Kuwait Finance House (Bahrain) B.S.C.(c)

Public Disclosure

30th June 2015

Table of Contents

1 Group Structure

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined in its Public Disclosure Module ("PD"), CBB Rule Book, Volume II for Islamic Banks. Rules concerning the disclosures under this section are applicable to Kuwait Finance House (Bahrain) B.S.C. (c) ("KFH Bahrain" or "the Bank") being a locally incorporated Bank with an Islamic retail banking license and its subsidiaries, together known as ("the Group"). All amounts presented in the document are in Bahraini Dinar and rounded off to the nearest thousand. The shareholding structure as at 30 June 2015 is as follows:

Name	Number of shares	Nominal Value (BD '000)	Shareholding Percentage	Nationality
Kuwait Finance House K.S.C.	1,650,949,273	165,095	93.200%	Kuwaiti
Treasury Shares	120,437,813	12,044	6.799%	Bahraini
Khalid Mohammed Al-Maarafi	17,714	2	0.001%	Bahraini
Total	1,771,404,800	177,141	100%	

The Board of Directors (the "Board") at KFH Bahrain seeks to optimise the Group's performance by enabling the business units to realise the Group's business strategy and meet agreed business performance targets by operating within the agreed capital and risk parameters and the risk policy framework.

2 Capital Adequacy

The Group manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the CBB in supervising the Bank.

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 healthy capital ratios in order to support its business and to maximise shareholders' value.

Regulatory capital consists of Tier 1 capital (core capital) and Additional Tier 1 and Tier 2 capital (supplementary capital). Tier 1 comprises share capital, share premium, statutory reserve, general reserve, retained earnings (including current year's profit), foreign currency translation reserve, unrealised net gains arising from fair valuing equities and minority interest less goodwill. Additional Tier 1 and Tier 2 capital include instruments issued by the parent company, general financing loss provisions and asset revaluation reserves. Certain adjustments are made to the financial results and reserves, as prescribed by the CBB in order to comply with Capital Adequacy (CA) Module issued by the CBB. From the regulatory perspective, the significant amount of the Group's capital is in Tier 1

The Group's approach to assessing capital adequacy has been in line with its risk appetite in the light of its current and future activities. To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardised Approach for the Credit and Market Risk, and the Basic Indicator Approach for the Operational Risk.

The Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of expectations for each business group, expected growth in off–balance sheet facilities and future sources and uses of funds. In achieving an optimum balance between risk and return, the Bank has established an Internal Capital Adequacy Assessment Program (ICAAP) which quantifies the economic capital requirements for the key risks that the Bank is exposed to including credit risk, investment risk, liquidity risk, strategic risk, profit rate risk, reputation risk, operational risk, and concentration risk. The Bank also conducts comprehensive stress tests for various portfolios and assesses the impact on the capital and profitability. In addition, the Bank's stress testing frameworks and models allow for forward looking scenarios, which is considered for business growth strategies. The ICAAP of the Bank is driven by the Board through the Capital Adequacy Strategy and the ICAAP Policy. In case a plausible stress scenario is identified which may severely affect the capital adequacy of the Bank, the senior management decides an appropriate corrective action to be taken under such a scenario.

For the purpose of computing CAR the Bank consolidates the following entities:

1. Bayan Group for Property Investment W.L.L.;
2. Baytik Investment One S.P.C.; and
3. Baytik Investment Two S.P.C;

Investment in unconsolidated subsidiaries are risk weighted as per the requirement of CA Module.

All transfer of funds within the Group is only carried out after proper approval process.

Table – 1. Capital Structure	Amount in BD '000
CAPITAL STRUCTURE	
Capital Structure (PD-1.3.12, 1.3.13,1.3.14, 1.3.15) *	
Components of Capital	
Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	177,140
Share premium	71,403
Statutory reserve	16,568
General reserve	28,237
Treasury shares	-21,923
Retained earnings	-12,082
Accumulated other comprehensive income and losses (and other reserves)	82,445
Total CET1 capital prior to regulatory adjustments	341,788
Regulatory adjustments from CET1:	
Regulatory adjustments from CET1	-
Total Common Equity Tier 1 capital after the regulatory adjustments above	341,788
Other Capital (AT1 & T 2):	
Instruments issued by parent company	73,970
Assets revaluation reserve - property, plant, and equipment	7,309
General financing loss provisions	5,917
Total Available AT1 & T2 Capital	87,196
Total Capital	**428,984**

* For the purposes of guidance we have cross referenced every table with the relevant Para number of the CBB's Public Disclosures module.

Table – 2. Capital Requirement by Type of Islamic Financing Contract. **Amount in BD '000**

CAPITAL ADEQUACY	
Regulatory Capital Requirements (PD-1.3.17) by Each Type of Islamic Financing Contracts	
Type of Islamic Financing Contracts	**Capital Requirement**
Murabaha contracts with Banks	999
Financing contracts with customers	
-Murabaha	73,402
-Ijarah	6,029
-Musharakah	241
Total	**80,671**

Table – 3. Capital Requirement for Market and Operational Risk **Amount in BD '000**

CAPITAL ADEQUACY		
Capital Requirements for Market Risk (PD-1.3.18) & Operational Risk (PD-1.3.19) & 1.3.30(a)		
Particulars	**Risk Weighted Assets**	**Capital Requirement**
Market Risk - Standardised Approach	36,566	4,571
Operational Risk - Basic indicator approach	137,097	17,137

Table – 4. Capital Ratios **Amount in BD '000**

CAPITAL ADEQUACY		
Capital Adequacy Ratios (PD-1.3.20)		
Particulars	**Total Capital Ratio**	**Tier 1 Capital Ratio**
	%	
Consolidated Ratios	15.45%	12.32%

3 Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from financing, trade finance and treasury activities. The Bank controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by collateral in the form of mortgage on real estate properties or other tangible securities.

