS). These are consolidated quarterly and a consolidated set of financial results is produced. Additionally, subsidiaries submit a monthly return to Group headquarters providing details of their financial performance, measured against approved budgets.

Related Party Transactions

Dealings with persons or entities connected with the Group (including directors and shareholders) are called Related Party Transactions. The Group treats all such transactions at arms length and furthermore requiring the specific approval of the Board. As stated above, if a director is an interested party he abstains from voting on the matter. In 2013 there were no such Related Party Transactions.

RISK MANAGEMENT

The Group is committed to complying with internationally established principles and policies in relation to risk management. In particular the Group fully subscribes to the guiding principles of risk management for Islamic financial services institutions set down by the Islamic Financial Services Board and the need for a comprehensive risk management and reporting process. ABG's Head of Credit and Risk Management is responsible for formulating and monitoring the Group's policies relating to all aspects of risk, developing the framework for risk measurement and coordinating with the Group subsidiaries all necessary steps for adhering to the Basel II and, where and when applicable,

Corporate Governance (continued)

Basel III requirements under the CBB rules. He is also responsible for introducing and implementing risk measurement software, monitoring the Group's compliance with risk measurement standards and providing Group management with reports on the various risks.

Risk management is an integral part of the Group's decision making process. The Board of Directors defines and sets the Group's overall levels of risk appetite, risk diversification and asset allocation strategies including the policies as regards related parties' transactions, their reporting and approval. The Management Risk Committee and other executive committees guide and assist with overall management of the Group's balance sheet risks. The Group manages exposure by setting limits approved by the Board of Directors. Risk policies and processes to mitigate the risks are regularly reviewed.

The Group's risk management has the following objectives:

a. unified Groupwide risk management to enable the Group to calculate risk adjusted return on capital;
b. inculcation of a professional risk management culture throughout the Group with a prudent, disciplined approach to risk-taking based on comprehensive Groupwide policies, processes and limits;
c. professionally qualified staff and ongoing credit training;
d. investing in technology and systems enabling best practice risk management;
e. throughout the Group, strict segregation of duties and reporting lines between personnel transacting business and personnel processing that business;
f. strict compliance with all Shari'a and legal requirements and regulatory directives; and
g. maintaining clear, well documented policies via a Group Risk Management Manual and a Credit and Risk Management Manual in each of the subsidiaries, incorporating the uniform policies and procedures of the Group in addition to the local requirements.

Each of ABG's subsidiaries is managed by its respective Board of Directors. Group subsidiaries follow documented credit policies and procedures which as stated above reflect Groupwide policies and thus ensure that sound risk management is in place in all ABG's subsidiaries.

Following implementation during 2010 of a consolidating system for the calculation of capital adequacy taking into account credit, market and operational risk, all in accordance with Basel II requirements, the required data is now retrievable automatically at Head Office. During 2013, implementation of the Operational Risk Management Systems in the Units has started and is expected to be completed during 2014 throughout the Group.

The Group has continued to make determined efforts to maintain the momentum towards achieving optimal risk management policies, practices and procedures, pursuing five key objectives:

1. Continuous improvement in credit and risk management practices and intensified efforts on collections, recoveries and settlement of outstanding debts to bring about ongoing improvement in the Group's non-performing loans (NPL) ratio and provisioning coverage.
2. All subsidiaries ensure that their NPL provisioning policies are in line with both Group policies and local regulatory requirements.
3. Subsidiaries continue to strive to ensure a high degree of cooperation between their business arms and risk management departments through hiring and training of credit and risk management staff as an ongoing priority in each unit.
4. Each subsidiary has its own approved Credit and Risk Management Manual, covering credit, liquidity, market, operational, profit rate and reputation risk, which accords with Group policies and procedures.
5. All subsidiaries submit timely quarterly risk management reports to Head Office which fully meet regulatory requirements; reports continue to be expanded to provide Head Office with increasingly comprehensive data to meet its internal requirements.

A standard risk management framework has been established across the Group, reflected in operational manuals that closely adhere to Group policy as regards all the major categories of risk faced by the Group in carrying out its business: Credit, Liquidity, Market (including Equity, Profit Rate and Foreign Exchange risk), Operational and Shari'a Compliance risks. Each of these major risks is discussed below.

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. It applies to the Group in its management of the financing exposures arising out of receivables and leases (for example, Murabaha and Ijarah) and working capital financing transactions (Salam, Istisna'a or Mudaraba).

Each Group subsidiary has in place a framework for credit risk management that includes identification, measurement, monitoring, reporting and control of credit risks. Each subsidiary controls credit risk through the process of initial approval and granting of credit, subsequent monitoring of counterparty creditworthiness and the active management of credit exposures. Authority to approve credits is delegated by the subsidiary's Board of Directors to committees entrusted with the task of credit assessment and evaluation, under specific credit policies and operational procedures in place in that subsidiary.

Mitigation of credit risk is chiefly achieved through the obtaining of various forms of collateral where this is deemed necessary.

Each subsidiary maintains an internal audit department responsible for carrying out reviews of credit exposures to counterparties and assessing their quality and adherence to laid down approval procedures. Each subsidiary also maintains policies and procedures in covering case by case approval of related party transactions.

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal or stressed circumstances.

ABG and its subsidiaries each has in place a liquidity management framework, taking into account its liquidity exposures in respect of its current and savings accounts, deposits from banks and other financial institutions and its restricted and unrestricted investment accounts, so as to ensure that it maintains liquid assets at prudential levels so that cash can quickly be made available to honour all its obligations. Liquidity management also recognises the impact of potential cash outflows arising from irrevocable commitments to fund new assets, as well as the potential risk impact of withdrawals by large single depositors, ensuring that there is no reliance on one customer or small group of customers. In addition to its own internal liquidity management policies, each subsidiary is further required to maintain cash deposits with its respective Central Bank equal to a percentage of its deposits as directed by that Central Bank – in most cases 20%. ABG additionally holds substantial liquid funds which are earmarked and available for its subsidiaries in the unlikely event that they should require assistance. Liquidity management reporting conforms to all local regulations.

Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks.

Each Group subsidiary has in place appropriate strategies, risk management and reporting processes in respect of the risk characteristics of equity investments, including Mudaraba, Musharaka and other investments. Based on Group policies, each subsidiary ensures that its valuation methodologies are appropriate and consistent, and assesses the potential impact of its methods on profit calculations and allocations mutually agreed between that subsidiary and its partners. Further, each subsidiary has defined and established appropriate exit strategies and risk management and reporting processes in respect of its equity investment activities.

Profit Rate Risk or Rate of Return Risk

Profit rate risk or rate of return risk is the risk that the Group will incur a financial loss as a result of a mismatch in the profit rate on the Group's assets and unrestricted investment accounts. The Group is not liable to pay any predetermined returns to investment account holders, although it does apply appropriate income smoothing techniques to ensure that profits are fairly distributed to the investment account holders.

Foreign Exchange Risk

Foreign exchange rate risk arises from the movement of the rate of exchange of one currency against another over a period of time, leading to an adverse impact on the Group's earnings or shareholders' equity. The Group is exposed to foreign exchange rate risk in that the value of a financial instrument, or its net investment in its foreign subsidiaries, may fluctuate due to changes in foreign exchange rates. The Group's significant net foreign currency exposures as at 31 December 2013 are detailed in Note 27 to the Financial Statements.

Operational Risk

Operational risk is the risk of financial loss or damage resulting from inadequate or failed internal processes, people and systems or from external events.

Management of operations risk is through internal procedures and monitoring mechanisms, while management of legal risk is through effective consultation with internal and external legal counsel. Other kinds of operational risk are managed by ensuring that trained and competent people and appropriate infrastructure, controls and systems are in place to ensure the identification, assessment and management of all substantial risks.

The Group is also exposed to risks relating to its fiduciary responsibilities towards fund providers. Fiduciary risk arises from the failure to perform in accordance with explicit and implicit standards applicable to an Islamic bank's fiduciary responsibilities, leading to losses in investments or failure to safeguard the interests of the investment account holders. Group subsidiaries have in place appropriate mechanisms

Corporate Governance (continued)

to safeguard the interests of all fund providers. Where investment account holders' funds are commingled with a Group subsidiary's own funds, the respective Group subsidiary ensures that the bases for asset, revenue, expense and profit allocations are established, applied and reported in a manner consistent with the Group's fiduciary responsibilities.

As mentioned above, Group policy dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff independent of the staff initiating the transactions. Group subsidiaries have primary responsibility for identifying and managing their own operational risks. Each subsidiary is guided by policies, procedures, and controls that are relevant for each function. Internal control policies and procedures dictate the segregation of duties, delegation of authorities, exceptions reporting, exposures management and reporting, and reconciliations, and are based on the submission of timely and reliable management reporting.

Separate Internal Control units carry out ongoing monitoring of day-to-day procedures and ensure adherence to key control functions. As the Group is continuously updating its technology base, having replaced its legacy systems with new, modern hardware and systems, it is now able to integrate required control functions into its new processing systems.

Compliance Risk

Compliance risk is defined as the risk of legal or regulatory sanctions, material or financial loss or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, reporting requirements, codes of conduct and standards. It is the probability and impact of an event that results in a failure to act in accordance with laws, rules, regulations, codes and good governance in an entity. The landscape for compliance has changed substantially in recent years and as a result ABG and its subsidiaries are making concerted efforts to enhance their compliance risk management framework, as explained above.

Shari'a Compliance Risk

Shari'a compliance risk arises from the failure to comply with the rules and principles of Shari'a and in this respect is therefore akin to reputation risk. It also includes the risk of legal or regulatory sanctions that the Group or its subsidiaries may suffer as a result of failure to comply with the requirements of laws and regulations. As mentioned above, the Group has in place a Compliance Policy that provides for the assessment of compliance risks, the implementation of appropriate controls, monitoring of effectiveness, and correction and eradication of exceptions. Group subsidiaries have in place systems and controls, including their respective Shari'a Supervisory Boards, to ensure compliance with all Shari'a rules and principles. In accordance with CBB regulations and AAOIFI Standards, the Group has been certified by the Shari'a Supervisory Board to be in compliance with Shari'a Standards and Principles.

CAPITAL MANAGEMENT/CAPITAL ADEQUACY

Capital is managed at ABG with a view to meeting the capital maintenance requirements directed by the CBB and achieving optimum utilisation in the course of carrying out its business, in accordance with its predetermined risk appetite and intended risk profile and with the ultimate aim of maximising shareholders' returns. Capital management includes pro-actively making appropriate and necessary adjustments to reflect changes in the economic environment or in the degree or nature of risk associated with the Group's activities, including adjustment to its dividend policy, issue of Tier 1 or Tier 2 securities by way of public issue or private placement, etc.

Optimum capital management therefore addresses such crucial issues as:

- ensuring that adequate capital is held at all times to meet unexpected calls occasioned by such events as sudden withdrawals by depositors, earlier than expected drawdown of facilities, or unexpected losses;
- achieving the Group's return on capital objectives;
- meeting capital adequacy ratio targets and regulatory imperatives; and
- maintaining the Group's strong credit rating.

The Group's capital adequacy ratio as at 31 December 2013 was 16.49%, comfortably above the CBB's minimum regulatory requirement of 12%.

Each of ABG's banking subsidiaries is directly regulated by its own home regulator, which stipulates a minimum capital adequacy ratio in respect of that subsidiary. ABG ensures that each subsidiary adheres to these local capital adequacy requirements.

INFORMATION TECHNOLOGY

The role of the Head Office IT Steering Committee is to govern and support IT strategies, projects and initiatives across all ABG subsidiaries and to ensure that they are in line with the Group's overall strategic aims as well as each subsidiary's own strategies. The Group's short, medium and long term IT strategies are now well established, standardised around a few carefully chosen core banking solutions for Groupwide implementation. The final stage of the Group's IT strategy and governance framework, developed in collaboration with the subsidiaries and with the assistance of a leading advisory firm, is now set for implementation.

ABG's initial web-based financial consolidation and reporting application is now widely used as a corporate performance measurement solution, utilising Key Performance Indicators (KPI) based on Group strategic objectives. It is used in setting performance benchmarks for each subsidiary and for monitoring their individual performances on a continuous basis and will gradually be integrated into all core system applications implemented throughout the Group.

The monthly, quarterly and annual consolidations, currently performed through the financial consolidation module, enables the collection, processing, reporting and analyzing of data in multiple currencies as well as reporting on the effects of currency fluctuations. ABG's Financial Control Department can now consolidate data from many business perspectives, for instance at the subsidiary level, by geographical region or Islamic product line, as well as by multiple structure versions such as year to date, current year's results, previous year's results and so on.

Following an intensive evaluation of the Group's requirements for risk management systems from both Islamic and regulatory perspectives, the Risk Management team selected the most suitable system, which carried with it the additional weight that the product comes highly recommended by several other Islamic institutions using it, both in the Kingdom of Bahrain and abroad. The modules relating to operational risk management and capital adequacy calculation based on credit, market and operational risk are now live at the Head Office and at Al Baraka Islamic Bank Bahrain, with implementation planned at the remaining subsidiaries throughout 2013 and beyond.

Careful selection by the IT Steering Committee of an approved list of core banking system solutions was followed by each subsidiary arriving at its own system choice to suit its individual requirements.

Five subsidiaries – Al Baraka Bahrain, Al Baraka South Africa, Al Baraka Lebanon, Al Baraka Pakistan and Al Baraka Egypt – opted for the Equation core banking system from Misys. Al Baraka Bahrain achieved full implementation in 2009 followed by Al Baraka Lebanon and Al Baraka South Africa in 2011. Al Baraka Egypt went live with Equation in 2012 and Al Baraka Pakistan anticipates going live during 2014.

Implementation of Al Baraka Jordan's choice of the ICBS (NIBRAS) Banking System as its core banking system was achieved in 2011 and full project completion was achieved in Q4 2012. Al Baraka Algeria and Al Baraka Sudan, who selected iMAL from Path Solutions as their new core banking system, have both gone live with the application and expect to achieve project sign off for all other optional modules by Q1 2014.

Al Baraka Tunisia meanwhile has successfully upgraded its existing core banking system (TEMENOS-T24), which now incorporates e-banking, mobile and SMS services. Al Baraka Turkey, who employed an in-house solution some time ago which is working well, is however currently defining a strategy to move to a new core application in the near future as part of an expansive "Bank Transformation" project. Finally, Al Baraka Syria, who selected iMAL, has gone live with the application and the project is in the final stage of implementation of optional modules with the first quarter 2014 targeted for final sign off.

In 2009 the Group IT Department launched a new initiative to achieve "Business Excellence through IT" in partnership with a leading IT advisory firm. Important milestones have been achieved under this initiative, which has increased the value of IT to the business and the level of collaboration among Group subsidiaries. ABG IT has also focused on establishing a standardized global Disaster Recovery Plan (DRP) throughout the Group. With the new core applications having been fully implemented across the Group and all local DR centres having been established at each subsidiary, ABG subsidiaries are now fully protected against any sudden, unexpected service loss.

Corporate Social Responsibility

The success of the contemporary Islamic banking and finance movement owes much to the contribution and patronage of Shaikh Saleh Kamel, the founder of Al Baraka Banking Group. Although the Group is young as a single legal entity, its antecedents go back to the late 1960s, when Shaikh Kamel directed the devising of Islamic contracts for use in his business operations when dealing with conventional banks (there being no Islamic banks in existence at that time), which was his preferred route for doing business with them. This early insistence on strict adherence to fundamental Islamic principles was quickly overtaken by the next stage of development when, in the early 1970s, Shaikh Kamel oversaw the establishment across the Arab world of a string of Islamic financial institutions bearing the Al Baraka name. Today, Al Baraka Banking Group brings together under one unified grouping the accumulated experience of 11 such banks which have been delivering Islamic products and services for over three decades. We at ABG are proud to look back on this heritage, whilst keenly looking ahead to the next stage in our development, expanding into new regions and new markets, building an ever-widening and stronger customer base, all the time following the ideals of Islamic banking and finance.

From inception we at Al Baraka have, through our founding ethos, embodied the spirit of Social Responsibility in our corporate view, as encapsulated in:

Our Vision Statement:

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

Our Mission Statement:

"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 mutual benefits with the customers, staff and shareholders who participate in our business success".

...and our central philosophy as embodied in the concept of ***Partnership***, under which we hold that our shared beliefs create strong bonds that form the basis of long-term relationships with customers and staff, leading to our promise:

"Your Partner Bank".

What is Social Responsibility?

Social Responsibility is, in essence, an approach towards all aspects of an organisation's business activities with the aim of meeting the needs of the organisation, its shareholders, employees and customers whilst sustaining the resources – human and natural – that will be needed over the long term. To paraphrase the Union of Arab Banks, it is "the way in which firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the enterprise, create wealth and improve society".

Social Responsibility aims to create long-term economic growth through the careful management of natural resources (e.g. reduction of energy usage, waste management, etc.), development of human resources (through training, personal development and career and succession planning), and the general enhancement of the quality of life throughout society.

The concept of Social Responsibility fits easily with the ethics of Islam and, therefore, with Al Baraka's traditional principles. As members of a banking group founded on Islamic principles and values, we at Al Baraka believe that we have a particular obligation to society, through patronage and sponsorship of educational and social projects, to enhance the living conditions and quality of life of needful individuals in the local communities of which we are part. In meeting this commitment to society we make all possible effort to apply one of the important philosophical pillars of Islamic banking: the concept of E'mar Al Ardh or construction, or development, of land, which means adding tangible value to assets (whether natural or human).

Our philosophy, in essence, is that Allah grants mankind the capacity to inherit the land on this earth and therefore that mankind is not the owner of wealth but is entrusted with it. As the purpose of mankind is to construct, embellish and build on this earth, we are therefore ordained to create jobs for others. Thus, the wealth bestowed upon us belongs to Allah and, therefore, we must apply Shari'a rules related to the ownership of wealth in creating the wealth and in investing, exchanging, growing and spending the wealth. This concept has a direct relevance to the development of society and its social and economic progress and we seek to apply it through active investment mediation, which complements real and value-added production, and through the exchange of commodities and services, which enables us to offer practical alternatives to those financial intermediaries that provide no benefit to society at large.

We consider the role of Social Responsibility in our organisation to be essential to the application of the principles derived from divine power and on which our business activities in all the countries in which we operate are based. All our subsidiaries embrace Islamic ethical principles and apply them to their banking operations and services.

The Al Baraka Social Responsibility Programme

To these ends, we have established the "***Al Baraka Social Responsibility Programme***", the first such programme to be introduced by any Islamic banking and financial services institution.

The scope of the Al Baraka Social Responsibility Programme encompasses the following initial ad minima features of its business model:

1. Assessing the social impact of ABG's business at the local and transactional levels.
2. Investing in and supporting socially responsible businesses.
3. Supervising and monitoring development in the Al Baraka Microfinance programme.
4. Supporting the local economies.
5. Supporting academic institutions and centres of excellence.
6. Promoting Islamic classical arts and literature.
7. Promoting Islamic banking and finance scholarly works.
8. Investing in people.
9. Nurturing and encouraging local talent.
10. Promoting programmes that protect the environment by adopting various conservation strategies, such as reduction of paper usage, energy and water conservation.
11. Taking steps to develop and enhance Al Baraka's social responsibility reputation.

