ITHMAAR BANK B.S.C. (C)

Public Disclosures as at 30 June 2017

Ithmaar Bank B.S.C. (C)
Public Disclosures at 30 June 2017

INDEX

S. No.	Description	Page No
1	Background	3
2	Basel III Framework	3
3	Capital management	3 - 4
4	Approaches adopted for determining regulatory capital requirements	4
5	Regulatory Capital components	4 - 5
6	Tier one capital ratios and Total capital ratios	6
7	Risk Management	7 - 12
8	Disclosure of the regulatory capital requirements for credit risk under standardized approach	13
9	Gross credit exposures	14
10	Geographical distribution of credit exposures	15
11	Industrial distribution of credit exposures	16
12	Maturity breakdown of credit exposures	17
13	Related-party balances under credit exposure	18
14	Past due and impaired financings and related provisions for impairment	19
15	Past due and impaired financings by geographical areas	20
16	Details of credit facilities outstanding that have been restructured during the period	20
17	Credit exposures which are covered by eligible financial collateral	20
18	Market Risk	21 - 22
19	Disclosure of regulatory capital requirements for market risk under the standardized approach	23
20	Currency risk	23
21	Equity positions in Banking book	23
22	Profit Rate Risk in the Banking Book	24
23	Operational Risk	25 - 26
24	Disclosure of regulatory capital requirements for operational risk under the basic indicator approach	26
25	Liquidity Risk	27
26	Legal contingencies and compliance	28
27	Displaced Commercial Risk	28
28	Gross income from Mudaraba and profit paid to Unrestricted Investment Accountholders (URIA)	29
29	Gross return from Restricted Investment Accounts (RIA)	29
30	Average declared rate of return on General Mudaraba deposits	29
31	Movement in Profit Equalization Reserve and Provisions – URIA	30
32	Performance ratios	30
33	Other disclosures	30

1. Background

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain (CBB) requirements outlined in its Public Disclosure Module (PD), CBB Rule Book, Volume II for Islamic Banks. The disclosures in this report are in addition to the disclosures set out in Ithmaar Bank B.S.C (C)'s (Bank/ Group) interim condensed consolidated financial statements for the period ended 30 June 2017, presented in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

2. Basel III Framework

CBB has issued Basel III guidelines for the implementation of Basel III capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel III framework provides a risk based approach for calculation of regulatory capital. The Basel III framework is expected to strengthen the risk management practices across the financial institutions.

The Basel III framework is based on three pillars as follows:-

- Pillar I: Minimum capital requirements including calculation of the capital adequacy ratio
- Pillar II: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- Pillar III: Market discipline which includes the disclosure of risk management and capital adequacy information.

3. Capital management

The Bank's capital management policy provides guidelines to ensure that it meets the capital requirements as mandated by the CBB and is able to estimate an appropriate capital level in order to support its business growth. Capital management also ensures that shareholders' value is protected and enhanced.

Regulatory capital is the minimum capital that is required by regulatory authority, to be maintained by the Bank commensurate to the underlying risks. The Bank has adopted the capital charge computations and adequacy ratios as per Basel III guidelines, and CBB Capital Adequacy regulations & directives.

Capital management is a coordinated effort by the Business, Risk Management, and Financial Control departments and is a part of a broader Internal Capital Adequacy Assessment Process (ICAAP). ICAAP covers the capital charge for all material risks in Pillar 1 and Pillar 2. ICAAP also recommends an internal capital adequacy ratio target over and above the regulatory requirement to absorb any un-expected losses arising due to Pillar 2 risks. The adequacy and sufficiency of capital ratio is also tested with a mechanism of stress scenario across various risk dimensions on a periodical basis. A comprehensive risk assessment of the Business and Budget Plans is independently performed by the Risk Management Department (RMD), which among others, assesses the capital requirement of the Bank both for current and future activities under normal and stressed scenarios. The Bank's capital position is monitored on a regular basis and reported to the Asset Liability Management Committee (ALCO), the Audit Governance and Risk Management Committee and the Board.

3. Capital management (continued)

Capital Adequacy Methodology:

As per the requirements of CBB's Basel III capital adequacy framework, the method for calculating the consolidated capital adequacy ratio for the Group is summarized as follows:

- Line by line consolidation is performed for the risk exposures and eligible capital of all the Financial Institutions subsidiaries within the Group with the exception of the Bank's banking subsidiaries incorporated outside Kingdom of Bahrain which are operating under Basel III compliant jurisdictions, where full aggregation is performed of the risk weighted exposures and eligible capital as required under CA module of CBB rulebook.

