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

Public Disclosure

30th June 2017

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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"), Section PD–1: Annual Disclosure requirements, 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"). These disclosures should be read in conjunction with the Financial Statement for the period ended 30 June 2017. All amounts presented in the document are in Bahraini Dinar and rounded off to the nearest thousand. The shareholding structure as at 30 June 2017 is as follows:

Name	Number of shares	Nominal Value	Shareholding Percentage	Nationality
Kuwait Finance House K.S.C.	1,325,169,277	132,516,928	99.999%	Kuwaiti
Khalid Mohammed Al-Maarafi	17,714	1,771	0.001%	Bahraini
Total	1,325,186,991	132,518,699	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 does not consolidate any of its subsidiaries.

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.

The following is the List of legal entities that are included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation;

S.No.	Name of the entity	Total assets (BD '000)	Total equity (BD '000)	Principal activities
1	Al-Enma House for Real Estate B.S.C. (c)	16,806	13,271	The company is engaged in property management of commercial, industrial and residential buildings and the provision of security services to buildings and facilities.
2	Kuwait Finance House - Jordan	28,997	28,903	The company and its subsidiaries are engaged in investment advisory and investments in private equities and real estate development.
3	Ishbiliya Village W.L.L.	22,787	21,800	The principal activity of the company is to invest in and develop real estate projects and consequently buying, selling and marketing of such properties.
4	Mena Telecom W.L.L.	23,129	20,400	The company is a licensed telecommunications company.
5	Baytik Investments One S.P.C.	10,881	10,877	The company has been established as a special purpose vehicle to hold investments in various entities.
6	Baytik Investments Two S.P.C.	10,936	10,932	The company has been established as a special purpose vehicle to hold investments in various entities.
7	Delmon 1 Co. W.L.L.	20	20	The Company was established for the purpose of providing financing. The principal activity of the Company is management of commercial and industrial centers and residential buildings.
8	Baytik Industrial Investments Company W.L.L.	180	180	The Company has been established to invest in industrial projects and to undertake joint ventures with other companies engaged in similar activities.
9	Baytik Infrastructure Holding W.L.L.	943	943	The Company has been established to act as a holding company for a group of commercial, industrial or service companies.
10	Royal Arabian W.L.L.	272	272	The principal activity of the Company is to buy, sell, manage, develop and operate tourism equestrian sports town.

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	132,519
Share premium	-
Statutory reserve	17,757
General reserve	-
Treasury shares	-
Retained earnings	19,084
Accumulated other comprehensive income and losses (and other reserves)	(8,225)
Total CET1 capital prior to regulatory adjustments	161,135
Regulatory adjustments from CET1:	
Regulatory adjustments from CET1	-
Total Common Equity Tier 1 capital after the regulatory adjustments above	161,135
Other Capital (AT1 & T 2):	
Instruments issued by parent company (Note 1)	37,274
Assets revaluation reserve - property, plant, and equipment	-
General financing loss provisions	13,422
Total Available AT1 & T2 Capital	50,696
Total Capital	**211,831**

Note 1: The instrument issued by the Parent is in the form of subordinated Murabaha with a maturity of below five years as of 30 June 2017. The repayments of this Murabaha is subject to the prior approval of the CBB.

Note 2: investment in unconsolidated subsidiaries has note lead to any individual significant threshold breaches.

* For the purposes of guidance we have cross referenced every table with the relevant section 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	581
Financing contracts with customers	
-Murabaha	66,780
-Ijarah	2,872
-Musharakah	59
Total	**70,292**

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	32,933	4,117
Operational Risk - Basic indicator approach	188,659	23,582

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	16.4%	12.4%

Table – 5. Three Step Approach to Reconciliation (Appendix PD - 2)