A Board Social Responsibility Committee has been formed, to oversee the activities of the Management Social Responsibility Committee, whose role inter alia is to:

1. Keep the Al Baraka Social Responsibility Programme current with the most recent international research and popular strategies to enhance the objectives of Shari'a.
2. Manage and supervise the Groupwide implementation of the Programme.
3. Ensure that the Programme remains one of the leading programmes within the Islamic banking and finance industry in general, by developing new research in Shari'a and economic analyses of the subject.
4. Provide appropriate guidance for the implementation of the Programme.
5. Compile, consolidate and publish annual and other periodic social responsibility reports.
6. Develop and update procedures that may result in enhancing the adequacy and effectiveness of the Programme at Group level.
7. Exercise all necessary powers in relation to the Programme to achieve the objectives and remain consistent with the rationale of the Committee.
8. Coordinate with other local and international social responsibility programmes.

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Corporate Social Responsibility (continued)

A detailed report of the Group's activities and progress in the area of Social Responsibility over the past year will be published annually and may also be found on the ABG website. The report highlights ABG's commitment to advancing and expanding its Social Responsibility Programme, which comprises:

1. *Al Baraka Philanthropic Programme,* which covers promotion and funding of a broad spectrum of activities ranging from the arts, literature and culture, scholarly and literary works, facilitating people with special needs and in their own efforts through vocational training.
2. *Al Baraka Economic Opportunities & Social Investments Programme*, covering community development including financing and investments in projects supporting affordable housing and a spectrum of healthcare and related activities, micro, small and medium sized enterprises, local and other industries.
3. *Al Baraka Qard-Hassan Programme*, covering benevolent loans extended on a charitable or goodwill basis.
4. *Al Baraka Time Commitment Programme*, under which ABG units commit a certain number of hours of their officers' time in social and educational contributions to the local community.

Based on the latest available 2012 Report, the respective contributions of ABG and each of its subsidiaries may be summarised as follows:

Al Baraka Group

The Group's aggregate investments in the Economic Opportunities and Social Investments Programme amounted to $925.428 million, a little over 6.5% of its total financings and investments, as funds were increasingly targeted towards these areas. Total Groupwide contributions in the Philanthropic Programme reached $5.955 million, while Group contributions to Qard Hassan totalled $8.694 million. The total of all financial contributions to the Social Responsibility Programme was therefore $940.077 million.

At the Head Office level, ABG funded $0.549 million towards a variety of philanthropic activities, ranging from funding vocational training to employee and community development, youth engagement, arts, culture and literature, scholarships, etc. It also provided $0.450 million in Qard Hassan, funding a range of initiatives and activities.

Al Baraka Türk Participation Bank

Al Baraka Turkey's contribution towards the Philanthropic Programme was an impressive $3.411 million, 60% of which was directed at its own scholarship programme for the talented and needy, with other important beneficiaries including the arts, culture and literature categories.

Jordan Islamic Bank

Al Baraka Jordan gave a total of $0.696 million to philanthropic activities, including community development, funding of infrastructure at educational institutions, scholarship programmes for the talented and needy, and contributions to the arts, culture and literature. It also invested in a wide range of community development, micro-financing and financing for small businesses, affordable housing and other projects, with a total contribution to the Economic Planning Programme of $44.758 million. Additionally, it provided $7.115 million in Qard Hassan.

Al Baraka Bank Egypt

Al Baraka Egypt's total contribution amounted to $216.563 million, with $0.138 million to philanthropic activities – mainly directed at community development and education – and $216.425 million towards economic and social investments in local industrial, service and commercial industries.

Banque Al Baraka D'Algerie S.P.A.

Al Baraka Algeria contributed $0.433 million towards philanthropic activities wholly in the field of community development, whilst providing a further $1.220 million of funding for the agriculture, fishing and forestry, industry, services, production and trade sectors under the Economic Opportunities Programme.

Al Baraka Islamic Bank B.S.C., Bahrain

Al Baraka Bahrain contributed $0.104 million towards philanthropy, encompassing mainly youth activities and training contracts, which formed part of a total $228.104 million invested in the Philanthropic and Economic Opportunities Programmes.

Al Baraka Bank (Pakistan) Limited

Al Baraka Pakistan participated in a range of activities in its contribution to the Philanthropic Programme – where it invested $0.059 million in funding vocational training and training contracts – and for funding in the micro-financing and financing for small and medium sized businesses areas under the Economic Opportunities Programme, providing $51.806 million chiefly for the industrial sector but also to services, healthcare, food, construction and mining and other sectors. It also provided $0.314 million in Qard Hassan.

Al Baraka Bank Tunisia

Al Baraka Tunisia contributed $0.025 million to the Philanthropy Programme in a variety of areas, notably for youth engagement and sport.

Al Baraka Bank Syria s.a.

Notwithstanding the adverse situation in Syria, Al Baraka Syria's contribution in 2012 amounted to $85.255 million, spread between its scholarship programme, community development, scholarly encouragement and training contracts, totalling $0.053 million, and financing economic development across various economic sectors, totalling $85.203 million under the Economic Opportunities Programme.

Al Baraka Bank Limited - South Africa

Al Baraka South Africa funded philanthropic activities to the extent of $0.148 million, spread across the fields of community development, scholarly and literary activities, youth engagement and sports, special needs, education and other sectors. Funding provided under the Economic Opportunities Programme amounted to $215.515 million in 2012, extended chiefly to the micro-financing and SME financing sectors, along with local industries and community and development financings.

Al Baraka Bank Lebanon S.A.L.

Al Baraka Lebanon contributed $0.386 million towards the Philanthropic and Economic Opportunities Programmes, with $0.215 million devoted to community development, HR development and youth engagement and sports, among other categories, and $0.171 million directed towards funding local community development and local industries. It provided a further $0.815 million in Qard Hassan.

Al Baraka Bank Sudan

Al Baraka Sudan invested $0.124 million in the Philanthropic Programme – mainly spent on its scholarship, community development and educational initiatives – and $82.330 million under its Economic Opportunities Programme, focused largely on the industrial and services industries.

Unified Shari'a Supervisory Board Report

For the year ended 31 December 2013

In the name of Allah, The Beneficent, The Merciful, Ever Merciful

Praise be to Allah and peace be upon our Prophet Mohamed, His Apostles and Companions

TO: AL BARAKA BANKING GROUP SHAREHOLDERS

May peace and Allah's Mercy and Blessings Be upon You

In accordance with Article (58) of the Articles of Association of Al Baraka Banking Group, we are required to submit the following report:

FIRST:

We have conducted six meetings during 2013, two of which were conducted at the premises of Al Baraka Banking Group's subsidiaries in which we met the subsidiaries' Shari'a Board members, Shari'a auditors and employees and conducted several small seminars and replied to many of the employees and customers' inquiries. In addition, we have made sure that the operations of the transactions are conducted in compliance with Shari'a rules and principles, the other four meetings were conducted at our premises in Jeddah, in which we studied Shari'a audit reports prepared by the Group's Shari'a Audit for the year ended 31 December 2013 and gave few Shari'a related comments on those reports. These reports were rectified through coordination between Shari'a Audit and the relative local subsidiaries' Shari'a Boards. In addition, the executive committee of the Unified Shari'a Supervisory Board conducted several meetings in which a number of commercial contracts and agreements signed by the Financial Institutions Department in the Group with the subsidiaries and other financial institutions and organizations has been reviewed.

SECOND:

We have reviewed the principles applied by the Group and reviewed the 2013 Shari'a reports issued by the Group Units' Shari'a Supervisory Boards. We have also reviewed their financial statements when needed. In addition, we examined the Group's financial position as of 31 December 2013 and Statement of Income and their notes for the year then ended. We have queried from some of the Technical's on the points that need explanation and statement. We have also reviewed the process of calculating Zakah in accordance with the Shari'a Standard number (35) and the Financial Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by Al Baraka Symposium 1/31 and by the Unified Shari'a Supervisory Board.

THIRD:

The Group and Units' management are responsible for the execution and implementation of the Unified Shari'a Supervisory Board resolutions and to bring to the attention of the Unified Shari'a Supervisory Board any transactions or issues that require Shari'a approval. The Unified Shari'a Supervisory Board is responsible for supervising the implementation of the resolution from a Shari'a point of view and issue opinion based on the Group and Units' Shari'a reports and financial statements.

The Unit's Shari'a Supervisory Boards, as is clear from their report, have supervised the Units' business activities including examining on test basis documentations and procedures applied by the Group and its Units.

The Units' Shari'a Supervisory Boards, as is clear from their reports, planned and performed reviews so as to obtain all the information and explanations they considered necessary in order to provide them with sufficient evidence to provide reasonable assurance that the Group and its Units have not violated Shari'a Rules and Principles.

IN OUR OPINION:

1. The Contracts, transactions and dealings entered into by the Group and its Units during the year ended 31 December 2013 are made in compliance with Shari'a Rules and Principles.
2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that have been approved by the Units' Shari'a Supervisory Boards in accordance with Shari'a Rules and Principles.
3. All earnings realized from sources or by means prohibited by Islamic Shari'a Rules and Principles have been committed by the Management to dispose it off to Charitable Causes.
4. The attached Zakah calculation was prepared in accordance with the provisions and principles of Islamic Shari'a according to the Net Invested Fund Method in accordance to the Shari'a Standard number (35) and the Financial

Accounting Standard number (9) issued by the Accounting and Auditing Organization for Islamic financial Institutions and according to what was approved by the Unified Shari'a Supervisory Board. Since the Group and the Units are not empowered to pay Zakah, shareholders should pay their share of Zakah. The Zakah per share is 0.67 US cents. In case of unavailability of liquidity, it is allowed to postponed the Zakah and become a debt until the liquidity become available.

Praise be to Allah

Issued on 13 Rabi'a Al Thani 1435 H, corresponding to 13 February 2014 AD.

Shaikh Dr. Abdul Sattar Abu Ghudah
Chairman

Shaikh Abdulla bin Sulieman Al Mannea
Member

Shaikh Dr. Abdullatif Al Mahmood
Member

Shaikh Dr. Abdulaziz bin Fowzan Al Fowzan
Member

Dr. Ahmed Mohiyeldin Ahmed
Member

ZAKAH CALCULATION FOR THE YEAR ENDED 31 DECEMBER 2013

	US$ '000
Equity Attributable to Shareholders	1,298,651
Less: Investment of the parent on the shareholding of Al Baraka Bank Egypt, Al Baraka Bank Sudan and Itqan Capital	(155,253)
NET ZAKATABLE EQUITY ATTRIBUTABLE TO SHAREHOLDERS	**1,143,398**
Less:	
Musharaka underlined by unzakatable assets	(55,345)
Investment in Islamic Sukuk underlined by unzakatable assets	(253,269)
Ijarah Muntahia Bittamleek	(222,241)
Long-term investment in real estate	(35,459)
Properties and equipment	(246,000)
Intangible assets	(95,684)
Investment in Associates	(20,380)
Prepayments	(12,483)
Deferred tax asset	(191)
Add:	
Shareholders share on Zakatable Assets by Associates	12,566
Borrowing to finance Unzakatable Assets	55,945
Sale of long-term investment in real estate during the year	518
Deferred tax liability	284
ZAKATABLE AMOUNT	**271,659**
Zakah Percentage	2.5770%
TOTAL ZAKAH DUE	**7,001**
Number of Shares (thousands)	1,040,168
ZAKAH PER SHARE (US$ CENTS)	**0.67**

Independent Auditors' Report to the Shareholders of Al Baraka Banking Group B.S.C.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Al Baraka Banking Group B.S.C. ("the Bank") and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December 2013 and the 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, and a summary of significant accounting policies and other explanatory information.

Board of Directors' and management's responsibility for the consolidated financial statements

The Board of Directors and the management are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and for such internal control as the Board of Directors and the management determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In addition, the Board of Directors and the management are responsible for the Group's undertaking to operate in accordance with Islamic Shari'a rules and principles.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with both the Auditing Standards for Islamic Financial Institutions and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

REPORT ON OTHER REGULATORY REQUIREMENTS

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

a. the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

b. the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

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

Ernst & Young

23 February 2014

Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

At 31 December 2013

	Notes	2013 US$ '000	2012 US$ '000
ASSETS			
Cash and balances with banks	4	**4,797,487**	3,927,583
Receivables	5	**10,818,219**	10,462,501
Mudaraba and Musharaka financing	6	**1,192,125**	953,554
Investments	7	**2,402,830**	2,183,754
Ijarah Muntahia Bittamleek	8	**942,048**	719,619
Property and equipment	9	**405,880**	386,496
Other assets	10	**408,970**	421,624
TOTAL ASSETS		**20,967,559**	19,055,131
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Customer current and other accounts		**4,249,181**	3,820,735
Due to banks		**1,095,868**	972,280
Long term financing	11	**540,680**	12,796
Other liabilities	12	**698,999**	677,012
Total liabilities		**6,584,728**	5,482,823
EQUITY OF INVESTMENT ACCOUNTHOLDERS	13	**12,399,444**	11,604,628
OWNERS' EQUITY	14		
Share capital		**1,048,291**	1,014,475
Treasury shares		**(8,123)**	(8,475)
Share premium		**16,753**	16,352
Reserves		**131,684**	121,253
Cumulative changes in fair values		**(2,380)**	(3,636)
Foreign currency translations		**(232,928)**	(133,591)
Retained earnings		**263,086**	218,222
Proposed appropriations		**82,268**	69,323
Equity attributable to parent's shareholders		**1,298,651**	1,293,923
Non-controlling interest		**684,736**	673,757
Total owners' equity		**1,983,387**	1,967,680
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**20,967,559**	19,055,131

Saleh Abdullah Kamel
Chairman

Adnan Ahmed Yousif
Member of the Board and President and Chief Executive

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Income

Year ended 31 December 2013

	Notes	2013 US$ '000	2012 US$ '000
INCOME			
Net income from jointly financed contracts and investments	15	**1,031,031**	1,018,482
Return on equity of investment accountholders before Group's share as a Mudarib		**(912,092)**	(874,470)
Group's share as a Mudarib	16	**311,935**	261,609
Return on equity of investment accountholders		**(600,157)**	(612,861)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmal)		**430,874**	405,621
Mudarib share for managing off-balance sheet equity of investment accountholders		**2,958**	4,320
Net income from self financed contracts and investments	15	**236,067**	204,613
Profit on long term financing		**(12,342)**	-
Other fees and commission income	17	**179,098**	184,746
Other operating income	18	**72,829**	80,470
TOTAL OPERATING INCOME		**909,484**	879,770
Staff expenses		**293,898**	262,327
Depreciation and amortisation	19	**39,126**	35,299
Other operating expenses	20	**156,396**	160,440
TOTAL OPERATING EXPENSES		**489,420**	458,066
NET INCOME FOR THE YEAR BEFORE PROVISIONS, IMPAIRMENTS AND TAXATION		**420,064**	421,704
Provisions and impairments	21	**(65,796)**	(99,323)
NET INCOME BEFORE TAXATION		**354,268**	322,381
Taxation		**(96,489)**	(87,139)
NET INCOME FOR THE YEAR		**257,779**	235,242
Attributable to:			
Equity holders of the parent		**144,506**	133,028
Non-controlling interest		**113,273**	102,214
		257,779	235,242
Basic and diluted earnings per share - US cents	22	**13.90**	12.79

Saleh Abdullah Kamel
Chairman

Adnan Ahmed Yousif
Member of the Board and President and Chief Executive

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2013

	Notes	2013 US$ '000	2012 US$ '000
OPERATING ACTIVITIES			
Net income before taxation		**354,268**	322,381
Adjustments for:			
Depreciation and amortisation	19	**39,126**	35,299
Impairment of intangible assets	10 (a)	**-**	57
Depreciation on Ijarah Muntahia Bittamleek	15.4	**402,894**	100,106
Unrealised gain on equity and debt-type instruments at fair value through statement of income	15.3	**(283)**	(330)
Gain on sale of property and equipment	18	**(9,153)**	(17,332)
Gain on sale of investment in real estate	15.3	**(957)**	(2,426)
Gain on sale of equity-type instruments at fair value through equity	15.3	**(891)**	(185)
Gain on sale of equity and debt-type instruments at fair value through statement of income	15.3	**(2,500)**	(125)
Gain on sale of associate	15.3	**(46)**	-
Income from associates	15.3	**(1,958)**	(1,600)
Provisions and impairments	21	**65,796**	99,323
Operating profit before changes in operating assets and liabilities		**846,296**	535,168
Net changes in operating assets and liabilities:			
Reserves with central banks		**(515,445)**	(340,999)
Receivables		**(403,398)**	(2,330,500)
Mudaraba and Musharaka financing		**(239,931)**	(12,461)
Ijarah Muntahia Bittamleek		**(625,323)**	(256,004)
Other assets		**(12,185)**	(38,643)
Customer current and other accounts		**428,441**	260,418
Due to banks		**123,588**	318,818
Other liabilities		**(5,023)**	(4,872)
Equity of investment accountholders		**793,585**	1,140,192
Taxation paid		**(81,157)**	(85,113)
Net cash from (used in) operating activities		**309,448**	(813,996)
INVESTING ACTIVITIES			
Net purchase of investments		**(212,232)**	(73,573)
Net purchase of property and equipment		**(44,321)**	(86,681)
Dividends received from associates		**1,197**	-
Net purchase of investment in associate		**(1,739)**	(8,014)
Net cash used in investing activities		**(257,095)**	(168,268)
FINANCING ACTIVITIES			
Long term financing		**536,912**	12,796
Dividends paid to equity holders of the parent		**(35,507)**	(30,434)
Net movement in treasury shares		**753**	239
Net changes in non-controlling interest		**(27,135)**	(15,799)
Net cash from (used in) financing activities		**475,023**	(33,198)
Foreign currency translation adjustments		**(172,917)**	(31,234)
NET CHANGES IN CASH AND CASH EQUIVALENTS		**354,459**	(1,046,696)
Cash and cash equivalents at 1 January		**1,950,294**	2,996,990
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	23	**2,304,753**	1,950,294

The attached notes 1 to 30 form part of these consolidated financial statements.