- All significant investments in commercial entities are risk weighted if these are within 15% of the capital base at individual level and 60% at aggregate level. Any exposure over and above the threshold of 15% are risk weighted at 800%.

- All exposures exceeding the large exposure limit as per Credit Risk Management (CM) module of CBB rulebook are risk weighted 800%.

4. Approaches adopted for determining regulatory capital requirements

The approach adopted for determining regulatory capital requirements under CBB's Basel III guidelines is summarised as follows:

Credit Risk	Standardised approach
Market Risk	Standardised approach
Operational Risk	Basic Indicator approach

5. Regulatory Capital components

Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation

The Bank's subsidiaries (consolidated line by line for accounting purposes) have the following treatment for regulatory purposes

Name	Total assets	Total Equity	Ownership	Country of Incorporation	Principal business activity	Regulatory Treatment
Faysal Bank Limited	1,482,198	117,712	67%	Pakistan	Banking	Aggregation
Sakana Holistic Housing Solutions B.S.C. (C) (Sakana) *	4,207	3,957	50%	Kingdom of Bahrain	Mortgage finance	Line by line consolidation

* Under voluntary liquidation.

The reconciliation from published financial information to regulatory return is as follows:

Balance sheet as per published financial statements	3,263,548
General Provision	6,908
Aggregation	37,635
Balance sheet as in Regulatory Return	**3,308,091**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

5. Regulatory Capital components (continued)

Step 2: Reconciliation of published financial balance sheet to regulatory reporting As at 30 June 2017

Assets	**As per published financial statements**	**As per Consolidated PIRI**	**Reference**
Cash and balances with banks and central banks	242,185	242,185	
Commodity and other placements with banks, financial and other institutions	76,305	76,305	
Murabaha and other financings	1,828,429	1,828,429	
Musharaka financing	116,561	116,561	
Investment in associates	135	135	
Sukuk and investment securities	708,471	708,471	
Restricted investment accounts	27,183	27,183	
Assets acquired for leasing	110,124	110,124	
Investment in real estate	3,889	3,889	
Other assets	64,385	64,385	
Fixed assets	21,741	21,741	
Intangible assets	64,140	64,140	
General Provision	-	6,908	
Aggregation	-	37,635	
Total Assets	**3,263,548**	**3,308,091**	
Liabilities & Unrestricted Investment Accounts (URIA)			
Unrestricted Investment Accounts	1,047,172	1,047,172	
Other liabilities	2,012,338	2,012,338	
Total Liabilities & URIA	**3,059,510**	**3,059,510**	
Minority Interest	45,311	45,311	
Owners' Equity			
Share capital	100,000	100,000	**A**
Reserves	**35,907**	**35,907**	
of which eligible for CET1	-	34,899	**C**
Retained earnings	**22,820**	**22,820**	
of which eligible for CET1	-	(4,409)	**B**
General Provision	**-**	6,908	**D**
Aggregation	**-**	37,635	
Total Owners' Equity	**158,727**	**203,270**	
Total Liabilities + Owners' Equity	**3,263,548**	**3,308,091**	

Step 3: Composition of Capital Common Template (transition) as at 30 June 2017

Composition of Capital and mapping to regulatory reports	**Component of regulatory capital**	**Reference numbers of balance sheet under the regulatory scope of consolidation from step 2**	**Amount subject to pre-2015 treatment**
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	100,000	A	
Retained earnings	(4,409)	B	
Reserves	34,899	C	
Aggregation & deductions	66,983		
Total CET1 capital	**197,473**		
General Provision	6,908	D	
Aggregation & deductions	12,955		
Total T2 Capital	**19,863**		
Total Capital	**217,336**		
Total Risk Weighted Assets (RWA)	**1,514,471**		
Capital Adequacy Ratio (CaR)	**14.35%**		

6. Tier one capital ratios and Total capital ratios:

	Tier One Capital Ratio (including conservation buffer)	Total Capital Ratio (including conservation buffer)
Bank's consolidated	13.04%	14.35%
Significant Bank subsidiaries whose regulatory capital amounts to over 5% of group consolidated regulatory capital whether on a stand-alone or sub-consolidated basis are as follows:		
Faysal Bank Limited	14.44%	16.13%

7. Risk Management

7.1 Risk Management Objectives

Risk is an integral part of Bank's business and managing it is critical to the Bank's continuing success and profitability. The essence of effective risk management is to enhance shareholders' and Investment Account Holders' value through business profits commensurate with the risk appetite of the Bank and seeks to minimize the potential adverse effects on its financial performance. The Bank has over the years, developed risk management into a core competency and remains well positioned to meet imminent challenges. Risk Management at the Bank has always been prudent and proactive with the objective of achieving the optimum balance between risk and expected returns.