Table – 5. Average and Gross Credit Risk Exposure **Amount in BD '000**

CREDIT RISK: QUANTITATIVE DISCLOSURES				
Credit Risk Exposure (PD-1.3.23(a))				
	Self-Financed		**Financed by Unrestricted**	
Portfolios	**Total Gross Credit Exposure**	*** Average Gross Credit Exposure Over the Period**	**Total Gross Credit Exposure**	*** Average Gross Credit Exposure Over the Period**
Balances with Banks	16,372	15,448	39,199	35,197
Murabaha and due from Banks	-	-	140,742	152,104
Financing contracts with customers	375,395	365,391	217,290	215,696
Investments at amortised cost – Sukkuk	-	-	71,214	72,822
Receivables	24,926	11,949	-	-
Total	**416,693**	**392,788**	**468,445**	**475,819**
Credit commitments and contingent items	51,238	50,507	-	-
Grand Total	**467,931**	**443,295**	**468,445**	**475,819**

* Gross credit exposure is reflected net of specific provisions and gross of general provisions.

Average credit exposure has been calculated using quarterly consolidated financial statements and PIRI forms submitted to the CBB.

Table – 6. Portfolio Geographic Breakdown. **Amount in BD '000**

CREDIT RISK: QUANTITATIVE DISCLOSURES										
Geographic Breakdown (PD-1.3.23(b)										
Portfolios	**Self-Financed Geographic Area**					**Financed by Unrestricted Investment Accounts Geographic Area**				
	Middle East	**North America**	**Europe**	**Others Countries**	**Total**	**Middle East**	**North America**	**Europe**	**Others Countries**	**Total**
Balances with Banks	13,794	1,708	863	7	16,372	33,025	4,090	2,067	17	39,199
Murabaha and due from Banks	-	-	-	-	-	140,742	-	-	-	140,742
Financing contracts with customers	368,790	-	6,605	-	375,395	217,290	-	-	-	217,290
Investments at amortised cost – Sukuk	-	-	-	-	-	71,214	-	-	-	71,214
Receivables	21,499	1,029	2,398	-	24,926	-	-	-	-	-
Total	**404,083**	**2,737**	**9,866**	**7**	**416,693**	**462,271**	**4,090**	**2,067**	**17**	**468,445**
Un-funded										
Credit commitments and contingent items	51,238	-	-	-	51,238	-	-	-	-	-
Grand Total	**455,321**	**2,737**	**9,866**	**7**	**467,931**	**462,271**	**4,090**	**2,067**	**17**	**468,445**

Note: The Bank's classification of geographical area is according to the distribution of its portfolios across material geographies.

Table – 7. Industrial Sector Breakdown by Portfolio **Amount in BD '000**

CREDIT RISK: QUANTITATIVE DISCLOSURES										
Industry Sector Breakdown (PD-1.3.23(c))										
	Self-Financed					**Financed by Unrestricted Investment Accounts**				
Portfolios	**Industry Sector**					**Industry sector**				
	Trading and Manufacturing	**Banking and Financial**	**Construction and Real Estate**	**Others**	**Total**	**Trading and Manufacturing**	**Banking and Financial**	**Construction and Real Estate**	**Others**	**Total**
Funded										
Balances with Banks	-	16,372	-	-	16,372	-	39,199	-	-	39,199
Murabaha and due from Banks	-	-	-	-	-	-	140,742	-	-	140,742
Financing contracts with customers	42,354	4,863	293,242	34,936	375,395	24,608	2,825	143,082	46,775	217,290
Investments at amortised cost – Sukuk	-	-	-	-	-	-	32,205	39,009	-	71,214
Receivables	1,579	818	10,525	12,004	24,926	-	-	-	-	-
Total	**43,933**	**22,053**	**303,767**	**46,940**	**416,693**	**24,608**	**214,971**	**182,091**	**46,775**	**468,445**
Un-funded										
Credit commitments and contingent items	18,852	-	25,786	6,600	51,238	-	-	-	-	-
Grand Total	**62,785**	**22,053**	**329,553**	**53,540**	**467,931**	**24,608**	**214,971**	**182,091**	**46,775**	**468,445**

Table – 8. Exposures in Excess of 15% Limit

CREDIT RISK: QUANTITATIVE DISCLOSURES		
Concentration of risk (PD-1.3.23(f)) Exposure as a Percentage of Capital Base		
Counterparties	**Self-Financed**	**Financed by Unrestricted Investment Accounts**
	Concentration of Risk	**Concentration of Risk**
Counterparty # 1	34.71%	4.87%
Counterparty # 2 *	16.98%	-

* Counterparty #2 is a corporate entity eligible for 0% Risk weight as per CBB.

Restructured Islamic Financing Contracts:

The outstanding amount of financing contracts with customers for which financing terms have been renegotiated (due to financial distress) during the period and six months have not elapsed amounted to BD 16,004 thousand (June 2014: BD 32,185 thousand, December 2014: BD 23,828 thousand) and these are secured with collateral amounting to 40,773 thousand (June 2014: BD 71,116 thousand, December 2014: BD 48,154 thousand). As a condition to restructuring, the Bank has received partial payment from customers and/or obtained additional collateral.

The restructuring does not have any significant impact on impairment provisions and present and future earnings of the Group as most of the exposures are sufficiently collateralised and restructuring is based on the market terms. The concession provided to the restructured relationships mainly relates to the extension of the repayment dates.