Consolidated Statement of Changes in Owners' Equity

Year ended 31 December 2013

	Attributable to equity			
				Reserves
	Share capital US$ '000	Treasury shares US$ '000	Share premium US$ '000	Statutory reserve US$ '000
Balance at 1 January 2013	1,014,475	(8,475)	16,352	78,687
Dividends paid	-	-	-	-
Bonus shares issued (note 14)	33,816	-	-	-
Movement in treasury shares	-	352	401	-
Net movement in cumulative change in fair value	-	-	-	-
Net movement in other reserves	-	-	-	-
Foreign currency translation	-	-	-	-
Net income for the year	-	-	-	-
Transfer to statutory reserve	-	-	-	14,451
Proposed dividends	-	-	-	-
Proposed bonus shares	-	-	-	-
Dividends of subsidiaries	-	-	-	-
Zakah paid by subsidiaries	-	-	-	-
Effects of acquisition of non-controlling interest	-	-	-	-
Net movement in non-controlling interest	-	-	-	-
Balance at 31 December 2013	**1,048,291**	**(8,123)**	**16,753**	**93,138**

Balance at 1 January 2012	869,550	(7,319)	16,420	65,384
Dividends paid	-	-	-	-
Bonus shares issued (note 14)	144,925	-	-	-
Movement in treasury shares	-	(1,156)	(68)	-
Net movement in cumulative change in fair value	-	-	-	-
Net movement in other reserves	-	-	-	-
Foreign currency translation	-	-	-	-
Net income for the year	-	-	-	-
Transfer to statutory reserve	-	-	-	13,303
Proposed dividends	-	-	-	-
Proposed bonus shares	-	-	-	-
Dividends of subsidiaries	-	-	-	-
Effects of acquisition of non-controlling interest	-	-	-	-
Net movement in non-controlling interest	-	-	-	-
Balance at 31 December 2012	1,014,475	(8,475)	16,352	78,687

The attached notes 1 to 30 form part of these consolidated financial statements.

shareholders of the parent							
Other reserves US$ '000	Cumulative changes in fair values US$ '000	Foreign currency translations US$ '000	Retained earnings US$ '000	Proposed appropriations US$ '000	Total US$ '000	Non-controlling interest US$ '000	Total owners' equity US$ '000
42,566	(3,636)	(133,591)	218,222	69,323	1,293,923	673,757	1,967,680
-	-	-	-	(35,507)	(35,507)	-	(35,507)
-	-	-	-	(33,816)	-	-	-
-	-	-	-	-	753	-	753
-	1,256	-	-	-	1,256	500	1,756
(4,020)	-	-	-	-	(4,020)	(2,502)	(6,522)
-	-	(99,337)	-	-	(99,337)	(73,580)	(172,917)
-	-	-	144,506	-	144,506	113,273	257,779
-	-	-	(14,451)	-	-	-	-
-	-	-	(36,690)	36,690	-	-	-
-	-	-	(45,578)	45,578	-	-	-
-	-	-	-	-	-	(26,469)	(26,469)
-	-	-	(2,501)	-	(2,501)	(1,914)	(4,415)
-	-	-	(422)	-	(422)	422	-
-	-	-	-	-	-	1,249	1,249
38,546	**(2,380)**	**(232,928)**	**263,086**	**82,268**	**1,298,651**	**684,736**	**1,983,387**

39,223	(10,910)	(112,163)	167,584	175,359	1,203,128	596,022	1,799,150
-	-	-	-	(30,434)	(30,434)	-	(30,434)
-	-	-	-	(144,925)	-	-	-
-	-	-	1,463	-	239	-	239
-	7,274	-	-	-	7,274	1,160	8,434
3,343	-	-	(1,261)	-	2,082	1,079	3,161
-	-	(21,428)	-	-	(21,428)	(9,806)	(31,234)
-	-	-	133,028	-	133,028	102,214	235,242
-	-	-	(13,303)	-	-	-	-
-	-	-	(35,507)	35,507	-	-	-
-	-	-	(33,816)	33,816	-	-	-
-	-	-	-	-	-	(27,875)	(27,875)
-	-	-	34	-	34	(34)	-
-	-	-	-	-	-	10,997	10,997
42,566	(3,636)	(133,591)	218,222	69,323	1,293,923	673,757	1,967,680

Consolidated Statement of Changes in Off-Balance Sheet Equity of Investment Accountholders

Year ended 31 December 2013

	Cash US$ '000	Sales receivables US$ '000	Mudaraba financing US$ '000	Investment in real estate US$ '000	Ijarah Muntahia Bittamleek US$ '000	Investments US$ '000	Others US$ '000	Total US$ '000
Balance at 1 January 2013	57,403	84,056	206,123	34,220	-	153,856	63,137	598,795
Deposits	134,441	299,376	1,137,689	18,145	28,571	100,347	241,055	1,959,624
Withdrawals	(84,976)	(322,062)	(1,064,518)	(1,875)	(2,680)	(103,866)	(270,004)	(1,849,981)
Income net of expenses	-	10,805	3,087	654	2,099	5,430	437	22,512
Mudarib's share	-	(2,315)	(1)	(176)	(155)	(163)	(148)	(2,958)
Foreign exchange translations	-	-	-	(509)	-	4	(13,239)	(13,744)
Balance at 31 December 2013	**106,868**	**69,860**	**282,380**	**50,459**	**27,835**	**155,608**	**21,238**	**714,248**
Balance at 1 January 2012	17,189	105,361	200,702	35,310	-	126,381	38,185	523,128
Deposits	99,843	600,478	893,299	2,892	-	64,612	198,296	1,859,420
Withdrawals	(59,629)	(632,706)	(889,432)	(4,371)	-	(41,365)	(168,273)	(1,795,776)
Income net of expenses	-	13,769	1,556	445	-	8,210	2,574	26,554
Mudarib's share	-	(2,846)	(2)	(56)	-	(873)	(543)	(4,320)
Foreign exchange translations	-	-	-	-	-	(3,109)	(7,102)	(10,211)
Balance at 31 December 2012	57,403	84,056	206,123	34,220	-	153,856	63,137	598,795

The attached notes 1 to 30 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2013

1 ACTIVITIES

Al Baraka Banking Group B.S.C. ('the Bank') is a joint stock company incorporated in the Kingdom of Bahrain on 27 June 2002, under Commercial Registration (CR) number 48915. The Bank is engaged in banking activities in the Middle East, Europe, North African and South African region. The address of the Bank's registered office is P.O. Box 1882, Diplomatic Area, Manama, Kingdom of Bahrain. The Bank is listed on Bahrain Bourse and NASDAQ Dubai.

The Bank operates under an Islamic wholesale banking license issued by the Central Bank of Bahrain ('the CBB').

The principal activities of the Bank and its subsidiaries ('the Group') comprise of international and commercial banking, financing, treasury and investment activities. The Bank is supervised and regulated by the CBB.

The consolidated financial statements were approved by the Board of Directors on 23 February 2014.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

a. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investment in real estate, equity-type instruments through statement of income and equity-type instruments through equity that have been measured at fair value. The consolidated financial statements are presented in United States Dollars ('US Dollars') being the reporting currency of the Group. All values are rounded to the nearest US Dollar thousands unless otherwise indicated.

New accounting standard

Durintg 2012, AAOIFI issued new Financial Accounting Standard (FAS 26) "Investment in real estate", which is effective as of 1 January 2013.

The adoption of FAS 26 had no effect on the classification and measurement of the Groups investments in real estate.

b. Statement of compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards 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, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law and the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ('the IFRS') issued by International Accounting Standards Board (the 'IASB').

c. Basis of consolidation

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

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Control is achieved where the Group 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 owners' 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. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as an owners' equity transaction.

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

Bank	Ownership for 2013	Ownership for 2012	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2013
Held directly by the Bank					
Banque Al Baraka D'Algerie (BAA)	**55.90%**	55.90%	1991	Algeria	26
Al Baraka Islamic Bank - Bahrain (AIB)	**91.12%**	91.12%	1984	Bahrain	117
Al Baraka Bank Tunis (ABT) *	**78.40%**	78.40%	1983	Tunisia	8
Al Baraka Bank Egypt (ABE)	**73.68%**	73.68%	1980	Egypt	26
Al Baraka Bank Lebanon (ABBL)	**98.86%**	98.71%	1991	Lebanon	7
Jordan Islamic Bank (JIB)	**66.01%**	66.01%	1978	Jordan	80
Al Baraka Turk Participation Bank (ATPB)	**56.64%**	56.64%	1985	Turkey	167
Al Baraka Bank Limited (ABL)	**62.15%**	62.15%	1989	South Africa	11
Al Baraka Bank Sudan (ABS) **	**76.09%**	82.08%	1984	Sudan	27
Al Baraka Bank Syria (ABBS)	**23.00%**	23.00%	2009	Syria	9

* From 1 January 2014, ABT has changed its license from an off-shore bank to an on-shore bank and its reporting currency has been officially changed from US Dollar to Tunisian Dinar.

** During the year other shareholders of ABS have paid their share of the capital increase, which the Group has already paid in previous years. This resulted in change of the ownership percentage during the year.

The following are the subsidiaries held indirectly through the principal subsidiaries of the Bank:

Company/ Bank	Subsidiary held through	Effective Ownership for 2013	Effective Ownership for 2012	Year of incorporation	Country of incorporation
Held indirectly by the Bank					
Al Baraka Bank (Pakistan) Limited	AIB	58.90%	58.90%	2010	Pakistan
Itqan Capital (note 3)	AIB	54.67%	54.67%	2007	Saudi Arabia
Al- Rizq Trading Company	JIB	-	59.40%	1994	Jordan
Al-Omariya School Company	JIB	62.31%	62.31%	1987	Jordan
Al-Samaha Real Estate Company	JIB	65.15%	66.01%	1998	Jordan
Future Applied Computer Technology Company	JIB	66.01%	66.01%	1998	Jordan
Sanable Alkhair for Financial Investment	JIB	66.01%	66.01%	2006	Jordan
Al Baraka Properties (Pty) Ltd.	ABL	62.15%	62.15%	1991	South Africa

d. Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

e. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash and cash in transit, balances with central banks excluding mandatory reserves and balances with other banks with an original maturity of three months or less.

f. Receivables

Receivables comprise Sales (Murabaha) receivables, Ijarah receivables, Salam receivables and Istisna'a receivables.

Sales (Murabaha) receivables

Sales (Murabaha) receivables consist mainly of Murabaha and international commodities stated net of deferred profits and provision for doubtful amount.

Ijarah receivables

Ijarah receivables is the outstanding rental at the end of the year less any 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.

g. Mudaraba and Musharaka financing

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

h. Investments

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

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, investment 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.

Investment in associates

The Group's investment in its associates is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the consolidated statement of financial position

Notes to the Consolidated Financial Statements

31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Investments (continued)

Investment in associates (continued)
at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated statement of income reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners' equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associates and the Group are identical and the associates accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

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

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

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

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

i. Ijarah Muntahia Bittamleek

Assets acquired for leasing (Ijarah) are stated at cost, less accumulated depreciation.

Depreciation is provided on the straight line method over the useful life of the asset or the period of the lease, whichever is lower.

j. Property and equipment

Property and equipment are initially recognised at cost. 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 provided on the straight-line basis over the estimated useful lives of the assets other than freehold land, which is deemed to have an indefinite life.

The calculation of depreciation is on the following basis:

Buildings	30 years
Office furniture and equipment	4 - 10 years
Vehicles	3 years
Others	4 - 5 years

k. Fair values

For investments actively traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

For Sales (Murabaha) receivables the fair value is determined at Bank or subsidiary level at the end of the financial period at their cash equivalent value.

l. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. 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.

m. Intangible assets

Intangible assets comprise principally the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

n. Collateral pending sale

Collateral acquired in settlement of certain financing facilities is stated at the lower of the net realisable value of the related financing facilities and the current fair value of such assets. Gains or losses on disposal, and revaluation losses, are recognised in the consolidated statement of income.

o. Employees' end of service benefits

The Group provides for end of service benefits to its employees. Entitlement to these benefits is based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued for over the period of employment.

p. Provision

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

q. Dividends

Dividends to shareholders are recognised as liabilities in the year in which they are declared.

r. Equity of investment accountholders

All equity of investment accountholders are carried at cost plus accrued profit and related reserves. Investment risk reserves and profit equalisation reserves are made at the Bank or subsidiary level.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

s. 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.

t. 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.

u. 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 account holders. 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.

v. Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity of the parent and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity of the parent. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue or cancellation of own equity instruments.

w. Revenue recognition

Sales (Murabaha) receivables

Profit from Sales (Murabaha) receivables is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on 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.

Salam and Istisna'a receivables

Income on Salam and Istisna'a is recognised on time-apportioned basis when the income from a contract is contractually determinable or quantifiable.

Mudaraba and Musharaka financing

Income on Mudaraba and Musharaka financing is recognised when the right to receive payment is established or on distribution by the Mudarib. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Ijarah Muntahia Bittamleek

Income net of depreciation is recognised on a time-apportioned basis over the lease term.

Fee and commission income

Fee and commission income is recognised when earned.

Other income

Other income on investments is recognised when the right to receive payment is established.

Group's share as a Mudarib

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

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.

x. Return on equity of investment accountholders
Equity of investment accountholders' share of income is calculated based on the applicable local laws and based on the underlining individual Mudaraba contract. It represents the income generated from joint investment accounts and after deducting other expenses. Other expenses include all expenses incurred by the Group including specific provisions. The Group's share is deducted before distributing such income.

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. Taxation
There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate. The Group accounts for its share of associates profit after accounting for corporate taxation. Deferred income tax is provided using the liability method on temporary differences at the financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

bb. Zakah
The responsibility of payment of Zakah is on individual shareholders of the Group, its equity of investment accountholders and other account holders except for few subsidiaries where the responsibility of payment of Zakah is on the individual subsidiary as a single entity. The calculation of Zakah per share is presented as an attachment to the Shari'a Supervisory Board Report.

cc. Earnings prohibited by Shari'a
The Group is committed to avoid recognising any income generated from non-Islamic source. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for various social welfare activities.

dd. Impairment of financial assets
An assessment is made at each 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 estimated cash equivalent value, 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 addition, the Group maintains a provision to reflect a potential loss that may occur as a result of currently unidentifiable risks in relation to receivables, financings or investment assets. The amount reflects estimated losses affecting these assets attributable to events that have already occurred at the date of the financial statements, and not estimated losses attributable to future events.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

ee. 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 religious or legal right to offset the recognised amounts and there is actual expectation of the Group to settle on a net basis.

ff. Foreign currencies

Foreign currency transactions at the subsidiary level

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

Foreign currency translations

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollars) at the rate of exchange ruling at the financial position date and their income statements 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 entity, the deferred cumulative amount recognised in owners' equity relating to that particular foreign entity is recognised in the consolidated statement of income.

gg. Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which effects the amounts recognised in the consolidated financial statements:

Classification of investments

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

Going concern

The Bank's management has made an assessment of the Group's 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 financial statements continue to be prepared on the going concern basis.

hh. Use of estimates in preparation of the consolidated financial statements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities at the date of the consolidated financial statements. The use of estimates is used primarily to the determination of provisions for sales (Murabaha) receivable, mudaraba financing, musharaka financing, equity-type instrument at fair value through equity, debt-type instrument at amortised cost, ijarah receivable and other assets.

ii. 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 have 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 expired.

3 ACQUISITION OF ITQAN CAPITAL

On 1 July 2012, the Group acquired 58.32% of the voting shares of Itqan Capital through its subsidiary Al Baraka Islamic Bank. Itqan Capital is an unlisted company based in Kingdom of Saudi Arabia, licensed by the Capital Market Authority and specialising in the asset management, principle investment, investment banking, and custodial services. Further Al Baraka Islamic Bank via a management agreement dated 1 July 2012 assigned the control to govern the financial and operating policies of Itqan Capital to the Group. Al Baraka Islamic Bank has authorised the Group to represent it in the shareholders' meetings and to exercise control on Itqan Capital to do any or all acts and deeds and exercise all powers of Al Baraka Islamic Bank pursuant to the Charter Document referred in the management agreement and or under any applicable laws.

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Itqan Capital as at the date of acquisition were US$ 10,594 thousand and the goodwill arising on acquision was US$ 17,082 thousand. The total purchase consideration transferred is US$ 27,676 thousand.

The goodwill of US$ 17,082 thousands comprises the value of expected synergies arising from the acquisition, which is not separately recognised.

From the date of acquisition till 31 December 2012, Itqan Capital has contributed US$ 389 thousands of revenue and a loss of US$ 2,044 thousands to the net profit before tax of the Group. If the acquisition had taken place at the beginning of the year 2012, revenue contributed would have been US$ 817 thousand and a loss of US$ 3,803 thousand to the net profit before tax of the Group for the year 2012.

The Group has elected to measure the non-controlling interest in the Itqan Capital at their proportionate share of the acquirer's identifiable net assets resulting in the non-controlling interest of US$ 7,063 thousand at 31 December 2012.

Notes to the Consolidated Financial Statements

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4 CASH AND BALANCES WITH BANKS

	2013 US$ '000	2012 US$ '000
Balances with central banks*	**3,681,621**	2,876,719
Balances with other banks	**791,780**	681,064
Cash and cash in transit	**324,086**	369,800
	4,797,487	3,927,583

* Balances with the central banks include mandatory reserves amounting to US$ 2,492,734 thousand (2012: US$ 1,977,289 thousand). These amounts are not available for use in the Group's day-to-day operations.

5 RECEIVABLES

	2013 US$ '000	2012 US$ '000
Sales (Murabaha) receivables (5.1)	**10,632,286**	10,297,161
Ijarah receivables (5.2)	**20,504**	32,587
Salam receivables (5.3)	**126,174**	106,400
Istisna'a receivables (5.4)	**39,255**	26,353
	10,818,219	10,462,501

5.1 Sales (Murabaha) receivables

	2013			2012		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
International Commodity Murabaha	**60,406**	**327,012**	**387,418**	63,835	312,232	376,067
Other Murabaha	**1,711,299**	**10,019,224**	**11,730,523**	1,380,402	10,118,986	11,499,388
Gross Sales (Murabaha) receivables	**1,771,705**	**10,346,236**	**12,117,941**	1,444,237	10,431,218	11,875,455
Deferred profits	**(177,273)**	**(915,326)**	**(1,092,599)**	(166,028)	(1,017,762)	(1,183,790)
	1,594,432	**9,430,910**	**11,025,342**	1,278,209	9,413,456	10,691,665
Provisions (note 21)	**(57,795)**	**(335,261)**	**(393,056)**	(42,177)	(352,327)	(394,504)
	1,536,637	**9,095,649**	**10,632,286**	1,236,032	9,061,129	10,297,161

	2013 US$ '000	2012 US$ '000
Non-performing	**456,082**	495,745

The Group considers the promise made in Sales (Murabaha) receivables to the purchase orderer as obligatory.