The Bank has adopted an integrated risk management framework to proactively identify, assess, manage and monitor risks in its decisions and operations. The Bank's risk management framework is based on guidelines issued by the Central Bank of Bahrain (CBB), sound principles of risk management issued by International Settlements and international best practices, wherever applicable.

7.2 Strategies, Processes and Internal Controls

7.2.1 Risk Management Strategy

The Bank's Audit, Governance and Risk Management Charter lays the foundations for a risk governance structure in the Bank. The risk strategy in terms of the overall risk appetite, risk tolerance levels and risk management methodologies are assimilated in the various risk policies and the Internal Capital Adequacy Assessment Process (ICAAP) report of the Bank which are reviewed and approved by the Board of Directors. The risk strategy of the Bank is reviewed annually in line with the Bank's business strategy. The Board also oversees the establishment and implementation of risk management systems and policies for all processes and risk exposure of the Bank.

The process of risk management is carried out by an independent control function; the Risk Management Department (RMD) headed by the Chief Risk Officer with a direct reporting line to the Board Audit, Governance & Risk Management Committee (AGRMC). The Department is mandated with identifying, quantifying and assessing all risks and recommending appropriate prudential limits and risk management methodologies within the parameters of the overall risk management strategy approved by the Board.

A well-defined governance structure is implemented where authority levels are clearly laid down for manual and system based transactions. Furthermore, the culture of Risk is embedded in the Business through a rigorous set of controls, checks and balances. As part of the Bank's continuous improvement initiatives, the Bank reviews existing risk policies and procedures by benchmarking the same to changes in the regulatory and external environment.

7.2.2 Equity Risk in Banking Book

The Bank's exposure to equity risk in the Banking book are relating to its investment exposures. The Bank has a dedicated Asset Management Department for managing the existing investments. The Board has established an Asset Management Policy which establishes the guidelines relating to management of investments.

All investment exposures are reviewed periodically or at least once annually and presented to the management or Board level committees depending on the asset value. The Board approved Business Discretionary Powers policy establishes the approval authorities for investments based on its value.

7.2.3 Material Transactions- Board Approval

The Board approved Business Discretionary Powers policy establishes the approval authorities for investments based on its value. All financing and investment exposures above a defined value require the Board's approval. Additionally all related party transactions (except 100% cash collateralized) and investments irrespective of their value require the approval of the Board.

7. Risk Management (continued)

7.3 Risk Measurement and Reporting System

The risk appetite of the Bank is approved by the Board. To enable the effective monitoring of the activities of the Bank to be compliant with the risk appetite approved by the Board, appropriate measurement processes, monitoring of exposures vis-à-vis limits as provided in the various risk management policies of the Bank is in place. The risk policies of the Bank set guidelines to limit concentration risk within the portfolio by large exposure, connected counterparty, country, industry, tenor and products. The Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. Exceptions to the limits as provided in the policies are escalated to the appropriate authority.

7.4 Credit Risk

Capital charge for credit risk is computed under the Standardized Approach.

7.4.1 Credit Risk Management Structure

Credit risk management structure in the Bank includes all levels of authorities, organizational structure, people and systems required for the smooth functioning of Credit risk management processes in the Bank.

The Bank has a well-defined organizational structure with clearly articulated roles and responsibilities for the Credit risk management function in the Bank.

The Bank has proper processes in place, not only to apprise but also regularly monitor credit risk. The Bank has established a General Financing Policy which details the core business principles, which are central to the the Bank’s Credit culture, as well as general guidelines for permitted and restricted transactions. The policy states the Credit assessment methodology and the detailed standards for documentation of client information.

The Bank manages its credit risk arising from its banking exposures by implementing robust policies and procedures with respect to identification, measurement, mitigation, monitoring and controlling the risks.

7. Risk Management (continued)

7.4.1.1 Corporate credit risk (including financial institutions)

Corporate credit risk represents the potential financial loss as a consequence of a customer's inability to honor the terms and conditions of the credit facility. Corporate credit risk is managed by proper assessment of risks inherent in an individual credit proposal and also ongoing review of the corporate credit portfolio to ensure its compliance to the credit risk appetite of the Bank. In addition to the rigorous credit analysis, the covenants for each facility are strictly monitored by the Credit Administration Department.