Table – 9. Maturity Breakdown of Credit Exposures **Amount in BD '000**

CREDIT RISK: QUANTITATIVE DISCLOSURES							
Residual Contractual Maturity Breakdown (PD-1.3.23(g))							
Portfolios	**Self Financed**						
	Maturity Breakdown						
	Up to 3 Months	**3-12 Months**	**1-5 Years**	**5-10 Years**	**10-20 Years**	**Over 20 Years**	**Total**
Balances with Banks	16,372	-	-	-	-	-	16,372
Murabaha and due from Banks	-	-	-	-	-	-	-
Financing contracts with customers	32,975	45,671	206,902	52,469	33,787	3,591	375,395
Investments at amortised cost – Sukuk	-	-	-	-	-	-	-
Receivables	6,245	71	18,610	-	-	-	24,926
Total	**55,592**	**45,742**	**225,512**	**52,469**	**33,787**	**3,591**	**416,693**
Credit commitments and contingent items	-	25,451	25,787	-	-	-	51,238
Grand Total	**55,592**	**71,193**	**251,299**	**52,469**	**33,787**	**3,591**	**467,931**

Amount in BD '000

Residual Contractual Maturity Breakdown (PD-1.3.23(g))							
Portfolios	**Financed by Unrestricted Investment Accounts**						
	Maturity breakdown						
	Up to 3 Months	**3-12 Month**	**1-5 Years**	**5-10 Years**	**10-20 Years**	**Over 20 Years**	**Total**
Balances with Banks	39,199	-	-	-	-	-	39,199
Murabaha and due from Banks	140,742	-	-	-	-	-	140,742
Financing contracts with customers	47,000	26,309	92,132	30,229	19,542	2,078	217,290
Investments at amortised cost – Sukuk	18,123	-	53,091	-	-	-	71,214
Receivables	-	-	-	-	-	-	-
Total	**245,064**	**26,309**	**145,223**	**30,229**	**19,542**	**2,078**	**468,445**
Credit commitments and contingent items	-	-	-	-	-	-	-
Grand Total	**245,064**	**26,309**	**145,223**	**30,229**	**19,542**	**2,078**	**468,445**

Table – 10. Break-up of Impaired Finances by Industry Sector — **Amount in BD '000**

	CREDIT RISK: QUANTITATIVE DISCLOSURES													
	Impaired Finances, Past Due Finances and Allowances (PD-1.3.23(h))													
					Self-Financed									
								Specific Impairment						
Industry Sector	**Total Portfolio**	**Neither past due nor impaired**	**Past due but not impaired**	**Substandard, Doubtful & loss**	**Over 3 Months**	**1 to 3 Years**	**Over 3 years**	**Balance at the beginning of the Period**	**Charges During the Period**	**Transfer from (to) collective provision**	**Transfer to other assets**	**Reversals & write offs during the Period**	**Balance at the End of the Period**	**Collective Impairment**
Trading and manufacturing	42,354	32,705	5,866	3,783	3,334	237	212	87	9	44	(15)	-	125	*
Banking and financial institutions	4,863	4,190	673	-	-	-	-	-	-	-	-	-	-	*
Construction & real estate	293,242	227,984	38,219	27,039	23,829	1,694	1,516	1,460	123	260	(203)	-	1,640	*
Others	34,936	27,111	7,157	668	589	42	37	1,002	108	503	(178)	-	1,435	*
Total	**375,395**	**291,990**	**51,915**	**31,490**	**27,752**	**1,973**	**1,765**	**2,549**	**240**	**807**	**(396)**	**-**	**3,200**	

* This amounts to BD 5,917 thousand representing collective impairment against total exposures (self financed and URIA financed) which, although not specifically identified, have a greater risk of default than when originally granted.

Past due finances are stated net of specific impairment.

Amount in BD '000

	Impaired Finances, Past Due Finances and Allowances (PD-1.3.23(h))												
					Financed by Unrestricted Investment Accounts								
								Specific Impairment					
Industry Sector	**Total Portfolio**	**Neither past due nor impaired**	**Past due but not impaired**	**Substandard, Doubtful & loss**	**Over 3 Months**	**1 to 3 Years**	**Over 3 years**	**Balance at the beginning of the Period**	**Charges during the Period**	**Transfer from (to) collective provision**	**Reversals & write offs during the Period**	**Balance at the end of the Period**	**Collective Impairment**
Trading and manufacturing	24,608	18,077	3,395	3,136	2,764	196	176	124	11	(13)	(19)	103	*
Banking and financial institutions	2,825	2,435	390	-	-	-	-	-	-	-	-	-	*
Construction & real estate	143,082	98,543	22,122	22,417	19,757	1,404	1,256	2,092	148	(635)	(244)	1,361	*
Others	46,775	42,078	4,143	554	488	35	31	1,436	130	(159)	(216)	1,191	*
Total	**217,290**	**161,133**	**30,050**	**26,107**	**23,009**	**1,635**	**1,463**	**3,652**	**289**	**(807)**	**(479)**	**2,655**	

* This amounts to BD 5,917 thousand representing collective impairment against total exposures (self financed and URIA financed) which, although not specifically identified, have a greater risk of default than when originally granted.

Past due finances are stated net of specific impairment.