(PD-A.2.10, A.2.10A,)	Balance Sheet as Published in Financial Statements As at Period End (BD '000)	Consolidated PIRI Data As at Period End (BD '000)	Reference - Common Disclosure Template for Capital
Assets			
Cash and balances with banks and Central Bank of Bahrain	51,769	50,622	
Due from banks	77,454	77,454	
Financing contracts with customers	693,716	693,716	
Financing contracts with customers - collective impairment provision	(26,241)	(26,241)	50
Investments	7,806	6,211	
Investment in sukuk	139,303	139,303	
Investments in unconsolidated subsidiaries	-	58,625	
Investment in joint ventures and associates	11,954	3,236	
Investment in real estate	-	-	
Receivables, prepayments and other assets	285,420	246,123	
Premises and equipments	8,662	8,647	
Assets classified as held for sale	20,209	-	
Total assets	**1,270,052**	**1,257,696**	
Liabilities			
Customers' current accounts	138,163	141,045	
Due to banks	119,781	119,781	
Due to non-banks	212,359	212,359	
Other liabilities	42,814	30,582	
Subordinated murabaha payable	92,034	92,034	
Liabilities classified as held for sale	2,729	-	
Equity of Investment Account Holders	492,511	500,760	
Total liabilities	**1,100,391**	**1,096,561**	
Shareholders' Equity			
Share capital *	132,519	132,519	1
Share Premium *	-	-	1
Treasury shares *	-	-	1
Retained earnings and unrealized gains *	10,892	10,892	2 & 3
Assets revaluation reserve - property, plant and equipment	-	-	50
Other reserves *	17,724	17,724	3
Non-controlling shareholders	8,526	-	
Total Shareholders' Equity	**169,661**	**161,135**	

* These amounts are eligible for CET1

Table – 6. Main Features of Regulatory Capital Instruments (Appendix PD - 3)

S.No.	Description	Tier 1	Tier 2
1	Issuer	Kuwait Finance House (Bahrain) B.S.C. (c)	Kuwait Finance House (Bahrain) B.S.C. (c)
2	Unique identifier (e.g. CUSP, ISIN or Bloomberg identifier for private placement)	N/A	
3	Governing law(s) of the instrument	1. Central Bank of Bahrain; and 2. Ministry of Industry, Commerce and Tourism	1. Central Bank of Bahrain.
	Regulatory treatment		
4	Transitional CBB rules	Common Equity Tier 1	Tier 2
5	Post-transitional CBB rules	Common Equity Tier 1	Ineligible (Post 2019)
6	Eligible at solo/group/group & solo	Solo and Group	Solo and Group
7	Instrument type (types to be specified by each jurisdication)	Paid Up Capital, Reserves and Retained Earning	Subordinated Murabaha
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BD 161,135 (thousands)	BD 37,274 (thousands)
9	Par value of instrument	BD 0.100	N/A
10	Accounting classification	Shareholders' Equity	Liability - Amortised
11	Original date of issuance	January-02	September-09
12	Prepetual or date	Perpetual	Dated
13	Original maturity date	No Maturity	September-19
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	Call date is any date falling not less than 5 years from the original date of issuance specified above. The prepayment may be done partially or in full.
16	Subsequent call dates, if applicable	N/A	same as above (note15)
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Based on the performance of the Bank and approval of the AGM.	Floating
18	Coupon rate and any related index	N/A	6 Month KIBOR + 2% per annum
19	Existence of a dividend stopper	No	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully Discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Non - Comulative	Cumulative

Table – 6. Main Features of Regulatory Capital Instruments (Appendix PD - 3) (Continued)

S.No.	Description	Tier 1	Tier 2
23	Convertible or non-convertible	N/A	Nonconvertible
24	If convertible, conversion trigger (s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, manadatory or optional conversion	N/A	N/A
28	If convertible, specify intrument type convertible into	N/A	N/A
29	If convertible, specify issuer of intrument it converts into	N/A	N/A
30	Wirte-down feature	No	No
31	If write-down, write-down trigger(s)	No	No
32	If write-down, full or partial	No	No
33	If write-down, permanent or temporary	No	No
34	If temporary write-down, description of write-up mechanism	No	No
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Residual Claim. All Liabilities (including Tier 2 instrument) and Equity of Investment Account Holders are senior to this instrument. Equity of Investment Account holders are senior to Common Equity Tier 1 in cases where the Bank is proven to be negligent to the Equity of Investment Account holders' rights. In other circumstances, Equity of Investment Account holders are pari-passu with Common Equity Tier 1. this is all subject to the actual application of relevant laws upon residual claim being made.	Subordinated. All other Liabilities are senior to this instrument.
36	Non-compliant transitioned features	No	Yes
37	If yes, specify non-compliant features	N/A	CBB's Tier 2 Capital Requirements including specification of write-down or conversion triggers and type of eligible instruments.

