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

Public Disclosure

30th June 2018

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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 Statements for the period ended 30 June 2018. All amounts presented in the document are in Bahraini Dinar and rounded off to the nearest thousand. The shareholding structure as at 30 June 2018 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)	14,811	12,928	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	28,378	28,334	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.	21,567	21,487	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	Baytik Investments One S.P.C.	888	885	The company has been established as a special purpose vehicle to hold investments in various entities.
5	Baytik Investments Two S.P.C.	943	940	The company has been established as a special purpose vehicle to hold investments in various entities.
6	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.
7	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.
8	Baytik Infrastructure Holding W.L.L.	955	955	The Company has been established to act as a holding company for a group of commercial, industrial or service companies.
9	Royal Arabian W.L.L.	276	276	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	19,768
General reserve	-
Treasury shares	-
Retained earnings	5,544
Current interim cumulative net income / losses	9,544
Accumulated other comprehensive income and losses (and other reserves)	(1,849)
Total CET1 capital prior to regulatory adjustments	165,526
Regulatory adjustments from CET1:	
Regulatory adjustments from CET1	1,214
Total Common Equity Tier 1 capital after the regulatory adjustments above	164,312
Other Capital (AT1 & T 2):	
Instruments issued by parent company (Note 1)	75,400
Assets revaluation reserve - property, plant, and equipment	-
Expected Credit Losses (ECL) Stages 1 & 2	11,766
Total Available AT1 & T2 Capital	87,166
Total Capital	**251,478**

Note 1: The instrument issued by the Parent is in the form of subordinated Wakala with a maturity of below five years as of 30 June 2018. The repayments of this Wakala is subject to the prior approval of the CBB.

Note 2: investment in unconsolidated subsidiaries has not lead to any 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/ wakala contracts with Banks	2,328
Financing contracts with customers	
-Murabaha	76,342
-Ijarah	3,145
-Musharakah	49
Total	**81,864**

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	30,069	3,759
Operational Risk - Basic indicator approach	176,254	22,032

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	21.9%	14.3%

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	52,857	52,689	
Due from banks	119,475	119,556	
Financing contracts	829,063	844,320	
Investments	7,177	6,115	
Investment in sukuk	221,821	221,829	
Investments in unconsolidated subsidiaries	-	47,578	
Investment in associates	12,946	2,608	
Investment in real estate	-	-	
Receivables and other assets	255,782	222,674	
Premises and equipments	9,379	9,373	
Total assets	**1,508,500**	**1,526,742**	
Liabilities			
Customers' current accounts	135,270	136,992	
Due to banks	168,440	168,440	
Due to non-banks	421,427	421,427	
Other liabilities	22,158	20,213	
Subordinated wakala payable	94,250	94,250	
Equity of Investment Account Holders	493,695	503,429	
Total liabilities	**1,335,240**	**1,344,751**	
Shareholders' Equity			
Share capital *	132,519	132,519	1
Share Premium *	-	-	1
Treasury shares *	-	-	1
Retained earnings and unrealized gains *	13,239	13,239	2 & 3
Assets revaluation reserve - property, plant and equipment	-	-	
Other reserves *	19,768	19,768	3
Non-controlling shareholders	7,734	-	
Expected Credit Losses (ECL) Stages 1 & 2	-	16,465	50
Total Shareholders' Equity	**173,260**	**181,991**	

* 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	Eligible
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 Wakala
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BD 164,312 (thousands)	BD 75,400 (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	July-17
12	Prepetual or dated	Perpetual	Dated
13	Original maturity date	No Maturity	June-22
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	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 LIBOR + 1% per annum
19	Existence of a dividend stopper	No	No
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	Non - Comulative

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	Convertible
24	If convertible, conversion trigger (s)	N/A	Common Equity Tier 1 Ratio falls below 7% or as specified by the CBB from time to time
25	If convertible, fully or partially	N/A	Partially, to restore the Common Equity Tier 1 ratio to 7%.
26	If convertible, conversion rate	N/A	N/A
27	If convertible, manadatory or optional conversion	N/A	Mandatory
28	If convertible, specify instrument type convertible into	N/A	Share Premium Account
29	If convertible, specify issuer of instrument 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	No
37	If yes, specify non-compliant features	N/A	N/A