Table – 11. Break-up of Provision by Geographic Area **Amount in BD '000**

CREDIT RISK: QUANTITATIVE DISCLOSURES						
Impaired Finances, Past Due Finances And Allowances (PD-1.3.23(i))						
	Own Capital and Current Account			Unrestricted Investment Account		
Geographic Area	Past Due Islamic Financing Contracts	Specific Impairment	Collective Impairment	Past Due Islamic Financing Contracts	Specific Impairment	Collective Impairment
Middle East	31,490	3,200	*	26,107	2,655	*
Total	**31,490**	**3,200**		**26,107**	**2,655**	

* This amounts to BD 5,917 thousand representing collective impairment against exposures which, although not specifically identified, have a greater risk of default then when originally granted.

Table – 12. Break-up of Eligible Collateral by Portfolio **Amount in BD '000**

CREDIT RISK MITIGATION (CRM): DISCLOSURES FOR STANDARDISED APPROACH		
Credit Risk Exposure Covered By CRM (PD-1.3.25 (b) and (c))		
Portfolios	Total Exposure Covered by	
	Eligible Collateral(after appropriate haircuts)*	Guarantees
Ijarah	236,631	3,222
Total	**236,631**	**3,222**

* Over and above the collateral, considered as eligible under the CA Module, the Bank maintains additional collateral in the form of mortgage of residential properties, corporate guarantees and other tangible assets, which could be invoked to claim the amount owed in the event of default.

Table –13. Counter Party Credit Risk **Amount in BD '000**

DISCLOSURES FOR EXPOSURES RELATED TO COUNTERPARTY CREDIT RISK (CCR)								
General Disclosures (PD-1.3.26 (b))								
Current Credit Exposure by Type of Islamic Financing Contracts	Gross Positive Fair Value (Net of specific provision)	Netting Benefits	Netted Current Credit Exposures	Eligible Collaterals Held (after appropriate haircuts) *				
				Cash	Govt. Securities	Guarantees	Real Estate	Total
Murabaha	289,726	-	289,726	-	-	-	-	-
Ijarah	301,676	-	301,676	164	-	3,222	236,467	239,853
Musharakah	1,283	-	1,283	-	-	-	-	-
Total	**592,685**	-	**592,685**	**164**	**-**	**3,222**	**236,467**	**239,853**

* Over and above the collateral, considered as eligible under the CA Module, the Bank maintains additional collateral in the form of mortgage of residential properties, corporate guarantees and other tangible assets, which could be invoked to claim the amount owed in the event of default.

4 Market Risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, profit rates, commodity prices, equity prices and credit spreads will reduce the Group's income or the value of its portfolios. The Group is also exposed to profit rate and potential foreign exchange risks arising from financial assets and liabilities.

The Board has approved the overall market risk appetite in terms of market risk strategy and market risk limits. RMD is responsible for the market risk control framework and sets a limit framework within the context of the approved market risk appetite. The Bank separates market risk exposures into either trading or non–trading portfolios. Trading portfolios include those positions arising from market–making, proprietary position–taking and other marked–to–market positions. Non–trading portfolios include all other positions that are not included in the trading book.

Daily market risk reports are produced for the Bank's senior management covering the different risk categories. These reports are discussed with the senior management committees such as ALCO which take appropriate action to mitigate the risk.

4.1 Market Risk Factors

For the Group, market risk may arise from movements in profit rates, foreign exchange markets, equity markets or commodity markets. A single transaction or financial product may be subject to any number of these risks.

Profit Rate Risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments.

Foreign Exchange Risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on FX Value At Risk (VAR) . Positions are monitored on a daily basis to ensure risk is maintained within established limits using VaR methodology.

The Group is exposed to the currency risk mainly due to the Bank's banking book FX net open positions and due to the fact that the assets and liabilities of its foreign subsidiaries are denominated in their respective functional currencies. Net assets of the Group's foreign subsidiary, located in Jordan, as at 30 June 2015 are BD 34,558 thousand (31 December 2014: BD 34,671 thousand).The assets and liabilities are translated into Bahraini Dinar (presentation currency of the Group) using the closing rate at the date of statement of financial position for the purpose of consolidated financial statements. The impact of foreign currency translation is recognised in the statement of comprehensive income and will be routed to statement of income at the time of disposal of investment in subsidiaries.

Equity Risk is the risk that the fair values of equities decrease as a 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.

Commodity Price Risk is the risk that arises as a result of sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within a particular sector and less correlated across sectors. The Group is not exposed to material commodity price risk.

Table – 14. Minimum and Maximum Capital Requirement for Market Risk

MARKET RISK: DISCLOSURES FOR BANK'S USAGE OF THE STANDARDISED APPROACH					
Level Of Market Risks In Terms Of Capital Requirements (PD-1.3.27 (b))					
Particulars	**Price Risk**	**Foreign Exchange Risk**	**Equity Position Risk**	**Market Risk on Trading Positions in Sukuk**	**Commodity Risk**
Capital requirements	288	2,887	-	-	-
Maximum value	314	2,887	-	-	-
Minimum value	288	2,834	-	-	-

This disclosure is based on the figures from the PIRI for the quarter ended 30 June 2015.

5 Operational Risk

5.1 Introduction

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The Bank has established a Risk Control and Self-Assessment (RCSA) process necessary for identifying and measuring and controlling its operational risks. This exercise covers the Bank's business lines and associated critical activities that exposes the Bank to material operational risks.

5.2 Quantitative disclosures

Table –15. Indicators of Operational Risk **Amount in BD '000**

OPERATIONAL RISK : QUANTITATIVE DISCLOSURES FOR BASIC INDICATOR APPROACH	
Indicators of Operational Risk (PD-1.3.30 (b) & (c))	
Particulars	**Total**
Gross Income (average)	73,118
Amount of non-Shari'a-compliant income	-
Number of Shari'a violations that were identified and reported during the financial year	-

Material legal contingencies including pending legal actions are as follows:

- A guarantee was issued by the Bank to a customer and subsequently called up by the latter. The Bank is defending the claim for payment under the guarantee and believes that no payment in this regard will be required.