The Bank has proper processes in place, not only to apprise but also regularly monitor credit risk. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which includes obtaining collateral, assignment of receivables and counter-guarantees. The corporate accounts are rated on a credit risk rating model, this enhances the process of credit review and ensures timely identification of any deterioration of the corporate's status and corrective actions can be implemented. The credit risk rating model incorporates both quantitative and qualitative risk parameters for the grading and classification of corporate customers.

A centralized credit risk management system is in place where all corporate credit proposals are independently reviewed by the RMD before the same are approved by appropriate approval authorities.

All credits exposures are at least reviewed and rated annually and appropriate provisions are maintained for any classified account as per the provisioning policy in line with relevant CBB guidelines. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated recoverability.

7.4.1.2 Retail credit risk

Retail credit is offered to customers primarily based on approved product programs which define the risk acceptance criteria. Overdue amounts in the retail credit portfolio are closely monitored to arrest the individual accounts from slipping into non-performing status. The retail credit product programs are regularly reviewed to ensure their compliance with existing regulatory guidelines and enhance marketability. In all its initiatives, the interest of the customer is accorded as Top Priority.

The retail credit portfolio is reviewed at monthly intervals.

Unrestricted FUM assets
The Funds Under Management Policy of the Bank provides detailed guidelines for the assets suitable for funding by unrestricted investment accounts, it clearly provides that the funds in unrestricted investment account will be used for funding low risk assets.

7.4.2 Concentration Risk

The risk policies of the Bank set guidelines to limit concentration risk within the portfolio by larger exposure, connected counterparty, country, industry, tenor and products. The Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. A Limit Management Policy is in place, this policy provides guidelines on the threshold limits. As per CBBs single obligor regulations, banks incorporated in Bahrain are required to obtain CBB's prior approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

7. Risk Management (continued)

7.4.3 Credit Portfolio Management

Portfolio management is an integral part of the credit process that enables the Bank to limit concentrations, reduce volatility, increase liquidity and achieve optimum earnings. It does so by incorporating portfolio strategy and planning, performance assessment and reporting functions into one comprehensive management process. Risk Management Department of the Bank is responsible for carrying out the activities in relation to credit risk portfolio management in coordination with business and support departments. Risk Management Department seeks information from different business units and Financial Control Division on a regular basis to perform this function. Risk Management Department undertakes the review, monitoring and control of limits structures based on the portfolio diversification parameters.

7.4.4 Country Exposure

The Limits Management Policy of the Bank provides exposure limits for countries; the limits are based on the ratings assigned to the country by the External Credit Assessment Institutions (ECAIs). Exposure vis-à-vis limits assigned to the countries are monitored on an on-going basis and status thereof is submitted to the Board Audit Governance & Risk Management Committee at quarterly intervals.

7.4.5 Credit Risk Mitigation

The Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collaterals. While the existence of collaterals is not a precondition for credit, exposures are fully or partially collateralized as a second line of defense. The Bank has in place a Credit Risk Mitigation policy which provides guidelines on the types of assets that may be accepted as collateral and the methodology of valuation of these assets. In general, all collaterals are valued periodically depending on the collateral type. The legal validity and enforceability of the documents used for collateral have been established by qualified personnel, including lawyers and Sharia scholars.

The Bank's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. The Bank prefers liquid and marketable credit collateral; however other types of collateral are accepted provided that such collateral can be reasonably valued. Third party guarantees are accepted as collateral only after analyzing the financial strength of the guarantors.

The following types of collateral are accepted by the Bank:

- Primary Collaterals
- Collateral Support

Primary Collaterals constituting assets of the type Real Estate properties, fixed charge over Moveable properties and Cash Collaterals are required to meet the following essential conditions:

- It is a tangible or an intangible (financial) asset;
- A ready secondary market is easily identifiable;
- A monetary-value can be easily attached to the asset;
- Can be easily converted into cash without incurring additional costs (such as dismantling costs);
- Can be legally assigned or mortgaged to the Bank within applicable laws; and
- The Bank can maintain unquestionable control over the asset.

Collateral Support are assets that do not meet the essential conditions stipulated in Primary Collaterals above. These assets may be accepted by the Bank as means to control the counterparty's exposure rather than basing credit decisions on their values.