Table – 7. Capital disclosures during the transition phase (Appendix PD - 4)

	Common Equity Tier 1 Capital: Instruments and Reserves	
S.No.	**Description**	**(BD '000)**
1	Directly issued qualifying common share capital plus related stock surplus	132,519
2	Retained earnings	36,841
3	Accumulated other comprehensive income (and other reserves)	(8,225)
4	*Not applicable*	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	**Common Equity Tier 1 Capital Before Regulatory Adjustments**	**161,135**
	Common Equity Tier 1 Capital: Regulatory Adjustments	
7	Prudential valuation adjustments	-
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-
14	*Not applicable*	
15	Defined-benefit pension fund net assets	-
16	Investments in own shares	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	CBB specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	**Total Regulatory Adjustments to Common Equity Tier 1**	-
29	**Common Equity Tier 1 Capital (CET1)**	**161,135**
	Additional Tier 1 Capital: Instruments	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	*of which: instruments issued by subsidiaries subject to phase out*	-
36	**Additional Tier 1 Capital Before Regulatory Adjustments**	-

Table – 7. Capital disclosures during the transition phase (Appendix PD - 4) (Continued)

Common Equity Tier 1 Capital: Instruments and Reserves		
S.No.	**Description**	**(BD '000)**
	Additional Tier 1 Capital: Regulatory Adjustments	
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	CBB specific regulatory adjustments	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	**Total Regulatory Adjustments to Additional Tier 1 Capital**	-
44	**Additional Tier 1 Capital (AT1)**	-
45	**Tier 1 Capital (T1 = CET1 + AT1)**	**161,135**
	Tier 2 Capital: Instruments and Provisions	
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47	*Directly issued capital instruments subject to phase out from Tier 2*	37,274
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	*of which: instruments issued by subsidiaries subject to phase out*	-
50	Provisions	13,422
51	**Tier 2 Capital Before Regulatory Adjustments**	50,696
	Tier 2 Capital: Regulatory Adjustments	
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	CBB specific regulatory adjustments	-
57	**Total Regulatory Adjustments to Tier 2 Capital**	**-**
58	**Tier 2 Capital (T2)**	**50,696**
59	**Total Capital (TC = T1 + T2)**	**211,831**
60	**Total Risk Weighted Assets**	**1,295,332**
	Capital Ratios and Buffers	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.44%
62	Tier 1 (as a percentage of risk weighted assets)	12.44%
63	Total capital (as a percentage of risk weighted assets)	16.35%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	2.50%
65	of which: capital conservation buffer requirement	2.50%
66	of which: bank specific countercyclical buffer requirement	N/A
67	of which: D-SIB buffer requirement	N/A
68	(Common Equity Tier 1 available to meet buffers [as a percentage of risk weighted assets] Note 61 *less* note 65 *less* 6.5% (minimum CET1 requirement without buffer))	3.44%

Table – 7. Capital disclosures during the transition phase (Appendix PD - 4) (Continued)

Common Equity Tier 1 Capital: Instruments and Reserves		
S.No.	**Description**	**(BD '000)**
	National Minima Including CCB (Where Different from Basel III)	
69	CBB Common Equity Tier 1 minimum ratio	9%
70	CBB Tier 1 minimum ratio	10.50%
71	CBB total capital minimum ratio	12.50%
	Amounts Below the Thresholds for Deduction (Before Risk Weighting)	
72	Non-significant investments in the capital of other financials	6,211
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
	Applicable Caps on the Inclusion of Provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	26,241
77	Cap on inclusion of provisions in Tier 2 under standardised approach	13,422
78	N/A	
79	N/A	
	Capital Instruments Subject to Phase-Out Arrangements (Only applicable between 1 Jan 2019 and 1 Jan 2023)	
80	*Current cap on CET1 instruments subject to phase out arrangements*	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	
82	*Current cap on AT1 instruments subject to phase out arrangements*	
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	
84	*Current cap on T2 instruments subject to phase out arrangements*	
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	

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.