- An action was filed by the Bank against a defaulting customer for monies owed to the Bank under a facility. The Bank won the action against the customer and is seeking to enforce the judgment in the customer's home country. In response to the Bank's action, the customer has filed a frivolous claim against the Bank. The Bank is seeking to dismiss this claim and believes no payment will be required.

- An action was filed by the Bank to claim an amount held in an escrow account and the counter party alleges that the Bank is not entitled to this amount. The Bank successfully defended the claim and is seeking to release the amount held in the escrow account to the Bank.

Legal cases are handled by the Bank's in-house legal team and external legal consultants are consulted on such matters.

During the first half of the year 2015, the Bank paid BD 300 for six un-cleaned account in the Bahrain credit Reference Bureau (BCRB) System.

Any non-Shari'a compliant earnings are immediately given away as charity.

6 Equity Positions in the Banking Book

Equity price risk is the risk that the fair values of equities decrease as a 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. The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the interim condensed consolidated financial statements. All of the Group's investments are intended to be for long term holdings except for investment classified as available for sale and held for sale.

Table – 16. Total and Average Gross Exposures **Amount in BD '000**

EQUITY POSITION IN BANKING BOOK - DISCLOSURE REQUIREMENTS				
Total and Average Gross Exposure - (PD-1.3.31 (b) & (c))				
Type and Nature of Investment	**Total Gross Exposure**	*** Average Gross Exposure**	**** Publicly Traded**	**Privately held**
Equity investments	375,412	381,102	15,606	359,806
Managed funds	6,962	6,967	-	6,962
Musharaka	1,283	1,436	-	1,283
Total	**383,657**	**389,505**	**15,606**	**368,051**

* Average exposure has been calculated using quarterly consolidated financial statements or PIRI forms submitted to CBB.

** This includes publically listed equities classified as investment in associate and available for sale in the financial statements.

Table – 17. Break-up of Capital Requirement for Equity Groupings **Amount in BD '000**

EQUITY POSITION IN BANKING BOOK - DISCLOSURE REQUIREMENTS	
Capital Requirement - (PD-1.3.31 (f))	
Equity Grouping	**Capital Requirement**
Listed	1,951
Unlisted	194,320
Managed Funds	394
Total	**196,665**

Table – 18. Gain and Loss Reported **Amount in BD '000**

EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS	
Gains / Losses Etc. (PD-1.3.31 (d) and (e))	
Particulars	**Total**
Total realised gains arising from sales or liquidations in the reporting period	(555)
Total unrealised gains (net) recognised in statement of other comprehensive income	(1,270)
Unrealised gains included in Tier 1 Capital	85,621
Unrealised gains included in Additional Tier 1 and Tier 2 Capital	7,309

7 Equity of Investment Account Holders (URIA)

The Investment Account Holder ("IAH") authorizes the Bank to invest the account holder's funds on the basis of Mudaraba contract in a manner which the Bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. Under this arrangement the Bank can commingle the IAH funds with its own funds (owner's equity) and with other funds the Bank has the right to use (e.g. current accounts or any other funds which the Bank does not receive on the basis of Mudaraba contract). The IAH and the Bank participate in the returns on the invested funds.

The Bank has developed a Profit Sharing Investment Accounts (PSIA) policy which details the manner in which the URIA funds are deployed and the way the profits are calculated for the URIA holders. The strategic objectives of the investments of the IAH funds are

- Investment in Shari'a compliant opportunities;
- Targeted returns;
- Compliance with investment policy and overall business plan;
- Diversified portfolio; and
- Preparation and reporting of periodic management information.

URIA holders' funds are invested in short and medium term Murabaha and due from banks, Sukuk and the financing portfolio. The Bank invests these funds through various departments including Treasury, corporate, consumer, and capital markets. No priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the URIA, 100% of the funds are invested after deductions of mandatory reserve and sufficient operational cash requirements. URIA funds are invested and managed in accordance with Shari'a requirements. Income generated and losses arising (including provisions) from the invested funds is allocated proportionately between URIA holders and shareholders on the basis of the average balances outstanding and share of the funds invested. The Bank does not share income from fee based services with the URIA holders. Administrative expenses incurred by the Bank are allocated to the URIA holders in the proportion of average URIA funded assets to average total pool assets of the Bank. The process has not changed significantly from the past years.

The mudarib share on investment accounts ranges from 20% to 40% depending on the investment period and in case of saving accounts, where there is no restriction of cash withdrawal, the mudarib share ranges from 50% to 60%. However, during the year, in addition to investors' share of profit, the Bank has distributed profit to investors from its own share of mudarib share. There is no change in mudarib share from the year ended 31 December 2014 to 30 June 2015.

The Bank has a Corporate Communications Department which is responsible for communicating new and/or extended product information through various channels of communication which may include publications, website, direct mailers, electronic mail and local media. The URIA products available to the customers can be classified broadly under two categories, 1) Term URIA and 2) Saving URIA. Term URIA are fixed term URIA having maturity of 1, 3, 6 and 12 months whereas Saving URIA can be withdrawn on demand. Detailed information about the features of various products offered by the Bank can be obtained from the website of the Bank, brochures at the branches, call center and customer service representatives at the branches of the Bank. Branches of the Bank are the primary channel through which products are made available to the customers.