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

S.No.	Description	(BD '000)
	Common Equity Tier 1 Capital: Instruments and Reserves	
1	Directly issued qualifying common share capital plus related stock surplus	132,519
2	Retained earnings	15,006
3	Accumulated other comprehensive income (and other reserves)	18,001
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**	**165,526**
	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)	1,214
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**	1,214
29	**Common Equity Tier 1 Capital (CET1)**	**164,312**
	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)

S.No.	Description	(BD '000)
	Common Equity Tier 1 Capital: Instruments and Reserves	
	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)**	**164,312**
	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*	75,400
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	11,766
51	**Tier 2 Capital Before Regulatory Adjustments**	87,166
	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)**	**87,166**
59	**Total Capital (TC = T1 + T2)**	**251,478**
60	**Total Risk Weighted Assets**	**1,147,615**
	Capital Ratios and Buffers	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	14.32%
62	Tier 1 (as a percentage of risk weighted assets)	14.32%
63	Total capital (as a percentage of risk weighted assets)	21.91%
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))	5.32%

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	6,115
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)	16,465
77	Cap on inclusion of provisions in Tier 2 under standardised approach	11,766
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	25,412	31,946	18,504	24,843
Due from banks	81,871	67,244	37,685	32,669
Financing contracts	507,696	469,315	336,624	351,241
Investment in sukuk	158,488	144,486	63,341	60,474
Receivables and other assets	214,924	213,572	-	-
Total	**988,391**	**926,563**	**456,154**	**469,227**
Contingent liabilities and commitments	90,028	104,097	-	-
Grand Total	**1,078,419**	**1,030,660**	**456,154**	**469,227**

* Gross credit exposure is reflected net of stage 3 expected credit losses and gross of stages 1 & 2 expected credit losses.

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	23,920	1,369	111	12	25,412	17,420	996	80	8	18,504
Due from banks	73,652	8,220	-	-	81,871	33,902	3,783	-	-	37,685
Financing contracts	507,696	-	-	-	507,696	336,624	-	-	-	336,624
Investment in sukuk	158,488	-	-	-	158,488	63,341	-	-	-	63,341
Receivables and other assets	214,924	-	-	-	214,924	-	-	-	-	-
Total	**978,680**	**9,589**	**111**	**12**	**988,391**	**451,287**	**4,779**	**80**	**8**	**456,154**
Un-funded										
Contingent liabilities and commitments	90,028	-	-	-	90,028	-	-	-	-	-
Grand Total	**1,068,708**	**9,589**	**111**	**12**	**1,078,419**	**451,287**	**4,779**	**80**	**8**	**456,154**

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))										
Portfolios	**Self-Financed Industry Sector**					**Financed by Unrestricted Investment Accounts 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	-	25,412	-	-	25,412	-	18,504	-	-	18,504
Due from banks	-	81,871	-	-	81,871	-	37,685	-	-	37,685
Financing contracts	33,198	7,268	281,109	186,121	507,696	22,022	4,821	186,315	123,466	336,624
Investment in sukuk	-	137,602	20,886	-	158,488	-	63,341	-	-	63,341
Receivables and other assets	-	6,853	1,524	206,547	214,924	-	-	-	-	-
Total	**33,198**	**259,006**	**303,519**	**392,668**	**988,391**	**22,022**	**124,351**	**186,315**	**123,466**	**456,154**
Un-funded										
Contingent liabilities and commitments	41,529	311	9,815	38,373	90,028	-	-	-	-	-
Grand Total	**74,727**	**259,317**	**313,334**	**431,041**	**1,078,419**	**22,022**	**124,351**	**186,315**	**123,466**	**456,154**

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	25.20%	0.00%
Counterparty # 2	9.67%	6.41%

The outstanding amount of financing contracts with customers for which financing terms have been renegotiated and one year has not elapsed amounted to BD 65,539 thousand and these are secured with collateral amounting to BD 250,241 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 *	25,412	-	-	-	-	-	25,412
Due from banks	81,871	-	-	-	-	-	81,871
Financing contracts	65,405	65,774	174,637	156,226	38,506	7,148	507,696
Investment in sukuk	5,478	36,381	24,078	92,551	-	-	158,488
Receivables and other assets	8,365	-	206,559	-	-	-	214,924
Total	**186,531**	**102,155**	**405,274**	**248,777**	**38,506**	**7,148**	**988,391**
Contingent liabilities and commitments	-	80,213	9,815	-	-	-	90,028
Grand Total	**186,531**	**182,368**	**415,089**	**248,777**	**38,506**	**7,148**	**1,078,419**