3.1 Highly Leveraged and Other High Risk Counterparties

The Bank defines "Highly Leveraged Institutions" in line with the definitions of Basel in its papers detailed "Review of issues relating to Highly Leveraged Institutions (HLIs)", "Sound Practices for Banks' Interactions with Highly Leveraged Institutions", "Banks' Interactions with Highly Leveraged Institutions" as follows:

- Large financial institutions
- Are subject to little or no regulatory oversight.
- Are generally subject to very limited disclosure requirements and are not subject to rating by credit reference
- Take on significant leverage, where leverage is the ratio between risk, expressed in some common denominator, and

The Bank will not provide financing facilities to HLIs. On a case by case basis, if required, all financing deals to HLIs will be approved by the board of directors.

Table – 8. 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	19,226	23,049	23,189	23,927
Murabaha and due from Banks	43,319	45,844	34,135	36,125
Financing contracts with customers	298,914	308,441	394,802	373,313
Investments at amortised cost – Sukkuk	87,111	89,347	52,192	60,767
Receivables	233,706	61,907	-	-
Total	**682,276**	**528,588**	**504,318**	**494,132**
Credit commitments and contingent items	111,578	111,825	-	-
Grand Total	**793,854**	**640,413**	**504,318**	**494,132**

* 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 – 9. 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	16,510	1,385	1,322	9	19,226	19,914	1,670	1,594	11	23,189
Murabaha and due from Banks	43,319	-	-	-	43,319	34,135	-	-	-	34,135
Financing contracts with customers	298,914	-	-	-	298,914	394,802	-	-	-	394,802
Investments at amortised cost – Sukuk	87,111	-	-	-	87,111	52,192	-	-	-	52,192
Receivables	233,706	-	-	-	233,706	-	-	-	-	-
Total	**679,560**	**1,385**	**1,322**	**9**	**682,276**	**501,043**	**1,670**	**1,594**	**11**	**504,318**
Un-funded										
Credit commitments and contingent items	111,578	-	-	-	111,578	-	-	-	-	-
Grand Total	**791,138**	**1,385**	**1,322**	**9**	**793,854**	**501,043**	**1,670**	**1,594**	**11**	**504,318**

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

Table – 10. 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	-	19,226	-	-	19,226	-	23,189	-	-	23,189
Murabaha and due from Banks	-	43,319	-	-	43,319	-	34,135	-	-	34,135
Financing contracts with customers	28,753	6,762	211,100	52,299	298,914	37,566	8,834	222,700	125,702	394,802
Investments at amortised cost – Sukuk	-	66,225	20,886	-	87,111	-	52,192	-	-	52,192
Receivables	-	3,111	7,513	223,082	233,706	-	-	-	-	-
Total	**28,753**	**138,643**	**239,499**	**275,381**	**682,276**	**37,566**	**118,350**	**222,700**	**125,702**	**504,318**
Un-funded										
Credit commitments and contingent items	42,220	-	2,317	67,041	111,578	-	-	-	-	-
Grand Total	**70,973**	**138,643**	**241,816**	**342,422**	**793,854**	**37,566**	**118,350**	**222,700**	**125,702**	**504,318**

Table – 11. 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	29.43%	0.00%
Counterparty # 2	0.00%	20.12%

The outstanding amount of financing contracts with customers for which financing terms have been renegotiated during the year and six months have not elapsed amounted to BD 2,375 thousand (December 2016: BD 4,965 thousand) and these are secured with collateral amounting to BD 430 thousand (December 2016: BD 7,033 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.

Foreclosed Assets

The Group has implemented a policy to deal with foreclosed assets which prescribes the procedure to be followed by business units when foreclosing assets as deemed necessary. The policy provides for the recording of foreclosed assets in the Bank's books and their management, including sale or rental.