7 Equity of Investment Account Holders (URIA) (continued)

Fiduciary risk is the risk that arises from Bank's failure to perform in accordance with explicit and implicit standards applicable to their fiduciary responsibilities. Although KFHB will discourage subsidizing its URIA holders, the Bank may forgo a portion of its mudarib share from assets funded by PSIA and apportion its share to the IAH as part of smoothing returns and to mitigate potential withdrawal of funds by investment account holders.

Complete mudarib share or part thereof, based on the approval of ALCO of the Bank, can be waived to pay a competitive rate to URIA holders. There are no instances where the Bank, as Mudarib, has taken any share greater than the agreed/disclosed profit sharing ratio. There were instances where the Bank has forgone part of its profit to distribute that to the Bank's customers or investors. The bank may also forgo part of its shareholder's returns as a "hiba" to URIA holders in order to mitigate DCR.

The rate of return payable to URIA holders is decided by ALCO, keeping in view the rate of return earned on the pool of assets. Based on the results of Mudarabah, allocation will take place to the URIA holders affected by the following factors including rates offered by peer banks, cost of funds from various sources, liquidity position of the Bank and market benchmarks (LIBOR etc). The Bank compares its rates with the rates offered by peer Islamic banks in the market along with performing analysis of its profitability and studies of other market indicators. The Bank does not use a fixed market benchmark rate for comparison to the returns paid to URIA holders. In order to ensure smooth returns and to mitigate the potential withdrawal of funds by URIA Investors; the Bank can use Profit Equalisation Reserve (PER). Similarly, the Bank can use an Investment Risk Reserve (IRR) to cater against future losses for URIA holders. The amount of PER and IRR as at 31 December 2014 and 30 June 2015 is Nil but the Bank may transfer an amount into PER and IRR in future after prior notice to its customers.

Table – 19. Break-up of URIA **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:	Amount	Financing to Total URIA %	Ratio of Profit Distributed
Savings URIA	171,565	37%	17%
Term URIA	296,691	63%	83%
Total	**468,256**	**100%**	**100%**

Table – 20. Percentage of Return on Average URIA Assets

UNRESTRICTED INVESTMENT ACCOUNTS: Unrestricted Investment Account (PD-1.3.33 (d))	Percentage
Average profit paid on average URIA assets	0.76%
Average profit earned on average URIA assets	0.71%

Table – 21. Percentage of Mudarib share to Total URIA Profits **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS: Unrestricted Investment Account (PD-1.3.33 (f))	URIA Return Before Mudarib shares	Share of Profit Paid to Bank as Mudarib	Percentage
Mudarib share to total URIA profits	1,846	-	0%

Table – 22. Percentage of Islamic Financing Contracts Financed by URIA to Total URIA **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS: Unrestricted Investment Account (PD-1.3.33 (h)) Shari'a-Compliant Contract	Financing	Financing to Total URIA %
Cash and balances with banks	41,690	8.90%
Murabaha and due from banks	133,242	28.46%
Investments at amortised cost – Sukuk	71,214	15.21%
Customer Murabaha	117,121	25.01%
Customer Ijarah Muntahia Bittamleek	104,988	22.42%
Total	**468,255**	**100.00%**

Table – 23. Percentage of Counterparty Type Contracts Financed by URIA to Total URIA **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:		
Unrestricted Investment Account (PD-1.3.33 (i))		
Counterparty Type	**Financing**	**Financing to Total URIA %**
Cash items	2,492	0.53%
Claims on sovereigns & MDBs	62,794	13.41%
Claims on banks	117,397	25.07%
Claims on corporate	71,676	15.31%
Regulatory retail portfolio	19,712	4.21%
Mortgage	167,605	35.79%
Past due facilities	26,109	5.58%
Others	471	0.10%
Total	**468,256**	**100.00%**

Table – 24. Percentage of Profit Paid to URIA Holders to Total URIA Investment

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (l) (m) & (n))			
	Share of Profit Paid to IAH Before Transfer To/From Reserves %	**Share of Profit Paid to IAH After Transfer To/From Reserves %**	**Share of Profit Paid, as a % of Funds Invested, to Bank as Mudarib %**
URIA	0.76%	0.76%	0.00%

Table – 25. Range of Declared Rate of Return

UNRESTRICTED INVESTMENT ACCOUNTS:				
Unrestricted Investment Account (PD-1.3.33 (q))				
Declared rate of return for Investments accounts	**1-Month**	**3-Month**	**6-Month**	**12-Month**
BHD denominated	0.90% - 1.05%	1.10% - 1.25%	1.25% - 1.50%	1.40% - 2.00%
USD denominated	0.50% - 1.05%	0.75% - 1.25%	1.0% - 1.35%	1.20% - 1.45%

Table – 26. Movement of URIA by Type of Assets **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (r) & (s))			
Type of Assets	**Opening Actual Allocation as at 01 Jan 2015**	**Net Movement During the Period**	**Closing Actual Allocation as at 30 June 2015**
Cash and Balance with banks and CBB	32,324	9,367	41,691
Murabaha due from banks	125,106	15,636	140,742
Investments at amortised cost – Sukuk	85,887	-14,673	71,214
Murabaha due from customers	138,696	-29,074	109,622
Ijarah Muntahia Bittamleek due from customers	127,031	-22,044	104,987
Total	**509,044**	**(40,788)**	**468,256**

Note: There are no limits imposed on the amount that can be invested by URIA funds in any one asset. However, the Bank monitors its URIA deployment classifications so that to ensure that URIA funds are not invested in the Bank's long term Investment Portfolio (including Private Equity and Real Estate).