* 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 *	18,504	-	-	-	-	-	18,504
Due from banks	37,685	-	-	-	-	-	37,685
Financing contracts	70,067	43,631	89,011	103,631	25,542	4,742	336,624
Investment in sukuk	2,522	16,747	1,469	42,603	-	-	63,341
Receivables and other assets	-	-	-	-	-	-	-
Total	**128,778**	**60,378**	**90,480**	**146,234**	**25,542**	**4,742**	**456,154**
Contingent liabilities and commitments	-	-	-	-	-	-	-
Grand Total	**128,778**	**60,378**	**90,480**	**146,234**	**25,542**	**4,742**	**456,154**

* 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	Stage 1	Stage 2	Stage 3				Stage 3 expected credit losses						Stage 1 & 2 expected credit losses
				Total	Over 3 Months	1 to 3 Years	Over 3 years	Balance at the beginning of the Period	Transferred to other stages	Transferred from other stages	Net remeasurement	Recoveries & write offs during the Period	Balance at the End of the Period	
Trading and manufacturing	33,198	30,793	2,077	328	88	101	139	302	(15)	11	(143)	(10)	144	62
Banking and financial institutions	7,268	4,377	2,891	-	-	-	-	-	-	-	-	-	-	810
Construction & real estate	281,109	207,257	37,966	35,886	9,656	11,088	15,142	5,469	(710)	526	2,191	(481)	6,995	3,742
Others	186,121	158,870	26,776	475	128	147	200	552	(69)	51	188	(47)	675	4,559
Total	**507,696**	**401,297**	**69,710**	**36,689**	**9,872**	**11,336**	**15,481**	**6,323**	**(794)**	**588**	**2,236**	**(538)**	**7,814**	**9,173**

Past due finances are stated net of stage 3 expected credit losses.

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	Stage 1	Stage 2	Stage 3				Stage 3 expected credit losses						Stage 1 & 2 expected credit losses
				Total	Over 3 Months	1 to 3 Years	Over 3 years	Balance at the beginning of the Period	Transferred to other stages	Transferred from other stages	Net remeasurement	Recovereis & write offs during the Period	Balance at the End of the Period	
Trading and manufacturing	22,022	20,427	1,377	218	59	67	92	315	(10)	7	(212)	(7)	95	41
Banking and financial institutions	4,821	2,904	1,917	-	-	-	-	-	-	-	-	-	-	537
Construction & real estate	186,315	137,342	25,184	23,789	6,405	7,340	10,044	5,716	(471)	349	(655)	(319)	4,620	2,481
Others	123,466	105,388	17,763	315	85	97	133	576	(46)	34	(85)	(31)	449	3,024
Total	**336,624**	**266,061**	**46,241**	**24,322**	**6,549**	**7,504**	**10,269**	**6,607**	**(527)**	**390**	**(952)**	**(357)**	**5,164**	**6,084**

Past due finances are stated net of stage 3 expected credit losses.

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	Stage 3 financing contracts	Stage 3 expected credit losses	Stage 3 financing contracts	Stage 3 expected credit losses
Middle East	36,689	7,814	24,322	5,164
Total	**36,689**	**7,814**	**24,322**	**5,164**

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	425,963	-
Total	**425,963**	**-**

* 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 stage 3 expected credit losses)	Netting Benefits	Netted Current Credit Exposures	Eligible Collaterals Held (after appropriate haircuts) *				
				Cash	Govt. Securities	Guarantees	Real Estate	Total
Murabaha	377,746	-	377,746	-	-	-	-	-
Ijarah	466,348	-	466,348	2,951	-	-	423,012	425,963
Musharakah	226	-	226	-	-	-	-	-
Total	**844,320**	-	**844,320**	**2,951**	**-**	**-**	**423,012**	**425,963**

* 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.

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 Positions in Sukuks**	**Commodity Risk**
Capital requirements	70	3,423	266	-	-
Maximum value	153	3,659	266	-	-
Minimum value	70	3,423	108	-	-

This disclosure is based on the figures from the PIRI for the period ended 30 June 2018.