Table – 12. 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 *	19,226	-	-	-	-	-	19,226
Murabaha and due from Banks	37,057	6,262	-	-	-	-	43,319
Financing contracts with customers	20,681	45,817	128,979	73,194	26,640	3,603	298,914
Investments at amortised cost – Sukuk	-	-	87,111	-	-	-	87,111
Receivables	5,164	47	228,495	-	-	-	233,706
Total	**82,128**	**52,126**	**444,585**	**73,194**	**26,640**	**3,603**	**682,276**
Credit commitments and contingent items	-	109,261	2,317	-	-	-	111,578
Grand Total	**82,128**	**161,387**	**446,902**	**73,194**	**26,640**	**3,603**	**793,854**

* Balances with Banks are available on demand.

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES							
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 *	23,189	-	-	-	-	-	23,189
Murabaha and due from Banks	29,200	4,935	-	-	-	-	34,135
Financing contracts with customers	81,144	60,469	116,752	96,506	35,172	4,759	394,802
Investments at amortised cost – Sukuk	-	-	52,192	-	-	-	52,192
Receivables	-	-	-	-	-	-	-
Total	**133,533**	**65,404**	**168,944**	**96,506**	**35,172**	**4,759**	**504,318**
Credit commitments and contingent items	-	-	-	-	-	-	-
Grand Total	**133,533**	**65,404**	**168,944**	**96,506**	**35,172**	**4,759**	**504,318**

* Balances with Banks are available on demand.

Table – 13. 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										
Industry Sector	Total Portfolio	Good	Watchlist	Rescheduled	Substandard, Doubtful & loss				Specific Impairment						Collective Impairment
					Total	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	
Trading and manufacturing	28,753	22,838	2,688	2,995	232	117	55	60	1,243	13	(1,080)	-	(5)	171	*
Banking and financial institutions	6,762	5,425	632	705	-	-	-	-	-	-	-	-	-	-	*
Construction & real estate	211,100	152,527	17,567	19,598	21,408	10,897	5,015	5,496	4,524	294	(993)	-	(109)	3,716	*
Others	52,299	36,637	7,209	8,042	411	210	96	105	745	57	(63)	-	(21)	718	*
Total	**298,914**	**217,427**	**28,096**	**31,340**	**22,051**	**11,224**	**5,166**	**5,661**	**6,512**	**364**	**(2,136)**	**-**	**(135)**	**4,605**	

* This amounts to BD 26,241 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									
Industry Sector	Total Portfolio	Good	Watchlist	Rescheduled	Substandard, Doubtful & loss				Specific Impairment					Collective Impairment
					Total	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	
Trading and manufacturing	37,566	31,689	2,669	2,977	231	117	54	60	814	14	(654)	(5)	169	*
Banking and financial institutions	8,834	7,507	627	700	-	-	-	-	-	-	-	-	-	*
Construction & real estate	222,700	164,496	17,457	19,473	21,274	10,829	4,985	5,460	2,965	295	540	(110)	3,690	*
Others	125,702	110,141	7,163	7,990	408	208	96	104	488	57	191	(21)	715	*
Total	**394,802**	**313,833**	**27,916**	**31,140**	**21,913**	**11,154**	**5,135**	**5,624**	**4,267**	**366**	**77**	**(136)**	**4,574**	

* This amounts to BD 26,241 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 – 14. 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	22,051	4,605	*	21,913	4,574	*
Total	**22,051**	**4,605**		**21,913**	**4,574**	

* This amounts to BD 26,241 thousand representing collective impairment against exposures which, although not specifically identified, have a greater risk of default then when originally granted.

Table – 15. 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	391,653	5,476
Total	**391,653**	**5,476**

* 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 –16. 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	283,285	-	283,285	-	-	-	-	-
Ijarah	410,107	-	410,107	1,312	-	5,476	390,341	397,129
Musharakah	324	-	324	-	-	-	-	-
Total	**693,716**	-	**693,716**	**1,312**	**-**	**5,476**	**390,341**	**397,129**

* 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 2017 are BD 28,903 thousand (31 December 2016: BD 29,289 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 – 17. 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**	**Commodity Risk**
Capital requirements	266	3,231	398	-	-
Maximum value	292	3,769	398	-	-
Minimum value	266	3,231	398	-	-

This disclosure is based on the figures from the PIRI for the period ended 30 June 2017.