Table – 27. Capital Charge on URIA by Type of Claims **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:		
Unrestricted Investment Account (PD-1.3.33 (v))		
Type of Claims	**RWA for Capital Adequacy Purposes**	**Capital Charge**
Cash items	-	-
Claims on sovereign	-	-
Claims on MDBs	-	-
Claims on banks	28,606	1,073
Claims on corporate	34,435	1,291
Regulatory retail portfolio	14,784	554
Mortgages	57,202	2,145
Past due facilities	445	17
Other assets	471	18
Total	**135,943**	**5,098**

* The RWA for Capital Adequacy Ratio Purposes is presented above prior to the application of the CBB approved 30% alpha factor which is the proportion of assets funded by URIA for RWA purposes in accordance to the CA module.

Table – 28. Percentage of Profit Earned and Profit Paid to Total Mudaraba **Amount in BD '000**

DISPLACED COMMERCIAL RISK - URIA:			
Displaced Commercial Risk Unrestricted Investment Account (PD-1.3.41 (b)			
	Total Mudaraba profits available for sharing between URIA and shareholders	Contractual Range of Mudharib Share	Mudharib Share % of URIA Profit Earned
June 2015	2.89%	20%-60%	-
2014	3.29%	20%-60%	-
2013	3.73%	20%-60%	26.81%
2012	3.57%	20%-60%	30.21%
2011	4.34%	20%-60%	13.49%

Table – 29. Percentage rate of return to URIA and shareholders from Mudaraba Profit **Amount in BD '000**

DISPLACED COMMERCIAL RISK - URIA:	
Displaced Commercial Risk Unrestricted Investment Account (PD-1.3.41 (d))	
Type of Claims	Shareholder Mudharaba Profit Earned as % of shareholder funds (before mudharib share)
June 2015	6.58%
2014	4.33%
2013	6.64%
2012	4.92%
2011	6.77%

Table – 30. Percentage of Profit Earned and Profit Paid to Total URIA Funds **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:					
Unrestricted Investment Account (PD-1.3.33 (w))					
	*** URIA Funds (Average)**	**** Profit Earned**	**Profit Earned as a percentage of funds invested**	**Profit paid**	***** Profit paid as a percentage of funds invested (after smoothing)**
June 2015	485,251	1,578	0.65%	1,846	0.76%
2014	488,067	5,864	1.20%	6,283	1.29%
2013	459,227	10,808	2.35%	7,894	1.72%
2012	463,540	13,327	2.88%	9,300	2.01%
2011	491,680	14,966	3.04%	12,918	2.63%

* Average assets funded by URIA have been calculated using consolidated management accounts.

** This is the rate of return gross of mudarib share which ranges from 20% to 40% for term URIA, depending on the investment period of the Investment, and from 50% to 60% for saving URIA.

*** During the period the Bank waived its mudarib share resulting in higher return paid to URIA holders by 100.00% (31 December 2014: 100.00%).

Table – 31. Operating Expenses Allocated to URIA **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:	
Unrestricted Investment Account (PD-1.3.33 (x))	
Unrestricted IAH	**Amount**
Amount of administrative expenses charged to URIA	6,628

8 Restricted Investment Accounts ("RIA")

Under RIA, the IAH has authorized the Bank to invest the funds on the basis of Mudaraba contract for investments, but imposes certain restrictions as to where, how and for what purpose this funds are to be invested. Further, the Bank may be restricted from commingling its own funds with the RIA funds for the purposes of investment. In addition, there may be other restrictions which IAHs may impose. RIA funds are invested and managed in accordance with Shari'a requirements. The funds are managed by the Bank under a fiduciary capacity as per the instructions of the RIA holders and accordingly the Bank is not liable to make good any losses occurred due to normal commercial reasons.

The Bank has developed the PSIA policy, approved by the Board, which details the manner in which the RIA funds are deployed and the way the profits are calculated for the RIA.

The Bank as fund manager (mudarib) carries out its fiduciary duties and administers the scheme in a proper, diligent and efficient manner, in accordance with the Shari'a principles and applicable laws and relevant rules and guidelines issued by the CBB.

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

a) Organising its internal affairs in a responsible manner, ensuring it has appropriate internal controls and management systems and procedures and controls designed to mitigate and manage such risk;
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 Bank has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

RIA products are made available to the customers through Priority Banking and Investment Placement Department. Detailed product information about various RIA products is available in the respective RIA information pack. The detailed risks are disclosed in the respective RIA information pack for the investors to make informed decision. Such disclosure includes the disclosure on participation risks, default risks, investment risks and exchange rate risks.

Table – 32. History of Profit Paid to RIA Holders Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:						
Restricted Investment Account (PD-1.3.35 (a) & (b))						
	June 2015	**2014**	**2013**	**2012**	**2011**	**2010**
Return to RIA holders	3,498	7,377	7,455	5,476	5,459	5,440

Table – 33. Break-up of RIA by Type of Deposits Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (a))	
	Amount
RIA funds	131,955

Table – 34. Percentage of Profit Paid to RIA Holders to RIA Assets

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (d))	
	Percentage
Return on average* RIA assets	5.53%

* Average RIA funds have been calculated using consolidated management accounts.