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5.2 Ijarah receivables

	2013			2012		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross Ijarah receivables	567	25,715	26,282	1,081	39,562	40,643
Provisions (note 21)	-	(5,778)	(5,778)	-	(8,056)	(8,056)
	567	19,937	20,504	1,081	31,506	32,587

	2013 US$'000	2012 US$'000
Non-performing	11,666	14,480

5.3 Salam receivables

	2013			2012		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross Salam receivables	-	130,417	130,417	-	109,084	109,084
Provisions (note 21)	-	(4,243)	(4,243)	-	(2,684)	(2,684)
	-	126,174	126,174	-	106,400	106,400

	2013 US$ '000	2012 US$ '000
Non-performing	7,303	8,415

5.4 Istisna'a receivables

	2013			2012		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross Istisna'a receivables	-	40,565	40,565	-	26,839	26,839
Provisions (note 21)	-	(1,310)	(1,310)	-	(486)	(486)
	-	39,255	39,255	-	26,353	26,353

	2013 US$ '000	2012 US$ '000
Non-performing	2,852	941

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6 MUDARABA AND MUSHARAKA FINANCING

	2013 US$ '000	2012 US$ '000
Mudaraba financing (6.1)	**809,178**	557,787
Musharaka financing (6.2)	**382,947**	395,767
	1,192,125	953,554

6.1 Mudaraba financing

	2013			2012		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross Mudaraba financing	**322,626**	**497,662**	**820,288**	185,031	389,109	574,140
Provisions (note 21)	**-**	**(11,110)**	**(11,110)**	-	(16,353)	(16,353)
	322,626	**486,552**	**809,178**	185,031	372,756	557,787

	2013 US$'000	2012 US$'000
Non-performing	**10,872**	16,612

6.2 Musharaka financing

	2013			2012		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Gross Musharaka financing	**70,550**	**319,789**	**390,339**	82,442	321,854	404,296
Provisions (note 21)	**-**	**(7,392)**	**(7,392)**	-	(8,529)	(8,529)
	70,550	**312,397**	**382,947**	82,442	313,325	395,767

	2013 US$'000	2012 US$'000
Non-performing	**14,964**	22,328

7 INVESTMENTS

	2013 US$ '000	2012 US$ '000
Equity and debt-type instruments at fair value through statement of income (7.1)	**34,644**	14,492
Equity-type instruments at fair value through equity (7.2)	**97,087**	176,104
Debt-type instruments at amortised cost (7.3)	**2,093,920**	1,831,118
	2,225,651	2,021,714
Investment in real estate (7.4)	**139,350**	127,829
Investment in associates (7.5)	**37,829**	34,211
	2,402,830	2,183,754

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7.1 Equity and debt-type instruments at fair value through statement of income

	2013			2012		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Debts	29,046	2,638	31,684	5,127	5,257	10,384
Equities	2,262	698	2,960	2,582	-	2,582
	31,308	3,336	34,644	7,709	5,257	12,966
Unquoted investments						
Debts	-	-	-	1,526	-	1,526
	-	-	-	1,526	-	1,526
	31,308	3,336	34,644	9,235	5,257	14,492

7.2 Equity-type instruments at fair value through equity

	2013			2012		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Equities	4,820	43,373	48,193	5,787	47,969	53,756
Managed funds	1,751	14,650	16,401	17,178	14,351	31,529
	6,571	58,023	64,594	22,965	62,320	85,285
Unquoted investments						
Equities	19,520	7,549	27,069	55,189	24,059	79,248
Managed funds	-	10,485	10,485	-	28,380	28,380
	19,520	18,034	37,554	55,189	52,439	107,628
Provisions (note 21)	(2,744)	(2,317)	(5,061)	(10,524)	(6,285)	(16,809)
	23,347	73,740	97,087	67,630	108,474	176,104

7.3 Debt-type instruments at amortised cost

	2013			2012		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Quoted investments						
Sukuk and similar items	477,269	490,730	967,999	312,828	461,337	774,165
	477,269	490,730	967,999	312,828	461,337	774,165
Unquoted investments						
Sukuk and similar items	56,639	1,072,263	1,128,902	55,933	1,004,397	1,060,330
	56,639	1,072,263	1,128,902	55,933	1,004,397	1,060,330
Provisions (note 21)	-	(2,981)	(2,981)	-	(3,377)	(3,377)
	533,908	1,560,012	2,093,920	368,761	1,462,357	1,831,118

7 INVESTMENTS (continued)

7.4 Investment in real estate

	2013			2012		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Land	**1,158**	**75,982**	**77,140**	1,343	46,382	47,725
Buildings	**7,340**	**54,870**	**62,210**	3,204	76,900	80,104
	8,498	**130,852**	**139,350**	4,547	123,282	127,829

The following is a reconciliation between the carrying amounts of investment in real estate at the beginning and end of the year:

	2013 US$ '000	2012 US$ '000
Beginning balance of the year	**127,829**	128,111
Acquisition	**11,290**	15,595
Net gain (loss) from fair value adjustments	**6,988**	(93)
Disposal	**(1,860)**	(6,739)
Foreign exchange translation / others - net	**(4,897)**	(9,045)
	11,521	(282)
Ending balance of the year	**139,350**	127,829

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7.5 Investment in associates

Investments in associates comprise the following:

	2013					
	Ownership %	Country of incorporation	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Market Value US$ '000
Quoted						
Investment Banking						
Al Amin for Investment	29.70	Jordan	-	5,606	5,606	4,065
Insurance						
The Islamic Insurance Company	33.20	Jordan	-	7,549	7,549	7,762
Others						
Jordan International Trading Centre	28.40	Jordan	-	2,187	2,187	1,836
Arabian Steel Pipes Manufacturing Company Limited	26.00	Jordan	-	5,520	5,520	8,713
			-	20,862	20,862	22,376
Unquoted						
Real Estate						
Egyptian Saudi Finance Real Estate	40.00	Egypt	-	327	327	
REIF 1 Real Estate Income Fund	37.47	Saudi Arabia	7,152	-	7,152	
REIF 2 Real Estate Income Fund	19.90	Saudi Arabia	2,101	-	2,101	
Insurance						
Takaful for Pension and Life Insurance	50.00	Turkey	2,391	-	2,391	
Others						
BEST Lease	28.00	Tunisia	4,996	-	4,996	
			16,640	327	16,967	
			16,640	21,189	37,829	

Notes to the Consolidated Financial Statements

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7 INVESTMENTS (continued)

7.5 Investment in associates (continued)

	2012					
	Ownership %	Country of incorporation	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Market Value US$ '000
Quoted						
Investment Banking						
Al Amin for Investment	29.70	Jordan	-	5,660	5,660	4,401
Insurance						
The Islamic Insurance Company	33.20	Jordan	-	7,304	7,304	7,312
Others						
Jordan International Trading Centre	28.40	Jordan	-	2,052	2,052	1,618
Arabian Steel Pipes Manufacturing Company Limited	26.00	Jordan	-	5,512	5,512	8,086
			-	20,528	20,528	21,417
Unquoted						
Real Estate						
Egyptian Saudi Finance Real Estate	40.00	Egypt	-	368	368	
REIF 1 Real Estate Income Fund	41.33	Saudi Arabia	8,319	-	8,319	
Others						
BEST Lease	28.00	Tunisia	4,996	-	4,996	
			13,315	368	13,683	
			13,315	20,896	34,211	

8 IJARAH MUNTAHIA BITTAMLEEK

	2013			2012		
	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000	Self financed US$ '000	Jointly financed US$ '000	Total US$ '000
Land and building						
Cost	-	1,037,203	1,037,203	-	737,870	737,870
Accumulated depreciation	-	(313,285)	(313,285)	-	(178,911)	(178,911)
Net book value	-	723,918	723,918	-	558,959	558,959
Equipment						
Cost	41,672	422,041	463,713	33,719	334,562	368,281
Accumulated depreciation	(7,656)	(261,176)	(268,832)	(10,705)	(218,756)	(229,461)
Net book value	34,016	160,865	194,881	23,014	115,806	138,820
Others						
Cost	1,851	31,025	32,876	2,714	30,845	33,559
Accumulated depreciation	(1,851)	(7,776)	(9,627)	(2,714)	(9,005)	(11,719)
Net book value	-	23,249	23,249	-	21,840	21,840
TOTAL						
Cost	43,523	1,490,269	1,533,792	36,433	1,103,277	1,139,710
Accumulated depreciation	(9,507)	(582,237)	(591,744)	(13,419)	(406,672)	(420,091)
Net book value	34,016	908,032	942,048	23,014	696,605	719,619

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9 PROPERTY AND EQUIPMENT

	Land and buildings US$ '000	Office furniture and equipment US$ '000	Vehicles US$ '000	Others US$ '000	Total US$ '000
Cost:					
At 1 January 2012	254,171	150,178	10,562	57,179	472,090
Additions	46,489	30,927	890	52,809	131,115
Disposals	(1,219)	(4,756)	(1,510)	(4,777)	(12,262)
Foreign exchange translations	(11,553)	(6,164)	(1,274)	(4,183)	(23,174)
At 31 December 2012	287,888	170,185	8,668	101,028	567,769
Additions	38,996	22,286	1,865	26,739	89,886
Disposals	(1,908)	(2,929)	(821)	(5,582)	(11,240)
Foreign exchange translations	(26,368)	(9,649)	(450)	(9,306)	(45,773)
At 31 December 2013	**298,608**	**179,893**	**9,262**	**112,879**	**600,642**
Depreciation:					
At 1 January 2012	48,411	90,976	6,247	12,523	158,157
Provided during the year (note 19)	10,395	13,672	1,135	6,248	31,450
Relating to disposals	(515)	(4,436)	(1,221)	(9,541)	(15,713)
Foreign exchange translations	544	7,290	(694)	239	7,379
At 31 December 2012	58,835	107,502	5,467	9,469	181,273
Provided during the year (note 19)	10,497	15,363	1,001	7,231	34,092
Relating to disposals	(620)	(2,269)	(732)	(797)	(4,418)
Foreign exchange translations	(6,683)	(6,380)	(410)	(2,712)	(16,185)
At 31 December 2013	**62,029**	**114,216**	**5,326**	**13,191**	**194,762**
Net book values:					
At 31 December 2013	**236,579**	**65,677**	**3,936**	**99,688**	**405,880**
At 31 December 2012	229,053	62,683	3,201	91,559	386,496

10 OTHER ASSETS

	2013 **US$ '000**	2012 US$ '000
Bills receivables	**109,102**	117,521
Goodwill and intangible assets (note 10 (a))	**104,946**	107,784
Collateral pending sale	**75,471**	73,166
Good Faith Qard	**24,359**	11,058
Deferred taxation	**19,022**	31,897
Prepayments	**46,422**	56,531
Others	**45,154**	35,286
	424,476	433,243
Provisions (note 21)	**(15,506)**	(11,619)
	408,970	421,624

10 (a) Goodwill and intangible assets

	2013			2012		
	Goodwill US$ '000	**Intangible assets US$ '000**	**Total US$ '000**	Goodwill US$ '000	Intangible assets US$ '000	Total US$ '000
At 1 January	**93,785**	**13,999**	**107,784**	76,593	9,785	86,378
Additions	**-**	**10,032**	**10,032**	17,082	8,248	25,330
Amortisation charge for the year	**-**	**(5,034)**	**(5,034)**	-	(3,849)	(3,849)
Impairment loss for the year	**-**	**-**	**-**	-	(57)	(57)
Foreign exchange translations	**(6,237)**	**(1,599)**	**(7,836)**	110	(128)	(18)
At 31 December	**87,548**	**17,398**	**104,946**	93,785	13,999	107,784

Goodwill acquired through business combinations with indefinite lives have been allocated to five individual cash-generating units. The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2013 **US$ '000**	2012 US$ '000
Al Baraka Turk Participation Bank	**24,152**	28,651
Al Barak Bank Egypt	**2,107**	2,367
Jordan Islamic Bank	**26,646**	26,646
Al Baraka Bank (Pakistan) Limited	**17,561**	19,039
Itqan Capital	**17,082**	17,082
	87,548	93,785

The recoverable amount of the cash-generating units were 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 cash-generating units' past performance and its expectation of market development.

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11 LONG TERM FINANCING

	2013 US$ '000	2012 US$ '000
Murabaha financing	**296,584**	-
Subordinated financing to a subsidiary	**204,487**	-
Istisna'a financing	**39,609**	12,796
	540,680	12,796

Murabaha financing

During the year, Al Baraka Turk Participation Bank obtained US$ 293 million murabaha financing with an average annual profit rate of 1.59%, for a period of two years. The murabaha financing is obtained in US$ and Euros.

Subordinated financing to a subsidiary

During the year, Al Baraka Turk Participation Bank obtained US$ 200 million subordinated financing with an annual profit rate of 7.75%, for a period of ten years. These subordinated financing are obtained in US$ and are considered part of tier II capital in the capital adequacy calculation of Al Baraka Turk Participation Bank as per the banking regulations in the Republic of Turkey.

12 OTHER LIABILITIES

	2013 US$ '000	2012 US$ '000
Payables	**254,266**	380,035
Cash margins	**202,313**	108,336
Managers' cheques	**9,256**	7,172
Other provisions (note 21) *	**30,306**	18,210
Current taxation **	**61,723**	47,949
Deferred taxation **	**686**	12,003
Accrued expenses	**78,301**	59,817
Charity fund	**7,432**	3,803
Others	**54,716**	39,687
	698,999	677,012

* Other provisions mainly comprise of general provisions and specific provisions on commitment and contingent items.

** In view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a reconciliation between the accounting and taxable profits together with the details of effective tax rates.

13 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

	2013 US$ '000	2012 US$ '000
Equity of investment accountholders	12,268,218	11,488,978
Profit equalisation reserve (note 13.1)	12,126	9,444
Investment risk reserve (note 13.2)	110,424	98,429
Cumulative changes in fair value attributable to equity of investment accountholders - net (13.3)	8,676	7,777
	12,399,444	11,604,628

13.1 Movement in profit equalisation reserve

	2013 US$ '000	2012 US$ '000
Balance at 1 January	9,444	8,034
Amount apportioned from income allocable to equity of investment accountholders	2,643	1,842
Foreign exchange translations	39	(432)
Balance at 31 December	12,126	9,444

13.2 Movement in investment risk reserve

	2013 US$ '000	2012 US$ '000
Balance at 1 January	98,429	93,653
Amount appropriated to provision (note 21)	(21,807)	(3,946)
Amount apportioned from income allocable to equity of investment accountholders	48,634	4,895
Foreign exchange translations	(14,832)	3,827
Balance at 31 December	110,424	98,429

13.3 Movement in accumulated changes in fair value attributable to equity of investment accountholders - net

	2013 US$ '000	2012 US$ '000
Balance at 1 January	7,777	5,313
Change in fair values during the year	2,771	6,369
Realised gain transferred to consolidated statement of income	(751)	(2,039)
Deferred taxation effect	(606)	(1,299)
Transfer to shareholders equity	(515)	(567)
	8,676	7,777
Attributable to investment in real estate	10,009	7,220
Attributable to equity-type instruments at fair value through equity	(1,333)	557
	8,676	7,777

14 OWNERS' EQUITY

	2013 US$ '000	2012 US$ '000
Share capital		
Authorised 1,500,000,000 shares of US$ 1 each	**1,500,000**	1,500,000

	2013 US$ '000	2012 US$ '000
Issued and fully paid up		
At beginning of the year		
1,014,475,000 (2012: 869,550,000) shares of US$1 each	**1,014,475**	869,550
Issued during the year		
33,815,833 Bonus shares (2012: 144,925,000) of US$1 each	**33,816**	144,925
At end of the year		
1,048,290,833 (2012: 1,014,475,000) shares of US$1 each	**1,048,291**	1,014,475

Proposed appropriations

At the Annual General Meeting held on 19 March 2013 (2012: 21 March 2012), the shareholders of the Group resolved to distribute US$ 35,507 thousand as cash dividends and US$ 33,816 thousand as bonus shares (2011: US$ 30,434 thousand as cash dividends and US$ 144,925 thousand as bonus shares).

Treasury shares

	No. thousand	2013 US$ '000	2012 US$ '000
At 1 January	**8,475**	**8,475**	7,319
Purchase of treasury shares	**39**	**39**	1,634
Sale of treasury shares	**(391)**	**(391)**	(478)
At 31 December	**8,123**	**8,123**	8,475

The market value of the treasury shares is US$ 6,268 thousand (2012: US$ 6,013 thousand) and it represents 0.8% (2012: 0.8%) of the outstanding shares.

Additional information on shareholding pattern

i) Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares:

At 31 December 2013

	Nationality/ Incorporation	No. of shares	% holding
Saleh Abdulla Kamel	Saudi	315,645,330	30.11%
Dallah AlBaraka Holding Company E.C.	Bahrain	258,255,951	24.64%
Altawfeek Company For Investment Funds	Cayman Island	202,570,854	19.32%
Abdulla AbdulAziz AlRajihi	Saudi	72,656,256	6.93%

At 31 December 2012

	Nationality/ Incorporation	No. of shares	% holding
Saleh Abdulla Kamel	Saudi	305,463,223	30.11%
Dallah AlBaraka Holding Company E.C.	Bahrain	249,925,114	24.64%
Altawfeek Company For Investment Funds	Cayman Island	196,036,311	19.32%
Abdulla AbdulAziz AlRajihi	Saudi	69,520,688	6.85%

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

iii) Distribution schedule of shares, setting out the number and percentage of holders in the following categories:

At 31 December 2013

Categories:	**No. of shares**	**No. of shareholders**	**% of total outstanding shares**
Less than 1%	**69,096,191**	**1,123**	**6.59%**
1% up to less than 5%	**130,066,251**	**7**	**12.41%**
5% up to less than 10%	**72,656,256**	**1**	**6.93%**
10% up to less than 20%	**202,570,854**	**1**	**19.32%**
20% up to less than 50%	**573,901,281**	**2**	**54.75%**
	1,048,290,833	**1,134**	**100.00%**

At 31 December 2012

Categories:	No. of shares	No. of shareholders	% of total outstanding shares
Less than 1%	67,659,095	1,124	6.67%
1% up to less than 5%	125,870,569	7	12.41%
5% up to less than 10%	69,520,688	1	6.85%
10% up to less than 20%	196,036,311	1	19.32%
20% up to less than 50%	555,388,337	2	54.75%
	1,014,475,000	1,135	100.00%

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14 OWNERS' EQUITY (continued)

a. Share premium/Equity transaction cost
Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue costs, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law.

Equity transaction cost, represent costs incurred by the Bank that are directly related to raising capital and have been incurred in cash.

b. Statutory reserve
In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the parent's share 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.

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

d. Foreign currency translations
The foreign currency translations are used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

The following table shows summarises the subsidiary wise foreign currency translation balance as at 31 December:

Subsidiary	Currency	2013 US$ '000	2012 US$ '000
Banque Al Baraka D'Algerie (BAA)	Algerian Dinar	**8,995**	10,257
Al Baraka Bank (Pakistan) Limited	Pakistani Rupees	**10,314**	6,528
Al Baraka Bank Egypt (ABE)	Egyptian Pound	**25,124**	11,125
Al Baraka Turk Participation Bank (ATPB)	Turkish Lira	**139,806**	67,461
Al Baraka Bank Limited (ABL)	South African Rand	**9,107**	4,024
Al Baraka Bank Sudan (ABS)	Sudanese Pound	**28,238**	28,097
Al Baraka Bank Syria (ABBS)	Syrian Pound	**11,344**	6,099
		232,928	133,591

e. Other reserves
Other reserves mainly consist of general banking risk reserves maintained by the subsidiaries in accordance with local regulations.

f. Proposed Appropriations

	2013 US$ '000	2012 US$ '000
Cash dividend 3.5% (2012: 3.5%)	**36,690**	35,507
Bonus shares	**45,578**	33,816
	82,268	69,323

The above proposed appropriations exclude appropriations to the statutory reserve as mentioned above and will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

The Bank proposed issuance of bonus shares from the retained earnings at one bonus share for each 23 shares held. This will be submitted for formal approval at the Annual General Meeting subject to regulatory approval.

The proposed appropriations for the year 2012 was approved at the Annual General Meeting on 19 March 2013 and was effected in 2013 following that approval.

g. Net movement in non-controlling interest
This mainly includes the effect of changes in capital of subsidiaries, buying (selling) by the non-controlling interest from (to) the Group.