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 –18. 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)	100,618
Amount of non-Shari'a-compliant income	-
Number of Shari'a violations that were identified and reported during the financial yeaı	-

Legal cases resulting from normal course of business are handled by the Bank's in-house legal team and external legal consultants are also consulted on such matters, as and when required.

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 – 19. 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	66,742	181,247	2,235	64,507
Managed funds	1,330	1,353	-	1,330
Musharaka	324	397	-	324
Total	**68,396**	**182,997**	**2,235**	**66,161**

* 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 asscoiate and available for sale in the financial statements.

Table – 20. 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 (g))	
Equity Grouping	**Capital Requirement**
Listed	279
Unlisted	40,918
Managed Funds	249
Total	**41,446**

Table – 21. Gain and Loss Reported **Amount in BD '000**

EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS	
Gains / Losses Etc. (PD-1.3.31 (d), (e) and (f))	
Particulars	**Total**
Total realised gains arising from sales or liquidations in the reporting period	(23)
Total unrealised gains (net) recognised in statement of other comprehensive income	115
Unrealised gains included in Tier 1 Capital	(4,752)
Unrealised gains included in Additional Tier 1 and Tier 2 Capital	(3,440)

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 and Wakala contracts 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/Wakala 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, Sukuks 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 85% depending on the investment period and in case of saving accounts, where there is no restriction of cash withdrawal, the mudarib share ranges from 85% to 95%. 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 2016 to 30 June 2017.

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 centre 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 2016 and 30 June 2017 is Nil but the Bank may transfer an amount into PER and IRR in future after prior notice to its customers.

Deposits and URIA held with the Bank are covered by the Regulation Protecting Deposits and Unrestricted Investment Accounts issued by the Central Bank of Bahrain in accordance with Resolution No.(34) of 2010.

Table – 22. Break-up of URIA **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:			
	Amount	Financing to Total URIA %	Ratio of Profit Distributed
Savings URIA	205,224	42%	17%
Term URIA	287,287	58%	83%
Total	**492,511**	**100%**	**100%**

Table – 23. 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	1.08%
Average profit earned on average URIA assets	2.55%

Table – 24. 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	4,550	2,767	61%

Table – 25. 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	24,461	4.97%
Murabaha and due from banks	34,135	6.93%
Investments at amortised cost – Sukuk	52,192	10.60%
Customer Murabaha	145,143	29.47%
Customer Ijarah Muntahia Bittamleek	236,580	48.04%
Total	**492,511**	**100.00%**

Table – 26. 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**
Cash items	1,272	0.26%
Claims on sovereigns & MDBs	90,127	18.30%
Claims on banks	33,368	6.78%
Claims on corporate	63,442	12.88%
Regulatory retail portfolio	29,108	5.91%
Mortgage	250,404	50.84%
Past due facilities	24,389	4.95%
Others	401	0.08%
Total	**492,511**	**100.00%**

Table – 27. 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	2.55%	1.08%	60.80%

Table – 28. 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**	**9-Month**	**12-Month**	**2-Years**	**3-Years**	**5-Years**
BHD denominated	1.20%	1.40%	1.65%	1.80%	1.90% - 2.00%	2.50% - 3.00%	2.80% - 3.25%	3.30% - 3.50%
USD denominated	0.85% - 0.95%	1.20%	1.40%	1.50%	1.65%	NA	NA	NA
GBP denominated	0.29%	0.58%	0.78%	NA	0.97%	NA	NA	NA
EUR denominated	0.29%	0.58%	0.78%	NA	0.64%	NA	NA	NA

Table – 29. 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 2017**	**Net Movement During the Period**	**Closing Actual Allocation as at 30 June 2017**
Cash and Balance with banks and CBB	26,389	(1,928)	24,461
Murabaha due from banks	44,652	(10,517)	34,135
Investments at amortised cost – Sukuk	72,190	(19,998)	52,192
Murabaha due from customers	109,693	34,628	144,321
Ijarah Muntahia Bittamleek due from customers	188,320	49,082	237,402
Total	**441,244**	**51,267**	**492,511**

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). The Bank also does not allocate URIA funds to the equity investments in the trading book.