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)	94,002
Amount of non-Shari'a-compliant income	-
Number of Shari'a violations that were identified and reported during the financial perioc	-

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	54,892	54,940	465	54,427
Managed funds	1,410	1,416	-	1,410
Musharaka	226	235	-	226
Total	**56,528**	**56,591**	**465**	**56,063**

* 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	58
Unlisted	25,658
Managed Funds	264
Total	**25,980**

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	-
Total unrealised gains (net) recognised in statement of other comprehensive income	347
Unrealised gains included in Tier 1 Capital	(1,849)
Unrealised gains included in Additional Tier 1 and Tier 2 Capital	-

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 30% to 95% 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 2017 to 30 June 2018.

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	214,396	43%	9%
Term URIA	279,299	57%	91%
Total	**493,695**	**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	1.21%
Average profit earned on average URIA assets	3.08%

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 share	Share of Profit Paid to Bank as Mudarib	Percentage
Mudarib share to total URIA profits	5,336	4,001	75%

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	19,979	4.05%
Due from banks	37,685	7.63%
Investment in sukuk	63,341	12.83%
Customer Murabaha	166,785	33.78%
Customer Ijarah Muntahia Bittamleek	205,905	41.71%
Total	**493,695**	**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	1,474	0.30%
Claims on sovereigns & MDBs	124,477	25.21%
Claims on banks	39,138	7.93%
Claims on corporate	62,872	12.73%
Regulatory retail portfolio	28,814	5.84%
Mortgage	208,743	42.28%
Past due facilities	27,274	5.52%
Others	903	0.18%
Total	**493,695**	**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	3.08%	1.21%	74.97%

Table – 28. Range of Declared Rate of Return

UNRESTRICTED INVESTMENT ACCOUNTS:								
Unrestricted Investment Account (PD-1.3.33 (g))								
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% - 1.50%	1.50% - 1.70%	1.80% - 2.00%	1.80% - 2.20%	2.10%-2.60%	2.50% - 3.30%	2.80% - 3.50%	3.30% - 4.40%
USD denominated	0.90% - 0.95%	1.20% - 1.25%	1.50% - 1.55%	1.50% - 1.70%	1.80% - 1.85%	NA	NA	NA
GBP denominated	0.42% - 0.47%	0.84% - 0.93%	1.12% - 1.24%	NA	1.44% - 1.56%	NA	NA	NA
EUR denominated	0.42% - 0.47%	0.84% - 0.93%	1.12% - 1.24%	NA	1.40% - 1.56%	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 2018**	**Net Movement During the Period**	**Closing Actual Allocation as at 30 June 2018**
Cash and Balance with banks and CBB	27,516	(7,537)	19,979
Due from banks	18,395	19,290	37,685
Investment in sukuk	54,438	8,903	63,341
Murabaha due from customers	158,707	8,078	166,785
Ijarah Muntahia Bittamleek due from customers	218,620	(12,715)	205,905
Total	**477,676**	**16,019**	**493,695**

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**	**Capital Charge**	**Risk Weighted Assets**
Cash items	1,474	55	-
Claims on sovereign	124,477	4,668	-
Claims on banks	39,138	1,468	7,839
Claims on corporate	62,872	2,358	50,319
Regulatory retail portfolio	28,814	1,081	21,611
Mortgages	208,743	7,828	51,390
Past due facilities	27,274	1,023	18,057
Other assets	903	34	901
Total	**493,695**	**18,515**	**150,117**

* 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 for sharing between URIA and shareholders	**Contractual Range of Mudharib Share**	**Mudharib Share % of URIA Profit Earned**
June 2018	3.20%	30%-95%	60.89%
2017	3.14%	30%-95%	57.88%
2016	2.33%	30%-85%	19.54%
2015	2.50%	30%-85%	-
2014	3.29%	20%-60%	-
2013	3.73%	20%-60%	26.81%

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 2018	1.91%
2017	0.73%
2016	2.58%
2015	-4.96%
2014	4.33%
2013	6.64%

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 2018	476,519	7,346	3.08%	2,873	1.21%
2017	477,280	12,544	2.63%	5,283	1.11%
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%

* 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 30% to 95% (December 2017: 30% to 95%) for term URIA, depending on the investment period of the Investment, and from 85% to 95% for saving URIA.

*** During the year the Bank waived its mudarib share resulting in higher return paid to URIA holders by 100% (December 2017: 100%).