15 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS

	2013 US$ '000	2012 US$ '000
Receivables (note 15.1)	**937,762**	921,642
Mudaraba and Musharaka financing (note 15.2)	**81,803**	58,846
Investments (note 15.3)	**194,224**	200,881
Ijarah Muntahia Bittamleek (note 15.4)	**70,835**	54,066
Others	**14,438**	4,519
	1,299,062	1,239,954
Net income from jointly financed contracts and investments	**1,031,031**	1,018,482
Income from self financed contracts and investments	**268,031**	221,472
Profit paid on wakala financing	**(31,964)**	(16,859)
Net income from self financed contracts and investments	**236,067**	204,613

15.1 Receivables

	2013 US$ '000	2012 US$ '000
Sales (Murabaha) receivables	**925,471**	911,598
Salam receivables	**9,011**	6,370
Istisna'a receivables	**3,280**	3,674
	937,762	921,642

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15 NET INCOME FROM JOINTLY AND SELF FINANCED CONTRACTS AND INVESTMENTS (continued)

15.2 Mudaraba and Musharaka financing

	2013 US$ '000	2012 US$ '000
Mudaraba financing	**21,325**	21,443
Musharaka financing	**60,478**	37,403
	81,803	58,846

15.3 Investments

	2013 US$ '000	2012 US$ '000
Equity-type instruments at fair value through equity	**9,236**	9,323
Debt-type instruments at amortised cost	**177,094**	185,066
Unrealised gain on equity-type instruments at fair value through statement of income	**283**	330
Gain on sale of equity-type instruments at fair value through equity	**891**	185
Gain on sale of equity-type instruments at fair value through statement of income	**2,500**	125
Rental income	**1,259**	1,826
Income from associates	**1,958**	1,600
Gain on sale of investment in real estate	**957**	2,426
Gain on sale of associate	**46**	-
	194,224	200,881

15.4 Ijarah Muntahia Bittamleek

	2013 US$ '000	2012 US$ '000
Income from Ijarah Muntahia Bittamleek	**473,729**	154,172
Depreciation on Ijarah Muntahia Bittamleek	**(402,894)**	(100,106)
	70,835	54,066

16 GROUP'S SHARE AS A MUDARIB

Group's share as a Mudarib is determined at the level of each subsidiary and is based on the terms and conditions of the related agreements.

17 OTHER FEES AND COMMISSION INCOME

	2013 US$ '000	2012 US$ '000
Banking fees and commissions	**72,418**	81,772
Letters of credit	**53,501**	52,311
Guarantees	**44,877**	44,895
Acceptances	**8,302**	5,768
	179,098	184,746

18 OTHER OPERATING INCOME

	2013 US$ '000	2012 US$ '000
Foreign exchange gain	**61,764**	61,896
Gain on sale of property and equipment	**9,153**	17,332
Others	**1,912**	1,242
	72,829	80,470

19 DEPRECIATION AND AMORTISATION

	2013 US$ '000	2012 US$ '000
Property and equipment depreciation (note 9)	**34,092**	31,450
Intangible assets amortisation (note 10 (a))	**5,034**	3,849
	39,126	35,299

20 OTHER OPERATING EXPENSES

	2013 US$ '000	2012 US$ '000
General and administration	**87,926**	89,665
Professional and business expenses	**22,981**	26,873
Premises related expenses	**45,489**	43,902
	156,396	160,440

21 PROVISIONS AND IMPAIRMENTS

2013	Sales (Murabaha) receivables US$ '000 (note 5.1)	Ijarah receivables US$ '000 (note 5.2)
Provisions at 1 January	**394,504**	**8,056**
Charged during the year	**106,257**	**3,147**
Written back during the year	**(62,540)**	**(1,484)**
	43,717	**1,663**
	438,221	**9,719**
Written off during the year	**(41,417)**	**(1,181)**
Amount appropriated from (to) investment risk reserve (note 13.2)	**21,738**	**-**
Foreign exchange translations/others - net	**(25,486)**	**(2,760)**
Provisions at 31 December	**393,056**	**5,778**

During the year an impairment loss of US$ 3,349 thousand (2012: Nil) was charged against investments.

2012		
Provisions at 1 January	333,666	2,506
Charged during the year	99,728	2,428
Written back during the year	(22,223)	(1,679)
	77,505	749
	411,171	3,255
Written off during the year	(13,966)	(147)
Amount appropriated from (to) investment risk reserve (note 13.2)	3,993	-
Foreign exchange translations/others - net	(6,694)	4,948
Provisions at 31 December	394,504	8,056

Salam receivables US$ '000 (note 5.3)	Istisna'a receivables US$ '000 (note 5.4)	Mudaraba financing US$ '000 (note 6.1)	Musharaka financing US$ '000 (note 6.2)	Investments US$ '000 (note 7.2 & 7.3)	Other assets US$ '000 (note 10)	Other liabilities US$ '000 (note 12)	Total US$ '000
2,684	**486**	**16,353**	**8,529**	**20,186**	**11,619**	**18,210**	**480,627**
2,258	**1,091**	**1,730**	**1,347**	**969**	**5,582**	**8,974**	**131,355**
(710)	**(337)**	**-**	**(1,718)**	**(1,001)**	**(1,117)**	**(1)**	**(68,908)**
1,548	**754**	**1,730**	**(371)**	**(32)**	**4,465**	**8,973**	**62,447**
4,232	**1,240**	**18,083**	**8,158**	**20,154**	**16,084**	**27,183**	**543,074**
-	**-**	**(5,233)**	**-**	**(7,521)**	**(998)**	**(28)**	**(56,378)**
17	**57**	**-**	**(5)**	**-**	**-**	**-**	**21,807**
(6)	**13**	**(1,740)**	**(761)**	**(4,591)**	**420**	**3,151**	**(31,760)**
4,243	**1,310**	**11,110**	**7,392**	**8,042**	**15,506**	**30,306**	**476,743**
4,272	544	11,924	4,996	14,699	11,908	15,303	399,818
1,231	355	5,888	4,387	4,026	3,763	5,583	127,389
(2,592)	(185)	-	(386)	(376)	(314)	(311)	(28,066)
(1,361)	170	5,888	4,001	3,650	3,449	5,272	99,323
2,911	714	17,812	8,997	18,349	15,357	20,575	499,141
(11)	-	-	-	-	(441)	(480)	(15,045)
-	-	-	(47)	-	-	-	3,946
(216)	(228)	(1,459)	(421)	1,837	(3,297)	(1,885)	(7,415)
2,684	486	16,353	8,529	20,186	11,619	18,210	480,627

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21 PROVISIONS AND IMPAIRMENTS (continued)

These provisions relate to the following geographical areas:

	Sales (Murabaha) receivables US$ '000	Ijarah receivables US$ '000
2013		
Middle East	**217,624**	**-**
North Africa	**32,188**	**4,361**
Europe	**119,666**	**-**
Others	**23,578**	**1,417**
Total	**393,056**	**5,778**
2012		
Middle East	221,173	1,181
North Africa	35,970	5,962
Europe	110,726	-
Others	26,635	913
Total	394,504	8,056

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2013 amounts to US$ 304.9 million (31 December 2012: US$ 414.2 million). The collateral consists of cash margin, securities and properties. The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure.

	Salam receivables US$ '000	Istisna'a receivables US$ '000	Mudaraba financing US$ '000	Musharaka financing US$ '000	Investments US$ '000	Other assets US$ '000	Other liabilities US$ '000	Total US$ '000
	-	**-**	**11,110**	**241**	**5,324**	**6,120**	**27,469**	**267,888**
	2,197	**1,118**	**-**	**51**	**960**	**2,777**	**2,837**	**46,489**
	-	**-**	**-**	**-**	**-**	**1,343**	**-**	**121,009**
	2,046	**192**	**-**	**7,100**	**1,758**	**5,266**	**-**	**41,357**
	4,243	**1,310**	**11,110**	**7,392**	**8,042**	**15,506**	**30,306**	**476,743**
	-	-	16,353	276	15,962	6,120	17,170	278,235
	2,343	348	-	51	3,150	116	1,040	48,980
	-	-	-	-	-	907	-	111,633
	341	138	-	8,202	1,074	4,476	-	41,779
	2,684	486	16,353	8,529	20,186	11,619	18,210	480,627

22 BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the year as follows:

	2013	2012
Net income attributable to the equity shareholders of the parent for the year - *US$ '000*	**144,506**	133,028
Weighted average number of shares outstanding at the beginning of the year (in thousands)	**1,040,005**	1,040,972
Treasury shares effect (in thousands)	**(114)**	(34,783)
Bonus shares effect during the year (in thousands)*	**-**	33,816
Weighted average number of shares outstanding at the end of the year (in thousands)	**1,039,891**	1,040,005
Earnings per share - US cents	**13.90**	12.79

*The weighted average number of shares of the previous year has been adjusted on account of the bonus share issue made in 2013.

23 CASH AND CASH EQUIVALENTS

	2013 US$ '000	2012 US$ '000
Balances with central banks excluding mandatory reserve	**1,188,887**	899,430
Balances with other banks	**791,780**	681,064
Cash and cash in transit	**324,086**	369,800
	2,304,753	1,950,294

24 RELATED PARTY TRANSACTIONS

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

The income and expenses in respect of related parties were as follows:

	Associated companies US$ '000	Major shareholders US$ '000	Directors and key management personnel US$ '000	Other related parties US$ '000	2013 US$ '000	2012 US$ '000
Net income from jointly financed contracts and investments	2,235	401	28	-	2,664	2,976
Net income (loss) from self financed financing and investments	520	246	-	-	766	(1,163)
Return on equity of investment accountholders	(186)	(131)	(601)	(2)	(920)	(654)
Mudarib share for managing off-balance sheet	-	-	-	-	-	19
Other fees and commission income	416	-	1	-	417	29

Compensation of key management personnel of the Bank, included in consolidated statement of income, is as follows:

	2013 US$ '000	2012 US$ '000
Short term benefits	4,635	4,151
Long term benefits	893	748

Director's remuneration accrued for the year ended 31 December 2013 amounted to USD 1 million (2012: USD 1 million).

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24 RELATED PARTY TRANSACTIONS (Continued)

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

	Associated companies US$ '000	Major shareholders US$ '000	Directors and key management personnel US$ '000	Other related parties US$ '000	2013 US$ '000	2012 US$ '000
Assets:						
Receivables	8,290	-	628	-	8,918	60,451
Mudaraba and Musharaka financing	-	1,729	928	-	2,657	8,517
Investments	37,805	-	-	257	38,062	53,278
Ijarah Muntahia Bittamleek	-	-	1,097	-	1,097	502
Other assets	-	57	639	66	762	1,327
Liabilities:						
Customer current and other accounts	3,826	4,943	2,985	257	12,011	9,488
Due to banks	211	15,219	-	-	15,430	20,086
Other Liabilities	2,076	20	-	2	2,098	2,811
Equity of investment accountholders	11,626	5,784	10,017	2,280	29,707	20,526
Off-balance sheet equity of investment accountholders	4,386	8,567	369	-	13,322	20,934

All related party exposures are performing and are free of any provision for possible credit losses.

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Details of Directors' and Executive Management direct and indirect interests in the Bank's shares as at the end of the year were:

Name of directors	Position	Nationality	2012 No. of shares	Transaction No. of shares	**2013* No. of shares**
Saleh Abdullah Kamel	Chairman	Saudi	555,388,337	-	**573,901,281**
Abdulla Ammar Saudi	Vice Chairman	Bahraini	543,898	-	**562,027**
Abdullah Saleh Kamel	Vice Chairman	Saudi	276,376	-	**285,588**
Fahad Abdulla AlRajhi	Board Member	Saudi	20,521,240	-	**21,205,281**
Mohyedin Saleh Kamel	Board Member	Saudi	240,202	344,051	**597,136**
Abdul Elah Sabbahi	Board Member	Saudi	184,388	-	**190,534**
Adnan Ahmed Yousif	Board Member (President & Chief Executive)	Bahraini	299	-	**308**
Abdulrahman Shehab	Executive Vice President, Head of Operations	Bahraini	111,207	-	**114,913**

* Includes the effect of the Bank's issuance of bonus shares at one bonus share for each 30 shares held following shareholders' approval at the Annual General Meeting on 19 March 2013.

25 COMMITMENTS AND CONTINGENCIES

	2013 US$ '000	2012 US$ '000
Letters of credit	**1,111,881**	1,110,826
Guarantees	**2,881,336**	2,943,529
Acceptances	**180,282**	94,014
Undrawn Commitments	**773,961**	601,625
Others	**207**	3,600
	4,947,667	4,753,594

26 SEGMENTAL ANALYSIS

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 the Bank's management and the Board of Directors.

For financial reporting purposes, the Group is divided into the following geographic segments:

Middle East
North Africa
Europe
Others

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.

No business segment are presented as that is not applicable to the Group.

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26 SEGMENTAL ANALYSIS (Continued)

Segment assets, liabilities and equity of investment accountholders were as follows:

	2013			2012		
Segment	**Assets US$ '000**	**Liabilities US$ '000**	**IAH US$ '000**	Assets US$ '000	Liabilities US$ '000	IAH US$ '000
Middle East	**8,746,346**	**2,463,265**	**5,458,582**	8,360,928	2,228,323	5,316,442
North Africa	**2,588,865**	**1,099,882**	**1,136,874**	2,385,801	979,449	1,060,280
Europe	**8,076,290**	**2,593,951**	**4,790,278**	6,874,838	1,936,161	4,250,096
Others	**1,556,058**	**427,630**	**1,013,710**	1,433,564	338,890	977,810
	20,967,559	**6,584,728**	**12,399,444**	19,055,131	5,482,823	11,604,628

Segment operating income, net operating income and net income were as follows:

	2013			2012		
Segment	**Total operating income US$ '000**	**Net operating income US$ '000**	**Net income US$ '000**	Total operating income US$ '000	Net operating income US$ '000	Net income US$ '000
Middle East	**323,815**	**143,606**	**70,317**	307,846	141,706	61,448
North Africa	**128,060**	**68,068**	**47,999**	131,470	80,717	55,139
Europe	**391,526**	**190,965**	**127,672**	375,135	183,219	118,186
Others	**66,083**	**17,425**	**11,791**	65,319	16,062	469
	909,484	**420,064**	**257,779**	879,770	421,704	235,242

27 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The management risk committee and executive committees guide and assist with overall management of the Group's balance sheet risks. The Group manages exposures by setting limits approved by the Board of Directors. These risks and the processes to mitigate these risks have not significantly altered from the previous year.

The most important types of risk are liquidity risk, credit risk, market risk and other operational risk. Market risk includes currency risk, equity price risk and profit rate risk.

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 regular basis. Each of the Group's subsidiaries has a documented and implemented domestic and foreign currency liquidity policy appropriate to the nature and complexity of its business. The policy addresses the subsidiaries' goal of protecting financial strength even for stressful events.

The table next page summarises the maturity profile of the Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its investment account holders and the availability of bank lines.

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27 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The consolidated maturity profile at 31 December 2013 was as follows:

	Up to 1 Month US$ '000	1 to 3 months US$ '000	3 to 6 months US$ '000
ASSETS			
Cash and balances with banks	2,304,753	-	-
Receivables	1,688,879	1,282,832	1,693,454
Mudaraba and Musharaka financing	623,652	12,374	12,583
Investments	831,181	227,845	154,236
Ijarah Muntahia Bittamleek	10,328	14,113	141,435
Property and equipment	-	-	-
Other assets	59,142	11,300	10,086
Total assets	**5,517,935**	**1,548,464**	**2,011,794**
LIABILITIES			
Customer current and other accounts	4,249,181	-	-
Due to banks	374,175	264,104	187,149
Long term financing	-	-	-
Other liabilities	290,303	45,016	52,845
Total Liabilities	**4,913,659**	**309,120**	**239,994**
Equity of investment accountholders	**5,174,927**	**1,384,986**	**1,093,554**
Total liabilities and equity of investment accountholders	**10,088,586**	**1,694,106**	**1,333,548**
Net liquidity gap	**(4,570,651)**	**(145,642)**	**678,246**
Cumulative net liquidity gap	**(4,570,651)**	**(4,716,293)**	**(4,038,047)**
Off-balance sheet equity of investment accountholders	95,648	105,162	171,309

6 months to 1 year US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	5 to 10 years US$ '000	10 to 20 years US$ '000	20 years and above US$ '000	Undated US$ '000	Total US$ '000
-	-	-	-	-	-	2,492,734	**4,797,487**
1,875,021	2,847,564	979,430	394,925	6,030	175	49,909	**10,818,219**
23,982	276,409	102,038	120,917	16,568	-	3,602	**1,192,125**
491,390	393,465	131,074	29,926	1,411	-	142,302	**2,402,830**
27,737	117,397	175,959	190,831	250,519	2,390	11,339	**942,048**
-	-	-	-	-	-	405,880	**405,880**
16,620	62,765	55,169	6,285	1,965	-	185,638	**408,970**
2,434,750	**3,697,600**	**1,443,670**	**742,884**	**276,493**	**2,565**	**3,291,404**	**20,967,559**
-	-	-	-	-	-	-	**4,249,181**
203,607	22,000	-	-	-	-	44,833	**1,095,868**
-	273,072	63,163	204,445	-	-	-	**540,680**
35,884	44,600	9,719	167	-	-	220,465	**698,999**
239,491	**339,672**	**72,882**	**204,612**	**-**	**-**	**265,298**	**6,584,728**
1,337,513	**2,508,538**	**830,033**	**3,493**	**-**	**-**	**66,400**	**12,399,444**
1,577,004	**2,848,210**	**902,915**	**208,105**	**-**	**-**	**331,698**	**18,984,172**
857,746	**849,390**	**540,755**	**534,779**	**276,493**	**2,565**	**2,959,706**	**1,983,387**
(3,180,301)	**(2,330,911)**	**(1,790,156)**	**(1,255,377)**	**(978,884)**	**(976,319)**	**1,983,387**	
315,228	13,632	7,316	5,953	-	-	-	**714,248**

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27 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The consolidated maturity profile at 31 December 2012 was as follows:

	Up to 1 Month US$ '000	1 to 3 months US$ '000	3 to 6 months US$ '000
ASSETS			
Cash and balances with banks	1,950,294	-	-
Receivables	1,473,098	1,234,714	1,483,936
Mudaraba and Musharaka financing	441,016	10,658	11,128
Investments	813,016	179,056	187,036
Ijarah Muntahia Bittamleek	11,355	10,404	93,558
Property and equipment	-	-	-
Other assets	81,949	5,833	13,852
Total assets	4,770,728	1,440,665	1,789,510
LIABILITIES			
Customer current and other accounts	3,820,735	-	-
Due to banks	592,170	104,315	44,927
Long term financing	-	-	-
Other liabilities	261,513	35,024	52,304
Total Liabilities	4,674,418	139,339	97,231
Equity of investment accountholders	2,528,078	1,260,004	1,457,831
Total liabilities and equity of investment accountholders	7,202,496	1,399,343	1,555,062
Net liquidity gap	(2,431,768)	41,322	234,448
Cumulative net liquidity gap	(2,431,768)	(2,390,446)	(2,155,998)
Off-balance sheet equity of investment accountholders	153,504	154,632	32,855

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6 months to 1 year US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	5 to 10 years US$ '000	10 to 20 years US$ '000	20 years and above US$ '000	Undated US$ '000	Restated Total US$ '000
-	-	-	-	-	-	1,977,289	3,927,583
1,886,856	2,650,402	1,184,327	482,347	6,145	316	60,360	10,462,501
27,215	99,840	216,256	118,108	10,908	7,183	11,242	953,554
261,056	418,758	62,781	76,608	8,408	-	177,035	2,183,754
32,243	76,088	145,324	154,426	191,655	2,486	2,080	719,619
-	-	-	-	-	-	386,496	386,496
9,650	97,812	18,852	2,007	-	-	191,669	421,624
2,217,020	3,342,900	1,627,540	833,496	217,116	9,985	2,806,171	19,055,131
-	-	-	-	-	-	-	3,820,735
227,636	3,232	-	-	-	-	-	972,280
-	-	-	12,796	-	-	-	12,796
18,384	30,626	20,602	30,487	-	-	228,072	677,012
246,020	33,858	20,602	43,283	-	-	228,072	5,482,823
2,740,540	2,745,716	801,290	69,560	1,609	-	-	11,604,628
2,986,560	2,779,574	821,892	112,843	1,609	-	228,072	17,087,451
(769,540)	563,326	805,648	720,653	215,507	9,985	2,578,099	1,967,680
(2,925,538)	(2,362,212)	(1,556,564)	(835,911)	(620,404)	(610,419)	1,967,680	
58,832	5,396	113,404	5,305	-	-	74,867	598,795

27 RISK MANAGEMENT (continued)

b) 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 individuals who own the counterparty, by collateral in form of mortgage of the objects financed or other types of tangible security.