Table – 30. 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	**Exposures**	**Risk Weighted Assets**	**Capital Charge**
Cash items	1,272	-	48
Claims on sovereign	90,127	-	3,380
Claims on MDBs	-	-	-
Claims on banks	33,368	9,231	1,251
Claims on corporate	63,453	94,939	2,379
Regulatory retail portfolio	29,108	21,831	1,092
Mortgages	250,393	52,083	9,390
Past due facilities	24,389	5,430	915
Other assets	401	403	15
Total	**492,511**	**183,917**	**18,470**

* 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 – 31. 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	**Contractual Range of Mudharib Share**	**Mudharib Share % of URIA Profit Earned**
June 2017	3.43%	20%-85%	-
2016	2.33%	20%-85%	-
2015	2.50%	20%-85%	-
2014	3.29%	20%-60%	-
2013	3.73%	20%-60%	26.81%
2012	3.57%	20%-60%	30.21%

Table – 32. 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))	
	Shareholder Mudharaba Profit Earned as % of shareholder funds (before mudharib share)
June 2017	2.96%
2016	2.58%
2015	-4.96%
2014	4.33%
2013	6.64%
2012	4.92%

Table – 33. 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 2017	472,409	6,028	2.55%	2,550	1.08%
2016	452,621	5,144	1.14%	4,139	0.91%
2015	479,767	3,568	0.74%	3,871	0.81%
2014	488,067	5,864	1.29%	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%

* 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 85% (December 2016: 20% to 85%) for term URIA, depending on the investment period of the Investment, and from 50% to 60% for saving URIA.

*** During the year the Bank waived its mudarib share resulting in higher return paid to URIA holders by 100.00% (December 2016: 69.92%).

Table – 34. 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	5,698

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 – 35. RIA Exposure **Amount in BD '000**

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (a))	
	Amount
Average RIA funds during the period	133,440

Table – 36. 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	4.03%

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

Table – 37. 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	34.07%

Table – 38. 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**
Murabaha	135,085	100.00%
Total	**135,085**	**100.00%**

Table – 39. 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), (v))		
Counterparty Type	**Financing**	**Financing to Total**
Claims on corporate	135,085	100.00%

Table – 40. 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	135,085	4,076	2,687	1,388
Total	**135,085**	**4,076**	**2,687**	**1,388**

Table – 41. 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	4.0% - 5.0%	4.5% - 5.5%

Table – 42. 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),1.3.35(a),(b))				
	Profit Earned	*Profit Earned as a Percentage of RIA Funds	Profit Paid	*Profit Paid as a Percentage of RIA Funds
Jun-2017	4,076	6.11%	2,687	4.03%
2016	9,183	6.77%	6,423	4.74%
2015	9,447	7.38%	7,080	5.53%
2014	9,226	7.56%	7,377	6.18%
2013	9,013	7.33%	7,455	6.06%
2012	6,494	8.98%	5,476	7.57%
2011	6,051	7.75%	5,459	6.99%

* 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 – 43. Liquidity Risk Exposure Indicators

LIQUIDITY RISK: QUANTITATIVE DISCLOSURE	
Liquid assets to customer deposits (PD-1.3.37)	
As at 30 June 2017	29.44%
During the period:	
Average	34.15%
Highest	36.18%
Lowest	29.44%

Table – 44. Maturity Analysis based conservative deposit behavioural 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	11,391	6,551	17,942	7,955	7,955	17,917	33,827	51,769
Murabaha and due from banks	66,257	11,197	77,454	-	-	-	-	77,454
Financing contracts with customers	75,584	106,286	181,870	245,731	169,700	70,174	485,605	667,475
Investments	1,595	1,971	3,566	-	4,240	-	4,240	7,806
Investment in joint ventures and associates	-	-	-	139,303	-	-	139,303	139,303
Investment in real estate	-	-	-	11,954	-	-	11,954	11,954
Receivables, prepayments and other assets	7,543	47	7,590	-	-	-	-	7,590
Premises and equipment	-	-	-	277,830	-	-	277,830	277,830
Assets classified as held for sale	-	20,209	20,209	-	8,662	-	8,662	28,871
Total	**162,370**	**146,261**	**308,631**	**682,773**	**190,557**	**88,091**	**961,421**	**1,270,052**
Liabilities and Unrestricted Investment Accounts								
Customers' current accounts	7,087	-	7,087	43,692	43,692	43,692	131,076	138,163
Due to banks	60,356	59,425	119,781	-	-	-	-	119,781
Murabaha due to non-banks	9,593	145,925	155,518	18,947	18,947	18,947	56,841	212,359
Other liabilities	34,940	3,326	38,266	4,548	-	-	4,548	42,814
Equity of investment account holders	16,976	18,743	35,719	152,264	152,264	152,264	456,792	492,511
Subordinated murabaha payable	-	-	-	92,034	-	-	92,034	92,034
Liabilities classified as held for sale	-	2,729	2,729	-	-	-	-	2,729
Total	**128,952**	**230,148**	**359,100**	**311,485**	**214,903**	**214,903**	**741,291**	**1,100,391**