Table – 35. Mudarib share as a Percentage of Total RIA Profits

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (f))	
	Percentage
Mudarib share to total (gross) RIA profits	23.94%

Table – 36. Share of Islamic Financing Contracts in Total RIA Financing Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.33 (h))		
Shari'a-Compliant Contract	**Financing**	**Financing to Total Financing %**
Murabaha	131,955	100.00%
Total	**131,955**	**100.00%**

Table – 37. Percentage of Counterparty Type Contracts Financed by RIA to Total RIA Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.33 (i))		
Counterparty Type	**Financing**	**Financing to Total Financing %**
Claims on corporate	131,955	100.00%

Table – 38. Share of Profit Paid to RIA Holders as a Percentage of Total RIA Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:				
Restricted Investment Account (PD-1.3.33 (l) (m) (n) & (o))				
Type of RIA	**Total RIA**	**RIA Return Before Mudarib shares**	**RIA Return after Mudarib shares**	**Share of Profit Paid to Bank as Mudarib**
	A	**B**	**C**	**D**
Murabaha	131,955	4,599	3,498	1,101
Total	**131,955**	**4,599**	**3,498**	**1,101**

Table – 39. Declared Rate of Return of RIA

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.33 (q))		
	12-Month	**24-Month**
Declared rate of return	4.5% - 5.7%	5.0% - 6.2%

Table – 40. Treatment of Assets Financed by RIA in the Calculation of RWA for Capital Adequacy Purposes

Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.33 (v))		
Type of IAH	**Exposure**	**Risk Weighted Amount While Calculating CAR***
Murabaha	131,955	-

* Due to capital deductions from exceeding one of CBB's RIA related limits.

Table – 41. Profit Earned and Profit Paid as a Percentage of Total RIA Funds Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:				
Restricted Investment Account (PD-1.3.33 (w))				
	Profit Earned	***Profit Earned as a Percentage of RIA Funds**	**Profit Paid**	***Profit Paid as a Percentage of RIA Funds**
June 2015	4,599	7.27%	3,498	5.53%
2014	9,226	7.56%	7,377	6.18%
2013	9,013	7.33%	5,476	6.06%
2012	6,494	8.98%	5,459	7.57%
2011	6,051	7.75%	5,440	6.99%
2010	5,905	6.77%	4,191	6.23%

* Profit earned and profit paid are based on average RIA funds and may not tally with the declared profit rates

9 Liquidity Risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

Table – 42. Liquidity Risk Exposure Indicators

LIQUIDITY RISK: QUANTITATIVE DISCLOSURE	
Liquid assets to customer deposits (PD-1.3.37)	
As at 30 June 2015	27.47%
During the period:	
Average	26.87%
Highest	29.98%
Lowest	22.32%

Table – 43. Maturity Analysis based conservative deposit behavioral analysis **Amount in BD '000**

LIQUIDITY RISK: QUANTITATIVE DISCLOSURE								
Maturity Analysis by Different Maturity Buckets. (PD-1.3.38)								
	Upon One Year			**Over One Year**				
	Up to 3 Months	**3 Months to 12 Months**	**Subtotal up to 12 Months**	**1 to 5 Years**	**5 to 10 Years**	**Over 10 Years**	**Subtotal Over 1 Year**	**Total**
Assets								
Cash and balances with banks and Central Bank of Bahrain	18,056	6,174	24,230	7,720	7,720	23,912	39,352	63,582
Murabaha and due from banks	140,743	-	140,743	-	-	-	-	140,743
Financing contracts with customers	74,058	71,980	146,038	299,034	82,698	58,998	440,730	586,768
Investments	18,123	896	19,019	76,562	143,425	-	219,987	239,006
Investment in joint ventures and associates	-	-	-	158,420	-	-	158,420	158,420
Investment in real estate	-	-	-	-	170,400	12,602	183,002	183,002
Receivables, prepayments and other assets	9,429	71	9,500	80,872	-	-	80,872	90,372
Intangibles	-	-	-	-	3,721	-	3,721	3,721
Premises and equipment	-	-	-	-	39,865	-	39,865	39,865
Total	**260,409**	**79,121**	**339,530**	**622,608**	**447,829**	**95,512**	**1,165,949**	**1,505,479**
Liabilities and Unrestricted Investment Accounts								
Customers' current accounts	6,492	-	6,492	35,468	35,468	35,468	106,404	112,896
Due to banks	11,108	133,954	145,062	14,087	-	-	14,087	159,149
Murabaha due to non-banks	19,417	152,718	172,135	42,572	33,878	33,878	110,328	282,463
Other liabilities	12,322	2,774	15,096	15,211	-	-	15,211	30,307
Equity of investment account holders	19,714	11,510	31,224	145,677	145,677	145,677	437,031	468,255
Subordinated murabaha payable	-	-	-	92,463	-	-	92,463	92,463
Total	**69,053**	**300,956**	**370,009**	**345,478**	**215,023**	**215,023**	**775,524**	**1,145,533**

10 Profit Rate Risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments.

Table – 44. Profit Rate Shock **Amount in BD '000**

PROFIT RATE RISK IN THE BANKING BOOK			
200bp Profit Rate Shocks (PD-1.3.40 (a)+(b))			
Assets	**Amount (Re-priced within one year)**	**Change in Basis Points**	**Effect on Net Income for the Year**
Murabaha and due from banks	140,743	200	2,815
Financing contracts with customers	347,756	200	6,955
Investments at amortized cost	18,123	200	362
Liabilities			
Murabaha and due to banks	159,149	200	(3,183)
Murabaha due to non-banks	282,463	200	(5,649)
Subordinated murabaha payable	92,463	200	(1,849)
Equity of investment account holders	468,255	200	(9,365)

11 Financial Performance and Position

Table – 45. Ratios

Financial Performance and Position					
(PD-1.3.9(b))					
Quantitative Indicator	**June 2015**	**2014**	**2013**	**2012**	**2011**
Return on average equity	0.17%	1.40%	1.53%	2.56%	2%
Return on average assets	0.04%	0.34%	0.38%	0.65%	0.4%
Staff cost to net operating income ratio	41.46%	25.83%	41.5%	33.8%	29%

Formula is as follows:
ROAE = Net Income/average equity
ROAA= Net profit/ average Assets