Type of credit risk
Financing contracts mainly comprise Sales (Murabaha) receivables, Salam receivables, Istisna'a receivables, Mudaraba financing, Musharaka financing and Ijarah Muntahia Bittamleek.

Sales (Murabaha) 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 instalments 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 all the facilities given to the client.

Salam receivables
Salam is a contract whereby the Group makes an immediate payment to a seller for the future delivery of a commodity. To protect itself from risk associated with the commodity the Group simultaneously enters into Parallel Salam contract whereby it sells the commodity for deferred delivery for immediate payment.

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 managed primarily by other banks and financial institutions for a definite period of time.

Musharaka financing
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.

Ijarah Muntahia Bittamleek
This 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.

Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2013 US$ '000	2012 US$ '000
Receivables	**10,818,219**	10,462,501
Mudaraba and Musharaka financing	**1,192,125**	953,554
Investments	**2,402,830**	2,183,754
Ijarah Muntahia Bittamleek	**942,048**	719,619
Other assets	**163,109**	152,246
Total	**15,518,331**	14,471,674
Commitments and contingencies	**4,947,667**	4,753,594
	20,465,998	19,225,268

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 as of:

	31 December 2013			
Type of Islamic Financing Contracts	**Neither past due nor non performing US$ '000**	**Past due but performing US$ '000**	**Non performing islamic financing contracts US$ '000**	**Total US$ '000**
Receivables	**10,661,039**	**83,664**	**477,903**	**11,222,606**
Mudaraba and Musharaka financing	**1,095,832**	**88,959**	**25,836**	**1,210,627**
Other asset	**161,301**	**28**	**17,286**	**178,615**
	11,918,172	**172,651**	**521,025**	**12,611,848**

	31 December 2012			
Type of Islamic Financing Contracts	Neither past due nor non performing US$ '000	Past due but performing US$ '000	Non performing islamic financing contracts US$ '000	Total US$ '000
Receivables	10,280,770	67,880	519,581	10,868,231
Mudaraba and Musharaka financing	877,823	61,673	38,940	978,436
Other assets	144,593	6	19,266	163,865
	11,303,186	129,559	577,787	12,010,532

27 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Aging analysis of past due but performing Islamic financing contracts
The following table summarises the aging of past due but performing islamic financing contracts as of:

	31 December 2013			
Type of Islamic Financing Contracts	Less than 30 days US$ '000	31 to 60 days US$ '000	61 to 90 days US$ '000	Total US$ '000
Receivables	43,779	19,422	20,463	83,664
Mudaraba and Musharaka financing	74,107	12,201	2,651	88,959
Other assets	-	22	6	28
	117,886	31,645	23,120	172,651

	31 December 2012			
Type of Islamic Financing Contracts	Less than 30 days US$ '000	31 to 60 days US$ '000	61 to 90 days US$ '000	Total US$ '000
Receivables	39,268	13,052	15,560	67,880
Mudaraba and Musharaka financing	53,486	6,141	2,046	61,673
Other assets	3	1	2	6
	92,757	19,194	17,608	129,559

Credit Risk Mitigation
All the Group's subsidiaries, with exposures secured by real estate or other collateral carry out regular and periodic collateral verification and evaluation. This collateral verification and valuation is conducted by an independent qualified assessor or Collateral Analyst at the subsidiary. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group's subsidiaries allow cars, ships, aircraft, satellites, railcars, and fleets as collateral for a credit and investment product but do not accept perishable assets or any other assets with depreciable life of less than five years. Subsidiaries do not accept any assets as collateral if the assets are susceptible for obsolescence in case they are moved (e.g. furniture). Subsidiaries also ensure that these assets are insured in order to be accepted as collateral.

Third party cheques are accepted as collateral by the Group's subsidiaries. The Group's subsidiaries accept commercial papers as qualifying collateral if they are issued by banks or corporations of good credit standing. Since the maturity tenor of the commercial papers are generally short in nature, they are not accepted as collateral for long–term facilities (i.e. the financing tenor should not exceed the commercial papers maturity tenor). The subsidiaries do not accept vehicle or equipments, if new, as qualifying collateral for more than 80% of its market value. No vehicles or equipments, if used, are accepted as qualifying collateral for more than 50% of its insured value.

Collaterals listed hereunder may attract capital relief from capital adequacy requirements as per the Central Bank of Bahrain's stipulations:

1) Hamish Jiddiyyah (Good faith deposit): Subsidiaries take 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 subsidiary has recourse to the deposit.

2) Third party guarantee: The subsidiary 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 of investment grade rating.

3) Urbon: This is the amount that should be taken from a purchaser or lessee when a contract is established and it is the first line of defense for the subsidiary if the purchaser or lessee breaches the contract.

4) Underlying assets of the lease contract: The underlying asset must be of monetary value and the subsidiary 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 of any kind of encumbrance.

   Any excess amount resulting from the closure of the pledge by the subsidiary should be returned to the customer (pledger). The subsidiary should conduct at least annual evaluation of the pledged assets and keep adequate documentation of this evaluation.

5) 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.

6) Rated and unrated senior sukuk issued by first class financial institutions or by GCC sovereigns.

Credit Quality

Credit Risk Management at the Group will be based upon the creation and maintenance of a Credit Rating System (CRS) for the non-retail business. All the Group's units are to incorporate into their respective credit policies the CRS as the framework for credit management taking into consideration the methodology requirements of their local central banks, in this respect. The methodology for obligor (issuer) rating will reflect the specifics of the Group's main business and the geographical diversity of its operations. Ratings of countries, governments and financial institutions are carried out in centralised fashion at the Bank in Bahrain whereas rating of corporates is done at the subsidiaries level, unless the exposure to the corporate involves cross-border risk, in which case, that rating will also be at the Bank as part of the credit limit approval.

The CRS at the Bank has also been designed to be comparable to the rating system of major international rating agencies (Moody's, Standard & Poor's, Fitch) in respect of their foreign currency rating of countries, governments and financial institutions.

Accordingly, 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.

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, governments and retail. 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 and other mitigants in the event of default. Facility ratings by contrast, combine both the probability of default and loss severity in case of defaults. However, initially the Group wide policy will be to set up obligor ratings only (which does not prevent individual subsidiaries internally to also rate facilities if they so wish).

c) Concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

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31 December 2013

27 RISK MANAGEMENT (continued)

c) Concentration risk (continued)

In order to avoid excessive concentrations of risk, the Group policies and procedures include specific guidelines to focus on country and counter party limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The distribution of assets, liabilities and equity of investment accountholders items by economic sectors was as follows:

	2013			2012		
	Assets US$ '000	Liabilities US$ '000	IAH US$ '000	Assets US$ '000	Liabilities US$ '000	IAH US$ '000
Manufacturing	3,227,128	236,521	218,488	3,107,675	129,759	157,132
Mining and quarrying	130,116	1,657	17,237	110,693	1,941	26,052
Agriculture	60,270	1,716	13,733	56,303	1,650	13,390
Construction and real estate	2,465,574	37,046	18,948	2,444,318	43,443	23,905
Financial	2,584,615	2,012,009	1,735,894	2,229,134	328,450	1,420,901
Trade	1,771,409	178,337	234,779	1,749,522	162,217	194,686
Personal and consumer finance	2,480,616	3,154,443	8,911,711	2,426,407	2,773,755	8,531,145
Government	5,236,727	28,058	60,738	4,565,030	29,244	64,375
Other Services	3,011,104	934,941	1,187,916	2,366,049	2,012,364	1,173,042
	20,967,559	6,584,728	12,399,444	19,055,131	5,482,823	11,604,628

d) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates. Under Market Risk Policies currently implemented the management of the Group have set certain limits on the level of risk that may be accepted. This is monitored by the local management at the subsidiary level.

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

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits in line with the market rates.

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.

The Group has total equity portfolio of US$ 100,047 thousand (2012: US$ 178,686 thousand) comprising of equity-type instruments at fair value through equity amounting to US$ 97,087 thousand (2012: US$ 176,104 thousand) and equity-type instruments at fair value through statement of income amounting to US$ 2,960 thousand (2012: US$ 2,582 thousand). Variation of 10% increase or decrease in the portfolio value will not have a significant impact on the Group's consolidated net income or owners' equity.

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.

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

	2013		
Currency	Operational equivalent Long (short) US$ '000	Strategic equivalent Long (short) US$ '000	Total equivalent Long (short) US$ '000
Turkish Lira	(152,571)	392,016	239,445
Jordanian Dinar	(12,571)	246,406	233,835
Egyptian Pound	183,030	124,230	307,260
Sudanese Pound	1,963	23,837	25,800
Algerian Dinar	-	143,069	143,069
Lebanese Pound	(584)	18,597	18,013
Pound Sterling	41	-	41
Tunisian Dinar	46,307	-	46,307
Euro	(4,999)	-	(4,999)
South African Rand	5,271	22,607	27,878
Pakistani Rupees	(18,047)	62,234	44,187
Syrian Pound	(15,481)	6,956	(8,525)
Others	11,054	-	11,054

	2012		
Currency	Operational equivalent Long (short) US$ '000	Strategic equivalent Long (short) US$ '000	Total equivalent Long (short) US$ '000
Turkish Lira	(137,396)	390,044	252,648
Jordanian Dinar	34,044	220,726	254,770
Egyptian Pound	(33,434)	123,726	90,292
Sudanese Pound	882	18,814	19,696
Algerian Dinar	-	139,803	139,803
Lebanese Pound	165	17,825	17,990
Pound Sterling	(2,232)	-	(2,232)
Tunisian Dinar	117	-	117
Euro	29,310	-	29,310
South African Rand	-	26,445	26,445
Pakistani Rupees	2,517	41,181	43,698
Syrian Pound	(22,665)	8,488	(14,177)
Others	7,877	-	7,877

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

Foreign currency risk sensitivity analysis

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

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31 December 2013

27 RISK MANAGEMENT (continued)

d) 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.

At 31 December 2013

Currency	Particular	Exposures in US$ '000	Maximum expected decrease %	Change in net income and owners' equity US$ '000	Maximum expected increase %	Change in net income and owners' equity US$ '000
Algerian Dinar	Net Income	44,077	(10%)	(4,007)	10%	4,897
	Total owners' equity	112,873	(10%)	(23,267)	10%	28,438
Egyptian Pound	Net Income	20,926	(15%)	3,523	20%	(3,918)
	Total owners' equity	44,375	(15%)	(21,992)	20%	42,151
Turkish Lira	Net Income	127,672	(20%)	(21,279)	20%	31,918
	Total owners' equity	300,046	(20%)	(115,344)	20%	173,016
Sudanese Pound	Net Income	8,932	(15%)	(1,165)	25%	2,977
	Total owners' equity	7,491	(15%)	(4,086)	25%	10,443
S.African Rand	Net Income	3,009	(10%)	(274)	10%	334
	Total owners' equity	13,769	(10%)	(3,307)	10%	4,042
Syrian Pound	Net Income	11,320	(10%)	(1,029)	25%	3,773
	Total owners' equity	23,287	(10%)	(2,749)	25%	10,081
Pakistani Rupees	Net Income	(151)	(10%)	(17)	15%	20
	Total owners' equity	2,391	(10%)	8,663	15%	(2,693)

At 31 December 2012

Currency	Particular	Exposures in US$ '000	Maximum expected decrease %	Change in net income and owners' equity US$ '000	Maximum expected increase %	Change in net income and owners' equity US$ '000
Algerian Dinar	Net Income	52,937	(10%)	(4,812)	10%	5,882
	Total owners' equity	110,296	(10%)	(22,736)	10%	27,789
Egyptian Pound	Net Income	26,203	(15%)	(3,418)	20%	6,551
	Total owners' equity	44,195	(15%)	(21,903)	20%	41,890
Turkish Lira	Net Income	118,186	(20%)	(19,698)	20%	29,546
	Total owners' equity	298,537	(20%)	(114,763)	20%	172,145
Sudanese Pound	Net Income	3,400	(15%)	(443)	25%	1,133
	Total owners' equity	4,109	(15%)	(2,990)	25%	7,641
S.African Rand	Net Income	2,769	(10%)	(252)	10%	308
	Total owners' equity	16,106	(10%)	(3,868)	10%	4,728
Syrian Pound	Net Income	6,656	(10%)	(605)	25%	2,219
	Total owners' equity	28,415	(10%)	(3,355)	25%	12,301
Pakistani Rupees	Net Income	(5,698)	(10%)	(633)	15%	743
	Total owners' equity	10,210	(10%)	5,710	15%	(6,703)

e) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Operational Risk Management Framework
The Group guidelines have the following sections: (1) Operational Risk Appetite, (2) Operational Risk Management – Structure and Rules, (3) Risk and Control Assessment, (4) Internal Audit, (5) Operational Risk and Basel II and (6) Operational Risk Capital Requirement.

The Group's Operational Risk Appetite is defined as the level of risk which the Group chooses to accept in its identified risk categories. Operational risk appetite is expressed in terms of both impact (direct loss) and the probability of occurrence.

The Operational Risk framework will be subject to periodic Internal Audit.

The Group categorizes 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 and the subsidiaries might be disrupted and severe operational risks could occur.

In order to hedge the subsidiaries from the infrastructure risk as outlined above, every subsidiary must take all the necessary measures indicated in the Business Continuity Plan and/or Disaster Recovery Plan (BCP and DRP) to cater for these risks.

27 RISK MANAGEMENT (continued)

e) Operational Risk (continued)

Information Technology Risks

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

Staff risk

The main risks that arises from staff risks are risks due to larceny, fraud, corruption, crime, etc. In order to prevent these risks from occurring, the Group has established Group Human Resources Policies and Code of Conduct which entails constructive ways in dealing with mistakes and frauds. The Group has also established approval control steps in business processes as well as creating separate internal control processes. Further, the Group has established measures of organizational structure in terms of segregation of duties as well as diverse training measures to reduce human errors and frauds, etc.

Business risk

This risk may take on the following forms:

1. Processes without clear definitions, for example, when insufficient time was spent on documenting or updating the already documented processes.

2. Outdated process descriptions in cases where “reality” already strongly differs from the guidelines laid down in the past.

3. The extreme case of a completely missing documentation. To hedge this risk, the Group adopts sound documentation policies of business processes as it is a basic requirement for a well functioning process organization. The process description are up to date and clear; furthermore, it is accessible to all employees.

f) Corporate governance

Board of Directors

The Board of Directors is responsible for approving the Group’s overall business strategy, monitoring its operations and taking critical business decisions. In line with international leading practices, the Board has instituted corporate governance measures to ensure that the interests of the shareholders are protected, including the appointment to the Board of four independent non-executive directors as defined in the Rule Book of the CBB.

The Bank is administered by a Board of Directors consisting of not less than five and not more than fifteen members. However, subject to the provisions of the law, the shareholders at an Ordinary General Meeting may determine that the number of directors shall exceed fifteen in certain circumstances. Members of the Board of Directors hold office for a three-year renewable term, although the term of office may be extended at the request of the Board for a period not exceeding six months by resolution of the Bahrain Minister of Industry and Commerce.

There are currently thirteen Directors on the Board, who have varied backgrounds and experience and who individually and collectively exercise independent and objective judgment. Other than the President and Chief Executive, all Directors are non-executive. The posts of Chairman and President and Chief Executive are held by different Directors and each has separate, clearly defined responsibilities.

The Board of Directors meets regularly (usually four times a year) and has a formal schedule of matters reserved to it, considering key aspects of the Group’s affairs referred to it for decision. The Board reviews the Group’s strategy and financial plans, all proposed material changes to the Group’s policies, structure and organisation, reports provided to it on the operations of the Group (with emphasis on organisational development, risk management and information technology development) and the performance of executive management. The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. All Directors have access to the advice and services of the secretary, who is responsible for ensuring that the Board procedures and applicable rules and regulations are observed.

The Board of Directors has overall responsibility for the Group's system of internal control and its effectiveness. There are established and ongoing procedures in place for identifying, evaluating and managing significant risks faced by the Group, which are regularly reviewed by the Board. The Group's system of internal control provides for a documented and auditable trail of accountability and applies across its operations, is designed to ensure effective and efficient operation and compliance with all applicable laws and regulations, and seeks to manage risk with a view to avoiding material errors, losses and fraud.

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

Quoted equity type instruments are investments which are fair valued using quoted prices in active markets for identical instruments and unquoted equity type instruments are investments that are fair valued using directly or indirectly observable inputs.

The Group's investments in sukuk held at amortised cost which have fair values amounting to US$ 2,123 million (2012: US$ 1,528 million).

Also included under investments are unquoted equity-type instruments at fair value through equity amounting to US$ 36,587 thousand (2012: US$ 106,661 thousand) which are carried at cost due to lack of other reliable methods for arriving at a reliable fair value for these investments.

The fair values of other on-balance sheet financial instruments are not significantly different from the carrying values included in the consolidated financial statement.

29 EARNINGS PROHIITED BY SHARI'A

Earnings realised during the year from transactions that were not permitted by Shari'a amounted to US$ 12.1 million (2012: US$ 2.7 million). This amount has been taken to charity.

30 COMPARATIVE FIGURES

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

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1 CAPITAL STRUCTURE AND CAPITAL ADEQUACY

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

The Group's capital structure is primarily made of its paid-up capital, including the share premium and reserves, and profit equalization reserve and investment risk reserve. From regulation's perspective, the significant amount of the Group's capital are in Tier I as defined by the CBB, i.e., most of the consolidated capital are of permanent nature.

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. To calculate its capital adequacy, the Group follows the accepted approaches approved by the CBB Rulebook. The Group consolidates all subsidiaries for Capital Adequacy Ratio (CAR) calculation. The Group strives to sustain reasonably higher capital cushion that strikes the balance between its business conduct and the regulatory requirements stipulated in the CBB capital adequacy requirements as a minimum accepted level of capital adequacy.