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 – 45. 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**	**Change in Basis Points**	**Effect on Net Income for the Year**
Murabaha and due from banks	77,454	200	1,549
Financing contracts with customers	552,050	200	11,041
Investments at amortized cost	139,303	200	2,786
Liabilities			
Murabaha and due to banks	119,781	200	(2,396)
Murabaha due to non-banks	212,359	200	(4,247)
Subordinated murabaha payable	92,034	200	(1,841)
Equity of investment account holders	492,511	200	(9,850)

11 Financial Performance and Position

Table – 46. Ratios

Financial Performance and Position					
(PD-1.3.9(b))					
Quantitative Indicator	**June 2017**	**2016**	**2015**	**2014**	**2013**
Return on average equity	5.72%	0.32%	2.94%	1.40%	1.53%
Return on average assets	1.32%	0.08%	0.73%	0.34%	0.38%
Staff cost to net operating income ratio	28.77%	39.36%	16.02%	25.83%	41.5%

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

12 Related Party Balances and Transactions

Related parties represent associated companies, the Parent and its major shareholders, Board of Directors and key management personnel of the Bank, the Bank's Shari'a Supervisory Board and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties arise from the ordinary course of business. Pricing policies and terms of these transactions are approved by the Group's management and are made on an arm's length basis.

Table – 47. Related Party Transactions (PD-1.3.23(d))

The balances with related parties included in the interim condensed consolidated financial statements are as follows:

	Joint ventures and associated companies	Parent	Directors and key management personnel	Other related parties	As at 30 June 2017
Balances with banks	-	490	-	19	509
Due from banks	-	-	-	-	-
Financing contracts with customers *	-	-	4,883	63,960	68,843
Individual impairment against financing contracts	-	-	-	-	-
Investment in sukuk	-	-	-	20,886	20,886
Fees receivable	-	-	-	790	790
Project expenses receivable	-	-	-	-	-
Project expenses receivable	-	-	-	-	-
Other assets	-	-	-	222,037	222,037
Due to banks	-	13,496	-	-	13,496
Due to non-banks	-	-	-	24,068	24,068
Customers' current accounts	-	102	326	4,372	4,799
Other liabilities	-	138	-	-	138
Subordinated murabaha payable	-	92,034	-	-	92,034
Equity of investment account holders	-	-	1,592	16,650	18,242
Letters of credit	-	-	-	20	20
Guarantees					-
Commitments to extend credit	-	-	-	1,000	1,000
Off-balance sheet equity of investment account holders					
- Funds extended to related parties	-	-	-	135,085	135,085
- Funds received from related parties	-	-	-	4,550	4,550

Amount in BD '000

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

	Joint ventures and associated companies	Parent	Directors and key management personnel	Other related parties	Six months ended 30 June 2017
Income from due from banks	-	-	-	-	-
Income from financing contracts with customers	1,397	-	94	2,142	3,633
Fee income	-	-	-	18	18
Income from investment in sukuk	-	-	-	630	630
Income from managed funds	-	-	-	-	-
Profit on due to banks	-	1,421	-	-	1,421
Profit on subordinated murabaha payable	-	1,741	-	-	1,741
Profit on due to non-banks	-	-	-	292	292
Return on equity of investment account holders	-	-	11	927	939
Staff costs	-	-	-	-	-
Operating expenses	-	-	-	605	605