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	7,222

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	137,737

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	5.06%

* 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	33.78%

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	135,045	100.00%
Total	**135,045**	**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	135,045	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 share**	**RIA Return after Mudarib share**	**Share of Profit Paid to Bank as Mudarib**
	A	**B**	**C**	**D**
Murabaha	135,045	5,261	3,484	1,777
Total	**135,045**	**5,261**	**3,484**	**1,777**

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	5.00%	4.50% - 5.50%

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-2018	5,261	7.64%	3,484	5.06%
2017	8,259	6.12%	5,567	4.12%
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%

* 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 2018	24.32%
During the period:	
Average	25.13%
Highest	26.11%
Lowest	23.64%

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	10,823	3,412	14,235	14,644	6,910	17,068	38,622	52,857
Due from banks	119,475	-	119,475	-	-	-	-	119,475
Financing contracts	113,673	110,981	224,654	271,812	257,382	75,215	604,409	829,063
Investments	1,062	-	1,062	1,876	4,239	-	6,115	7,177
Investment in sukuk	7,992	53,128	61,120	25,547	135,154	-	160,701	221,821
Investment in associates	-	-	-	12,946	-	-	12,946	12,946
Receivables and other assets	9,829	-	9,829	245,953	-	-	245,953	255,782
Premises and equipment	-	-	-	-	9,379	-	9,379	9,379
Total	**262,854**	**167,521**	**430,375**	**572,778**	**413,064**	**92,283**	**1,078,125**	**1,508,500**
Liabilities and Unrestricted Investment Accounts								
Customers' current accounts	7,534	365	7,899	42,457	42,457	42,457	127,371	135,270
Due to banks	34,821	-	34,821	133,619	-	-	133,619	168,440
Due to non-banks	5,348	76,243	81,591	279,568	30,134	30,134	339,836	421,427
Other liabilities	16,982	3,079	20,061	2,097	-	-	2,097	22,158
Equity of investment account holders	14,576	14,128	28,704	154,997	154,997	154,997	464,991	493,695
Subordinated wakala payable	-	-	-	94,250	-	-	94,250	94,250
Total	**79,261**	**93,815**	**173,076**	**706,988**	**227,588**	**227,588**	**1,162,164**	**1,335,240**

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 Period**
Due from banks	52,857	200	1,057
Financing contracts	655,908	200	13,118
Investment in sukuk	221,821	200	4,436
Liabilities			
Due to banks	168,440	200	(3,369)
Due to non-banks	421,427	200	(8,429)
Subordinated wakala payable	94,250	200	(1,885)
Equity of investment account holders	493,695	200	(9,874)

11 Financial Performance and Position

Table – 46. Ratios

Financial Performance and Position					
(PD-1.3.9(b))					
Quantitative Indicator	**June 2018**	**2017**	**2016**	**2015**	**2014**
Return on average equity	10.84%	7.53%	0.32%	2.94%	1.40%
Return on average assets	1.36%	1.39%	0.08%	0.73%	0.34%
Staff cost to net operating income ratio	36.34%	32.76%	39.36%	16.02%	25.83%

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. Outstanding balances at the period end, excluding financing contracts, are unsecured.

Table – 47. Related Party Transactions (PD-1.3.23(d)) **Amount in BD '000**

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

	Parent	Directors and key management personnel	Other related parties	As at 30 June 2018
Balances with banks	67	-	20	87
Financing contracts *	-	5,162	59,443	64,605
Investment in sukuk	-	-	20,886	20,886
Fees receivable	-	-	1,238	1,238
Receivables and other assets	-	-	203,904	203,904
Due to banks	33,619	-	-	33,619
Due to non-banks	-	-	75,984	75,984
Customers' current accounts	211	603	5,163	5,977
Subordinated wakala payable	94,250	-	-	94,250
Equity of investment account holders	-	1,924	13,257	15,181
Letters of credit	-	-	1,552	1,552
Guarantees	-	-	13,196	13,196
Off-balance sheet equity of investment account holders				
- Funds extended to related parties	-	-	135,045	135,045
- Funds received from related parties	-	-	4,550	4,550
Assets under management	-	-	597,287	597,287

Amount in BD '000

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

	Parent	Directors and key management personnel	Other related parties	Six months ended 30 June 2018
Income from financing contracts	-	101	1,428	1,529
Fee income	-	-	494	494
Income from investment in sukuk	-	-	630	630
Profit on due to banks	312	-	-	312
Profit on subordinated wakala payable	1,351	-	-	1,351
Profit on due to non-banks	-	-	635	635
Return on equity of investment account holders	-	24	717	741
Operating expenses	-	-	624	624
Mudarib share of off-balance sheet equity of investment account holders	-	-	1,777	1,777