Table – 1. Capital Structure (PD-1.3.12, 1.3.13, 1.3.14 & 1.3.15)

The following table summarizes the eligible capital after deductions for calculation as of:

	31 December 2013		31 December 2012	
	Tier 1	**Tier 2**	Tier 1	Tier 2
	US$ '000	**US$ '000**	US$ '000	US$ '000
Tier 1 Capital Components				
Issued and fully paid up ordinary shares	**1,040,168**	**-**	1,006,000	-
Disclosed reserves				
Legal/statutory reserves	**93,138**	**-**	78,687	-
Share premium	**16,753**	**-**	16,352	-
Others	**(194,382)**	**-**	(21,702)	-
Retained profit brought forward	**345,071**	**-**	217,892	-
Unrealized gains arising from fair valuing equities (45% only)	**127**	**-**	149	-
Non-controlling interest in consolidated subsidiaries	**684,736**	**-**	673,757	-
Less:				
Goodwill	**87,548**	**-**	93,785	-
Unrealized gross losses arising from fair valuing equity securities	**51,056**	**-**	47,840	-
Tier 1 Capital before PCD deductions	**1,847,007**	**-**	1,829,510	-
Tier 2 Capital Components				
Asset revaluation reserve - Property, plant, and equipment (45% only)	**-**	**525**	-	118
Unrealized gains arising from fair valuing equities (45% only)	**-**	**21,379**	-	19,773
Profit equalization reserve	**-**	**12,126**	-	9,444
Investment risk reserve	**-**	**110,424**	-	98,429
Tier 2 Capital before PCD deductions	**-**	**144,454**	-	127,764
Total Available Capital	**-**	**1,991,461**	-	1,957,274

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Table – 1. Capital Structure (PD-1.3.12, 1.3.13, 1.3.14 & 1.3.15) (continued)

The following table summarises the capital requirements for credit risk, market risk and operational risk as of:

	31 December 2013		31 December 2012	
	Tier 1	Tier 2	Tier 1	Tier 2
Deduction				
Investment in insurance entity greater than or equal to 20%	(5,454)	(5,454)	(4,136)	(4,136)
Net Available Capital	1,841,553	139,000	1,825,374	123,629
TOTAL ELIGIBLE CAPITAL		1,980,553		1,949,003

Table – 2. Capital requirement for different type of risks (PD-1.3.18, 1.3.19)

The following table summarises the capital requirements for credit risk, market risk and operational risk as of:

	31 December 2013		31 December 2012	
	Risk weighted assets US$ '000	Minimum capital requirements US$ '000	Risk weighted assets US$ '000	Minimum capital requirements US$ '000
Credit Risk	9,327,487	1,119,298	8,227,452	987,294
Market Risk	1,107,128	132,855	915,231	109,828
Operational Risk	1,574,526	188,943	1,411,561	169,387
	12,009,141	1,441,096	10,554,244	1,266,509

Table – 3. Capital requirement by type of Islamic financing contracts (PD-1.3.17)

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

	31 December 2013		31 December 2012	
	Risk weighted assets US$ '000	Minimum capital requirements US$ '000	Risk weighted assets US$ '000	Minimum capital requirements US$ '000
Islamic financing contracts				
Receivables	5,912,093	709,451	5,566,662	667,999
Mudaraba and Musharaka financing	735,269	88,232	674,390	80,927
Ijarah Muntahia Bittamleek	654,938	78,593	416,823	50,019
	7,302,300	876,276	6,657,875	798,945

Table – 4. Capital Adequacy Ratios (PD-1.3.20 (a))

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

	31 December 2013	31 December 2012
Total capital ratio	16.49%	18.47%
Tier 1 capital ratio	15.33%	17.30%

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1 CAPITAL STRUCTURE AND CAPITAL ADEQUACY (continued)

Table - 5. The Group's Subsidiaries Capital Adequacy Ratios (PD-1.3.20 (b))

The following are the Group's subsidiaries capital adequacy ratio prepared on the basis of CBB requirements, which may differ form the local requirements of the countries in which the subsidiaries operate, as of:

	31 December 2013		31 December 2012	
	Tier 1 capital ratio	**Total capital ratio**	Tier 1 capital ratio	Total capital ratio
Head Office	**28%**	**28%**	31%	31%
Banque Al Baraka D'Algerie	**29%**	**30%**	28%	29%
Al Baraka Islamic Bank *	**14%**	**14%**	18%	18%
Al Baraka Bank Tunis	**23%**	**41%**	23%	23%
Al Baraka Bank Egypt	**17%**	**17%**	19%	19%
Al Baraka Bank Lebanon	**12%**	**13%**	14%	14%
Jordan Islamic Bank	**16%**	**16%**	18%	18%
Al Baraka Turk Participation Bank	**14%**	**19%**	14%	14%
Al Baraka Bank Limited	**22%**	**26%**	24%	25%
Al Baraka Bank Sudan	**13%**	**14%**	11%	11%
Al Baraka Bank Syria	**17%**	**18%**	14%	15%

* These ratios represents the consolidated ratios and Al Baraka Pakistan has tier 1 capital ratio of 17.07% (2012: 30%) and total capital ratio of 21.12% (2012: 30%).

Legal restrictions on capital and income mobility (PD-1.3.6 (c))

There are no major restrictions in distributing profits by the subsidiaries to the Bank. Such distribution should go through the legal and regulatory channels applicable in each jurisdiction. Mobilisation of capital, reserves and equivalent funds out of the subsidiaries to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, as a procedure, a prior written approval has to be obtained from the CBB for increasing investments in subsidiaries.

Table – 6. Distribution of ownership of shares by nationality (PD-1.3.10(i))

The following table summarizes the distribution of ownership of shares by nationality/ incorporation as of:

Nationality/ Incorporation	**31 December 2013 % holding**	31 December 2012 % holding
Bahraini	**26.01**	26.01
Saudi	**42.74**	42.71
Cayman Islands	**19.32**	19.32
Emirati	**8.58**	8.52
Kuwaiti	**1.09**	1.09
Others	**2.26**	2.35

2 RISK MANAGEMENT

The Group's risk management strategies have been effectively implemented and the objectives outlined at the beginning of year 2012 across subsidiaries were successfully achieved. The Group is striving to bolster and instil the best practices of risk management in subsidiaries' risk management functions for the next reporting period by ensuring prudent implementation of risk management policies which entails risk identification, limit controls, monitoring and reporting.

The Group's risk management has the following objectives:

a. Unified Group-wide risk management to enable the Group to produce risk adjusted return on capital.
b. Creation of professional risk management culture throughout the Group with prudent, disciplined approach to risk taking based on comprehensive Group-wide policies, processes and limits.
c. Professionally qualified staff and ongoing credit training.
d. Investing in technology and systems for best practice risk management.
e. Throughout the Group, strict segregation of duties and reporting lines between personnel transacting business and personnel processing that business.
f. Strict compliance with all Shari'a and legal requirements and regulatory directives.
g. Maintaining clear, well documented policies via Group Risk Management Manual and also Risk Management Manuals by each of the Group's subsidiaries which incorporate the uniform policies and procedures of the Group in addition to the local requirements.

a) Liquidity risk

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 subsidiary is 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 Group's subsidiaries 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 Group's subsidiaries conduct an impact analysis on its dependency on any such concentrations.
f. 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. 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 Group's subsidiaries 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.

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2 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

Table – 7. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios as of:

	31 December 2013	31 December 2012
Short term assets to short term liabilities	**78%**	78%
Liquid assets to total assets	**27%**	25%

b) Credit risk

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:

a) 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.

b) Financing should be extended where there are at least two clear sources of repayments.

c) It is generally preferred that the repayments are from cash generated by the customers' productive and ongoing income or activities.

d) 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.

e) Financing should generally be extended where the Group's seniority as creditors is pari passu or better than any other financing.

f) Financing should be structured appropriately considering the purpose of the credit and the source of repayment.

g) 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.

h) Compliance with all applicable local statutory and regulatory directives guidelines should be ensured in all cases.

i) Propriety and ethical standards should be taken into account in all financing decisions.

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Table - 8. Gross funded and unfunded exposure (PD-1.3.23(a))

The Group's assets are funded by equity of investment accountholders (IAH) as well as the Group's own capital and current accounts (Self). The percentage of funding varies for each of the Group's subsidiary based on market conditions and applicable rules and regulations.

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

	31 December 2013			
	Self financed		Financed by IAH	
	Total gross credit exposure	*Average gross credit exposure over the year	Total gross credit exposure	*Average gross credit exposure over the year
Funded Exposure				
Receivables	5,244,708	5,212,360	5,573,511	5,519,545
Mudaraba and Musharaka financing	671,144	536,011	520,981	501,280
Investments	1,143,439	1,047,987	1,259,391	1,176,131
Ijarah Muntahia Bittamleek	433,111	391,118	508,937	470,924
Other assets	82,344	84,784	80,765	79,454
Unfunded Exposure				
Commitments and contingencies	4,947,667	5,074,194	-	-
	12,522,413	12,346,453	7,943,585	7,747,334

*Average Balances are computed based on quarter-end balances.

	31 December 2012			
	Self financed		Financed by IAH	
	Total gross credit exposure	*Average gross credit exposure over the year	Total gross credit exposure	*Average gross credit exposure over the year
Funded Exposure				
Receivables	4,730,290	4,384,945	5,732,211	5,304,102
Mudaraba and Musharaka financing	473,187	428,714	480,367	463,810
Investments	924,761	776,455	1,258,993	1,177,784
Ijarah Muntahia Bittamleek	322,250	295,314	397,369	367,366
Other assets	78,091	111,120	74,155	93,592
Unfunded Exposure				
Commitments and contingencies	4,753,594	4,953,716	-	-
	11,282,173	10,950,264	7,943,095	7,406,653

*Average Balances are computed based on quarter-end balances.

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2 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table - 9. Geographic distribution of the gross funded exposure (PD-1.3.23(b))

The following table summarises the geographic distribution of gross funded exposure as of 31 December 2013, broken down into significant areas by major types of credit exposure:

	Self financed			
	Middle East US$ '000	**North Africa US$ '000**	**Europe US$ '000**	**Others US$ '000**
Receivables	**1,428,990**	**416,541**	**3,208,996**	**190,181**
Mudaraba and Musharaka financing	**457,075**	**91,945**	**61,621**	**60,503**
Investments	**444,010**	**83,864**	**474,078**	**141,487**
Ijarah Muntahia Bittamleek	**219,137**	**171,442**	**34,073**	**8,459**
Other Assets	**52,038**	**8,493**	**5,876**	**15,937**
	2,601,250	**772,285**	**3,784,644**	**416,567**

The following table summarises the geographic distribution of gross funded exposure as of 31 December 2012, broken down into significant areas by major types of credit exposure:

	Self financed			
	Middle East US$ '000	North Africa US$ '000	Europe US$ '000	Others US$ '000
Receivables	1,430,948	490,337	2,670,772	138,233
Mudaraba and Musharaka financing	297,692	46,175	67,126	62,194
Investments	469,117	17,647	293,100	144,897
Ijarah Muntahia Bittamleek	172,601	119,509	23,141	6,999
Other Assets	42,439	14,434	7,278	13,940
	2,412,797	688,102	3,061,417	366,263

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	Financed by IAH			
	Middle East US$ '000	**North Africa US$ '000**	**Europe US$ '000**	**Others US$ '000**
	2,524,366	**324,324**	**2,389,776**	**335,045**
	223,840	**81,870**	**-**	**215,271**
	1,078,657	**60,321**	**-**	**120,413**
	359,381	**126,355**	**77**	**23,124**
	46,147	**6,507**	**8,046**	**20,065**
	4,232,391	**599,377**	**2,397,899**	**713,918**

	Financed by IAH			
	Middle East US$ '000	North Africa US$ '000	Europe US$ '000	Others US$ '000
	2,653,778	425,964	2,336,523	315,946
	196,387	54,330	-	229,650
	1,063,940	4,596	-	190,457
	292,207	83,771	195	21,196
	33,717	10,563	11,171	18,704
	4,240,029	579,224	2,347,889	775,953

2 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table - 10. Exposure by counterparty type (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposure by counterparty type, broken down by major types of credit exposures as of 31 December 2013:

	Funded Exposures					
	Receivables		Mudaraba and Musharaka financing		Investments	
	Self	IAH	Self	IAH	Self	IAH
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Claims on sovereigns	350,718	619,417	-	1,845	969,573	1,039,089
Claims on multi-lateral development banks	2,992	10,075	-	-	-	-
Claims on investment firms	-	-	-	-	31,038	-
Claims on banks	147,295	318,891	162,681	58,442	16,659	56,947
Claims on corporates	3,997,081	3,003,431	6,209	61,782	7,092	23,438
Claims on retail	703,737	1,477,774	-	956	-	-
Past dues receivables	42,885	143,923	-	3,391	-	-
Equity investment	-	-	347,623	100,233	57,701	43,855
Investment in Funds	-	-	-	-	15,141	8,496
Specialized Lending	-	-	154,631	294,332	-	-
Other assets	-	-	-	-	46,235	87,566
Total	5,244,708	5,573,511	671,144	520,981	1,143,439	1,259,391

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				Unfunded Exposures		Funded and Unfunded Exposures	
Ijarah Muntahia Bittamleek		Other Assets		Commitments and contingencies		Total	
Self	IAH	Self	IAH	Self	IAH	Self	IAH
US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
-	26,157	-	-	18,785	-	1,339,076	1,686,508
-	-	-	-	-	-	2,992	10,075
-	-	-	-	-	-	31,038	-
186	3,010	-	-	116,762	-	443,583	437,290
93,207	146,268	-	-	4,542,304	-	8,645,893	3,234,919
337,478	329,905	-	-	260,257	-	1,301,472	1,808,635
2,240	3,597	-	-	9,559	-	54,684	150,911
-	-	-	-	-	-	405,324	144,088
-	-	-	-	-	-	15,141	8,496
-	-	-	-	-	-	154,631	294,332
-	-	82,344	80,765	-	-	128,579	168,331
433,111	508,937	82,344	80,765	4,947,667	-	12,522,413	7,943,585

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31 December 2013

2 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table -10. Exposure by counterparty type (PD-1.3.23 (c))

The following table summarises the distribution of funded and unfunded exposure by counterparty type, broken down by major types of credit exposures as of 31 December 2012:

	Funded Exposures					
	Receivables		Mudaraba and Musharaka financing		Investments	
	Self	IAH	Self	IAH	Self	IAH
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Claims on sovereigns	393,242	629,787	-	-	715,739	1,032,046
Claims on multi-lateral development banks	3,850	14,603	-	-	-	-
Claims on investment firms	-	-	-	-	-	-
Claims on banks	167,099	332,314	16,948	67,383	37,907	34,416
Claims on corporates	3,547,314	2,939,254	5,319	35,818	-	11,621
Claims on retail	588,728	1,686,320	-	222	-	-
Past dues receivables	30,057	129,933	-	10,885	-	-
Equity investment	-	-	327,826	71,291	97,700	78,022
Investment in Funds	-	-	-	-	31,819	19,860
Specialized Lending	-	-	123,094	294,768	-	-
Other assets	-	-	-	-	41,596	83,028
Total	4,730,290	5,732,211	473,187	480,367	924,761	1,258,993

The Group is working in a highly regulated environment which monitors high risk credit exposures on a regular basis.

	Ijarah Muntahia Bittamleek		Other Assets		Unfunded Exposures: Commitments and contingencies		Funded and Unfunded Exposures: Total	
	Self	IAH	Self	IAH	Self	IAH	Self	IAH
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
	-	23,403	-	-	57,644	-	1,166,625	1,685,236
	-	-	-	-	-	-	3,850	14,603
	-	-	-	-	-	-	-	-
	-	43,483	-	-	42,311	-	264,265	477,596
	34,107	167,926	-	-	4,443,432	-	8,030,172	3,154,619
	288,143	157,759	-	-	210,207	-	1,087,078	1,844,301
	-	4,798	-	-	-	-	30,057	145,616
	-	-	-	-	-	-	425,526	149,313
	-	-	-	-	-	-	31,819	19,860
	-	-	-	-	-	-	123,094	294,768
	-	-	78,091	74,155	-	-	119,687	157,183
	322,250	397,369	78,091	74,155	4,753,594	-	11,282,173	7,943,095

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2 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Large Credit Exposure (PD - 1.3.23 (f))

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

There are no large exposures to individual counterparties where the exposure is in excess of the 15% individual obligor limit that qualifies for the deduction requirement as per CBB's guidelines.

Past due, non-performing Islamic financing contracts and provisions (PD-1.3.22 (a))

Past due represents instalments that are not received on the contractual repayments date. The Group considers non-performing Islamic financing contracts as the contracts that are overdue for a period of 90 or more days. These exposures are placed on a non-accrual status with profit being recognised to the extent that it is actually received. It is the Group's policy that when an exposure is overdue for a period of 90 or more days, the whole financing facility extended is considered as past due, not only overdue instalments/payments.

Table -11. Credit quality of Islamic financing contracts by counterparty type (PD-1.3.23(h), 1.3.24 (b))

The following table summarises the total past due, non performing and neither past due nor non performing Islamic financing contracts and aging of non performing Islamic financing contracts disclosed by counterparty type as of 31 December 2013:

					Aging of non performing Islamic financing contracts		
	Total US$'000	Neither past due nor non performing US$'000	Past due but performing US$'000	Non performing Islamic financing contracts US$'000	90 days to 1 year US$'000	1 year to 3 years US$'000	Over 3 years US$'000
Sovereign	1,085,355	1,081,496	3,859	-	-	-	-
Bank	1,598,839	1,594,781	-	4,058	3,683	-	375
Investment Firms	70,563	33,860	-	36,703	-	155	36,548
Corporates	6,554,999	6,173,394	51,070	330,535	84,070	93,092	153,373
Retail	3,302,092	3,034,641	117,722	149,729	38,604	45,884	65,241
	12,611,848	11,918,172	172,651	521,025	126,357	139,131	255,537

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The following table summarises the total past due, non performing and neither past due nor non performing Islamic financing contracts and aging of non performing Islamic financing contracts disclosed by counterparty type as of 31 December 2012:

					Aging of non performing Islamic financing contracts		
	Total US$'000	Neither past due nor non performing US$'000	Past due but performing US$'000	Non performing Islamic financing contracts US$'000	90 days to 1 year US$'000	1 year to 3 years US$'000	Over 3 years US$'000
Sovereign	1,040,093	1,039,738	355	-	-	-	-
Bank	1,453,394	1,450,605	-	2,789	2,228	-	561
Investment Firms	192,705	155,708	-	36,997	-	155	36,842
Corporates	5,898,080	5,525,352	37,878	334,850	110,688	101,888	122,274
Retail	3,426,260	3,131,783	91,326	203,151	61,671	98,987	42,493
	12,010,532	11,303,186	129,559	577,787	174,587	201,030	202,170

Table -12. Specific provisions by counterparty type (PD-1.3.23 (h), 1.3.24 (d))

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

	Specific provisions						
	Opening Balance US$'000	**Charges during the year US$ '000**	**Write-Back during the year US$ '000**	**Write-offs during the year US$ '000**	**Appropriation (to) from IAH during the year US$ '000**	**Foreign exchange translations/ others - net US$ '000**	**Balance at the end of the year US$ '000**
Bank	**2,963**	**-**	**-**	**-**	**-**	**(350)**	**2,613**
Investment Firms	**10,481**	**600**	**(491)**	**(5,699)**	**-**	**(526)**	**4,365**
Corporates	**328,796**	**109,425**	**(63,634)**	**(39,076)**	**17,759**	**(29,905)**	**323,365**
Retail	**120,177**	**12,356**	**(4,782)**	**(11,575)**	**4,048**	**(4,130)**	**116,094**
	462,417	**122,381**	**(68,907)**	**(56,350)**	**21,807**	**(34,911)**	**446,437**

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2 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table -12. Specific provisions by counterparty type (PD-1.3.23 (h), 1.3.24 (d)) (continued)

The following table summarises the total specific provisions disclosed by counterparty type as of 31 December 2012:

	Specific provisions						
	Opening Balance US$'000	Charges during the year US$ '000	Write-Back during the year US$ '000	Write-offs during the year US$ '000	Appropriation (to) from IAH during the year US$ '000	Foreign exchange translations/ others - net US$ '000	Balance at the end of the year US$ '000
Bank	2,650	1,777	-	-	-	(1,464)	2,963
Investment Firms	7,994	2,683	-	-	-	(196)	10,481
Corporates	270,529	96,852	(24,246)	(13,438)	(2,601)	1,700	328,796
Retail	103,342	20,494	(3,509)	(1,127)	6,547	(5,570)	120,177
	384,515	121,806	(27,755)	(14,565)	3,946	(5,530)	462,417

Table -13. General provisions movement (PD-1.3.23 (h), 1.3.24 (d))

The following table summarises the movement of general provisions during the year ended:

	31 December 2013 US$'000	31 December 2012 US$'000
Opening Balance	**18,210**	15,303
Charges during the year	**8,974**	5,583
Write-Back during the year	**(1)**	(311)
Write-offs during the year	**(28)**	(480)
Foreign exchange translations/ others - net	**3,151**	(1,885)
Balance at the end of the year	**30,306**	18,210

This represents collective provision against exposures which, although not specifically identified, have a greater risk of default than when originally granted.

Table - 14. Past due and non-performing Islamic financing contracts and provisions by geographic areas (PD-1.3.23(i), PD-1.3.24(c))

The following table summarises the total past due and non performing Islamic financing contracts and provisions disclosed by geographical area as of:

	31 December 2013			31 December 2012		
	Past due and non performing Islamic financing contracts US$ '000	**Specific provision US$ '000**	**General provision US$ '000**	Past due and non performing Islamic financing contracts US$ '000	Specific provision US$ '000	General provision US$ '000
Middle East	**282,742**	**240,419**	**27,469**	329,049	261,065	17,170
North Africa	**73,834**	**43,652**	**2,837**	81,600	47,940	1,040
Europe	**132,453**	**121,009**	**-**	124,923	111,633	-
Others	**204,647**	**41,357**	**-**	171,774	41,779	-
	693,676	**446,437**	**30,306**	707,346	462,417	18,210

Table - 15. Renegotiated Islamic financing contracts (PD-1.3.23(j))

	31 December 2013 US$'000	31 December 2012 US$'000
Renegotiated Islamic financing contracts	**140,299**	86,435

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

Others (PD-1.3.23(k), (l), PD-1.3.25(b) & (c))

The Group has no significant obligations with respect to recourse transaction.

The Group has not imposed any material penalties on customers for defaults.

The Group does not make use of eligible collaterals and guarantees in its credit risk analysis.

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2 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table – 16. Counterparty Credit (PD-1.3.26 (b))

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

	31 December 2013 US$ '000	31 December 2012 US$ '000
Gross positive fair value of contracts	15,355,222	14,319,428
Netting Benefits	-	-
Netted Current Credit Exposure	15,355,222	14,319,428
Collateral held:		
Cash	458,379	518,222
Others	4,668,140	4,235,862
Real Estate	9,900,605	10,327,654
	15,027,124	15,081,738

The utilisation of the collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

c) Market risk

Market risk includes profit rate risk, displaced commercial risk, equity price risk and foreign exchange rate risk. The management of the Group have set limits on the level of risk that may be accepted. This is monitored by the local management at the subsidiary level.

Table – 17. Market Risk Capital Requirements (PD-1.3.27 (b))

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

	31 December 2013		31 December 2012	
	Equity position risk US$ '000	Foreign exchange risk US$ '000	Equity position risk US$ '000	Foreign exchange risk US$ '000
Risk weighted exposure (RWE)	-	1,107,128	-	915,231
Capital requirements (12%)	-	132,855	-	109,828
Maximum value of RWE	-	1,107,128	1,750	1,047,826
Minimum value of RWE	-	871,496	-	915,231

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

Displaced Commercial Risk
The Group is exposed to displaced commercial risk in the event of having IAH profit rates that are lower than market rates. The Group has partially 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 individual subsidiary level.

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 Group's investment portfolio.

Equity-type instruments at fair value through equity and investments in real estate are kept for capital gain purposes.

If financial instruments qualify to be included in the trading book, these must not exceed 25% of the total subsidiary's assets portfolio. For equity securities, the subsidiaries are required to observe the sectoral concentration limits outlined by the Group and/or their local requirement in this respect. Since trading securities in the trading book would be under marked-to-market requirement, the Risk Manager at the subsidiary level should immediately bring to the Credit and Risk Management at the Group as well as the subsidiary's asset/liability committee any volatility of position's value that is 15% or higher than the subsidiary's eligible capital to decide upon the appropriate course of action.

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2 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Table – 18. Equity Position Risk in Banking Book (PD-1.3.31 (b) (c) & (f))

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:

	gross Total exposure US$ '000	Average gross exposure over the year US$ '000	Publicly held US$ '000	Privately held US$ '000	Capital requirement US$ '000
Sukook and similar items	**2,125,604**	**1,903,011**	**999,683**	**1,125,921**	**37,019**
Equity Investment	**113,037**	**142,516**	**72,015**	**41,022**	**45,275**
Managed funds	**24,839**	**45,706**	**16,401**	**8,438**	**6,075**
	2,263,480	**2,091,232**	**1,088,099**	**1,175,381**	**88,369**

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2012:

	gross Total exposure US$ '000	Average gross exposure over the year US$ '000	Publicly held US$ '000	Privately held US$ '000	Capital requirement US$ '000
Sukook and similar items	1,841,380	1,593,497	774,165	1,067,215	13,788
Equity Investment	162,273	179,755	78,514	83,759	44,834
Managed funds	52,272	50,241	31,529	20,743	6,528
	2,055,925	1,823,493	884,208	1,171,717	65,149

Table – 19. Equity gains or losses in banking book (PD-1.3.31 (d) and (e))

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

	31 December 2013 US$ '000	31 December 2012 US$ '000
Cumulative realised gains arising from sales or liquidations in the reporting year	**3,391**	310
Total unrealized losses recognised in the consolidated statement of financial positions but not through consolidated statement of income	**(3,547)**	(3,899)
Unrealised gross losses included in Tier 1 Capital	**(51,056)**	(47,840)
Unrealised gains included in Tier 1 Capital (45% only)	**127**	149
Unrealised gains included in Tier 2 Capital (45% only)	**21,379**	19,773

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.

d) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

Table - 20. Operational risk exposure (PD-1.3.30 (a), (b) & (c))

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

	Gross income			
	2013 US$ '000	2012 US$ '000	2011 US$ '000	2010 US$ '000
Total Gross Income	**909,484**	879,770	729,987	648,741

	2013	2012
Indicators of operational risk		
Average Gross income (US$ '000)	**839,747**	752,833
Multiplier	12.5	12.5
	10,496,838	9,410,408
Eligible Portion for the purpose of the calculation	15%	15%
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (US$ '000)	**1,574,526**	1,411,561

2 RISK MANAGEMENT (continued)

d) Operational Risk (continued)

The Group has no material legal contingencies including pending legal action.

The Group guidelines have the following sections: (1) Operational Risk Appetite, (2) Operational Risk Management – Structure and Rules (3) Risk and Control Assessment (4) Internal Audit (5) Operational Risk and Basel II (6) Operational Risk Capital Requirement.

The Group's Operational Risk Appetite is defined as the level of risk which the Group chooses to accept in its identified risk categories. Operational risk appetite is expressed in terms of both impact (direct loss) and the probability of occurrence.

The Group's policy also lays out the Operational Risk Management structure and the roles of all staff associated with operational risk. The major functional roles are defined for:

- Risk Management Committee
- Head of Credit and Risk Management
- Head of Operational, Liquidity and Market Risk
- Various departments

Operational Risk Management Framework
The Risk Control Self Assessment exercise is viewed as an important part of the Group's Operational Risk Framework. It is proposed to be conducted every year by the Risk Management Department in coordination with the Internal Audit Department. In addition, the assessment shall also be based on the severity of the residual risks identified through Internal Audit reviews.

The Key processes identified in a Risk Control Self Assessment are:

- Risk and Control Identification Process
- Measurement of Operational Risk Exposures
- Identifying Unacceptable Risk Exposures
- Risk Action Plans.

The Operational Risk framework will be subject to periodic internal audit.

3 CORPORATE GOVERNANCE

Code of business conduct and ethics for members of the board of directors

Purpose:
The primary objectives of the following Code of Business Conduct and Ethics (the "Code") is to enable each Director to focus on areas of ethical risks, to help them recognize and deal with ethical issues, to provide mechanisms for reporting unethical conduct, and to foster a culture of honesty and accountability within the Group.

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Conflict of interest:
Each Director must avoid any situation which may give rise to a conflict between their interests and those of the Group. Any situation which either will or may involve, a conflict of interest should be disclosed promptly to the Board of Directors in writing in advance of the meeting or verbally in the meeting itself. The concerned Director shall abstain from any discussion or decision on the matter of question. A conflict of interest can occur when a Director's personal interest is adverse to, or appears to be, adverse to the interests of the Group. Conflicts of interest also arise when a Director, or a member of their immediate family, receives an improper personal benefit as a result of their position as a Director of the Group. Common conflicts which Directors must endeavor to avoid include, but are not limited to, the following:

1 Engagement in any conduct or activity which may conflict with the best interests of the Group, or which may disrupt or impair Group's standing with any person or entity with whom or which the Group has to proposes to enter into a business or contractual relationship.

2 Acceptance of compensation (in any form) for services performed in relation to the Group from any source other than from the Group.

3 Acceptance by them or any member of their family of gifts from persons or entities who or which deal with the Group where acceptance of such gifts could generate a sense of obligation and thereby create a potential conflict of interest.

4 Utilization of the Group's assets, employees or information for personal use without obtaining the prior approval of the Board of Directors.

Confidentiality:
Confidential information includes all non-public information relating to the Group, whether in written or in oral form. Directors are under continuous obligation to maintain the confidentiality of information entrusted directly to them by the Group and any other confidential information about the Group which comes to them, from whatever source, in their capacity as a Director. Directors may disclose confidential information if such disclosures are mandated by the law.

Compliance with Rules, Laws and Regulation:
Directors shall, at all times, comply with all laws, rules and regulations applicable to the Group, including insider trading laws.

Remuneration
The Group incentivise its Board members, executives and senior management and its Shari'a Board members in accordance to the remuneration policies and procedures approved by the Board. This policy links the incentives to the performance appraisal. The Group's corporate governance policy details the performance appraisal for the Board members.

The following table summarises remuneration of the Group's Directors, Shari'a Committee members, President & Chief Executive, Deputy Chief Executive and the Department Heads at Group Headquarters during the year ended:

	31 December 2013 US$ '000	31 December 2012 US$ '000
Directors remuneration	**1,000**	1,000
Executive Management		
Salary and other remuneration, including meeting allowance	**3,505**	3,177
Fees	**135**	82
Bonuses	**876**	777
Benefits-in-kind	**1,012**	863
	5,528	4,899
Shari'a Committee Members fee and remuneration	**354**	367
	6,882	6,266

Additional Public Disclosures

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3 CORPORATE GOVERNANCE (continued)

Complaints

The Group has adopted a special media approach to ensure that all the Group's stakeholders are well channelled through to the management. The contracted special media watch detect any news or complaints related to the Group and bring them to the attention of the Group's executive management.

Related party transactions

Related party transactions are governed by the Group corporate governance policy and individual subsidiaries' local rules and regulations. All related party transactions were conducted at arm's length.

External Auditors

The Board Audit Committee has continued to review the work carried out by the external auditors during the year, in particular timeliness of reporting, quality of work and related fees. Overall the Audit Committee believes that the work of the external auditors has been of a sufficiently high standard and that the fees are reasonable and therefore recommended to the Board and accordingly to the annual general meeting (AGM) to re-appoint the external auditors as auditor for the 2013 financial year. The AGM has approved the reappointment of the external auditor for the year 2013 on 19 March 2013 and the related regulatory approval were taken.

4 EQUITY OF INVESTMENT ACCOUNTHOLDERS DISCLOSURES

The Group is exposed to some of the price risk on assets funded by IAH. The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by IAH on a pro-rata basis. IAH funds are invested and managed in accordance with Shari'a requirements.

Table – 21. Equity of IAH (PD-1.3.33 (a), (b) & (c)

The following table summarises the breakdown of IAH and return on IAH as of:

	31 December 2013 US$ '000	31 December 2012 US$ '000
IAH - Banks	**441,176**	214,622
IAH - Non-banks	**11,827,042**	11,274,356
Profit equalisation reserve (PER) - Banks	**443**	180
Profit equalisation reserve (PER) - Non-banks	**11,683**	9,264
Investment risk reserve (IRR) - Banks	**4,038**	1,873
Investment risk reserve (IRR) - Non-banks	**106,386**	96,556
Cumulative changes in fair value attributable to IAH	**8,676**	7,777
	12,399,444	11,604,628

Table – 22. Return on average IAH (PD-1.3.33 (d))

	2013 %	2012 %
Return on average IAH Equity	**5.0**	5.6
Return on average IAH Assets	**7.6**	7.9

Table – 23. Ratio by type of IAH (PD-1.3.33 (g))

	31 December 2013 %	31 December 2012 %
IAH - Banks	**4**	2
IAH - Non-banks	**96**	98

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The appropriation percentage of IAH into profit equalisation reserve and investment risk reserve varies between each of the Group's subsidiary based on market conditions and applicable rules and regulations.

Table – 24. IAH by Islamic financing product type (PD-1.3.33 (h))

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

	31 December 2013 %	31 December 2012 %
Receivables	**84**	87
Mudaraba and Musharaka financing	**8**	7
Ijarah Muntahia Bittamleek	**8**	6

Table – 25. IAH by Counterparty Type (PD-1.3.33 (i))

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

	31 December 2013 %	31 December 2012 %
Sovereign	**2**	2
Bank	**3**	9
Investment Firms	**9**	1
Corporates	**15**	15
Retail	**71**	73

IAH Share of Profit (PD-1.3.33 (e) & (q))

The Group's share of profit as a Mudarib for managing IAH and the IAHs' share of income is based on the terms and conditions of the related Mudaraba agreements. These Mudaraba agreements are done at the individual subsidiary level. The rates and return are highly variable based on each of the subsidiaries' local environment as well as local rules and regulations. Detailed disclosures on IAH returns are analysed at the local level.

Table – 26. IAH by type of Assets (PD-1.3.33 (r) & (s))

The following table summarises the types of assets in which the funds are invested, the actual allocation among various types of assets and the changes in the asset allocation in the last six months of the year ended:

	31 December 2013			31 December 2012		
	Opening Actual Allocation US$ '000	**Movement US$ '000**	**Closing Actual Allocation US$ '000**	Opening Actual Allocation US$ '000	Movement US$ '000	Closing Actual Allocation US$ '000
Cash and balances with banks	**3,823,239**	**504,908**	**4,328,147**	3,374,610	141,153	3,515,763
Receivables	**5,440,607**	**132,904**	**5,573,511**	5,195,684	536,527	5,732,211
Mudaraba and Musharaka financing	**508,736**	**12,245**	**520,981**	461,489	18,878	480,367
Investments	**1,121,502**	**137,889**	**1,259,391**	1,117,426	141,567	1,258,993
Ijarah Muntahia Bittamleek	**457,821**	**51,116**	**508,937**	352,412	44,957	397,369
Other assets	**215,968**	**(7,491)**	**208,477**	213,808	6,117	219,925
	11,567,873	**831,571**	**12,399,444**	10,715,429	889,199	11,604,628

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4 EQUITY OF INVESTMENT ACCOUNTHOLDERS DISCLOSURES (continued)

Table – 27. Treatment of Assets financed by Equity of IAH (PD-1.3.33 (v))

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			31 December 2012		
Type of Claims	**RWA US$ '000**	**RWA for Capital adequacy purposes US$ '000**	**Capital Charges US$ '000**	RWA US$ '000	RWA for Capital adequacy purposes US$ '000	Capital Charges US$ '000
Claims on Sovereign	**846,446**	**253,934**	**30,472**	573,041	171,912	20,629
Claims on PSEs	**1,845**	**554**	**66**	3,412	1,023	123
Claims on MDBs	**10,075**	**3,023**	**363**	-	-	-
Claims on Banks	**64,082**	**19,225**	**2,307**	67,781	20,334	2,440
Claims on Corporates	**5,139,529**	**1,541,859**	**185,023**	5,206,785	1,562,035	187,444
Regulatory Retail Portfolio	**689,985**	**206,996**	**24,840**	762,486	228,746	27,450
Mortgage	**774,937**	**232,481**	**27,898**	780,779	234,234	28,108
Past due facilities	**158,001**	**47,400**	**5,688**	157,308	47,192	5,663
Investment in securities	**294,028**	**88,208**	**10,585**	240,636	72,191	8,663
Holding of Real Estates	**194,470**	**58,341**	**7,001**	187,462	56,239	6,749
Other Assets	**577,724**	**173,317**	**20,798**	659,690	197,907	23,749
	8,751,122	**2,625,338**	**315,041**	8,639,380	2,591,813	311,018

5 OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

Off-balance sheet equity of investment accountholders funds are invested and managed in accordance with Shari'a requirements.

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

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

(a) Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;

(b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and

(c) Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

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Table – 28. Off-balance sheet equity of IAH by Islamic Financing product type (PD-1.3.33 (h))

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

	31 December 2013 %	31 December 2012 %
Receivables	**20**	29
Mudaraba and Musharaka financing	**80**	71

Table – 29. Off-balance sheet equity of IAH by Counterparty Type (PD-1.3.33 (i))

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

	31 December 2013 %	31 December 2012 %
Sovereign	**2**	1
Investment Firms	**6**	5
Bank	**39**	38
Corporates	**11**	14
Retail	**42**	42

Off-Balance Sheet Equity of IAH Share of Profit (PD-1.3.33 (e) & (q))

The Group's share of profit as a Mudarib for managing IAH and off-balance sheet IAH's share of income is based on the terms and conditions of the related mudaraba agreements. These mudaraba agreements are done at the individual subsidiary level. The rates and return are highly variable based on each of the subsidiaries' local environment as well as local rules and regulations. Detailed disclosures on off-balance sheet equity of investment accountholders' returns are analysed at the local level.

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Executive Vice President – Head of Internal Audit

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  First Vice President – Internal Audit
- **Mr. Hassan Y. Al Banna**
  First Vice President – Internal Audit

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- **Mr. Chandresh H. Mehta**
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