7. Risk Management (continued)

7.4.5 Credit Risk Mitigation (continued)

These following assets are considered as Collateral Support:

• Pledge or mortgage of saleable goods or plant and machinery provided the charge can be legally registered;

• Fixed charges over moveable assets, not legally registered or difficult to reasonably value;

• Second charge on real estate properties and moveable assets.

• Pledge of unlisted securities such as shares, bonds and debentures;

• Registered assignment of life insurance endowment policies - to the extent of cash surrender-value;

• Third-party or Corporate guarantees issued by individuals / institutions other than banks;

• Assignment of contract proceeds, lease, or rent;

• Investments in Restricted Investment Accounts managed by the Bank other than those already obtained as collateral against existing exposures.

7.4.5.1 Collateral valuation

Collaterals when taken are identified as having reasonable value, their value would however change over a period of time due to prevailing economic conditions, plant and machinery becoming obsolete due to technological advancements, due to passage of time and due to increase in availability of similar collateralized securities. Listed securities are valued at monthly intervals, unlisted securities are valued at annual intervals, Real estate properties are valued at once in two years' intervals, and special assets of the nature of marine vessels and aircrafts are valued at annual intervals. Value of collaterals are accounted post assigning various levels of haircuts depending on the type of collateral, the same are provided in the Credit Risk Mitigation Policy of the Bank.

7.4.5.2 Guarantees

Guarantees are taken from individuals and Corporates. In cases where a letter of guarantee from the counterparty's parent company or from a third party is offered as credit risk mitigant, it is ensured that the guarantees must be irrevocable and unconditional, If the guarantor is located outside Bahrain, legal opinion is obtained from a legal counsel domiciled in the country of guarantor (overseas) regarding the enforceability of the guarantee, further the financial position of the guarantor is adequately analyzed to determine the value and viability of the guarantee.

7.4.5.3 Collateral Concentration

The Bank has established internal limits to avoid over concentration on certain class of collaterals. Prudent maximum limits have been set for the acceptance of collaterals as credit risk mitigation.

7.4.5.4 Collateral Management

Documents related to collaterals provided to the Bank is managed by the Credit Administration department. Appropriate policies and procedures are in place for the management of the collateral, in respect of valuation, maintenance of the original documents, temporary release and permanent release of such collaterals. MIS supporting the management of the collateral is in place.

7. Risk Management (continued)

7.4.6 Classification of credit exposures

The Bank has in place a detailed policy for Classification Provisioning and Write-Off, this policy provides detailed guidelines for classification and provisions of credit facilities.

All credit exposures are classified as past due and impaired when any instalment is not paid over a 90-day period. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated recoverability. Accounts with past dues over a 90 days' period are classified into categories Sub-Standard, Doubtful and Loss assets. Appropriate provisions are maintained for any classified account as per the provisioning policy in line with relevant CBB guidelines. In respect of General Provision, the same is provided on non-classified accounts, as per the provisions of the CBB guidelines. The Bank follows, except the subsidiary entities which may follow their own regulatory guidelines, a time-based criteria of past due days to estimate the specific provisioning requirements, and past due accounts are reviewed periodically.

7.4.7 Counterparty Credit Risk

Counterparty is defined as an individual, legal entity, guarantor being financed by the Bank. Definition also includes issuer of securities held by the Bank. Bank had adopted the Standardized Approach to allocate capital for counterparty credit risk. Credit Risk Mitigation Policy of the Bank provides guidelines for securing the exposures to Counterparties. Limits for Connected Counter parties of the Bank and Country and Industry limits are also in place. In case of deterioration in the counterparty's credit rating, additional collateral may be called for or the exposure to the counterparty is reduced. The Classification, Provisioning and Write-off Policy provides detailed guidelines for classification and provisioning for exposures to counterparty's which are classified.

7.4.8 ECAI Ratings

The Bank has subscribed to the CBB guidelines for the utilization of external ratings, where available, by External Credit Assessment Institutions (ECAI) for the purpose of risk assessment. In case multiple ECAI ratings are available for a single counterparty, the lowest of them is taken to assign the relevant risk category. The Bank complies with all the qualitative requirements stipulated by the CBB for the recognition process and eligibility criteria of ECAI rating in the Credit Risk Management policy of the Bank. ECAI ratings are applied, where applicable, to all credit and investment exposures.

7.4.9 Related party transactions

Business transactions with persons and companies connected with the Bank (which include, among others, Senior Management, Directors, their immediate family members, major shareholders, associates and subsidiaries) are termed as Related Party Transactions. For avoidance of any possibility of conflicts of interest, these transactions are approved by the Board of Directors (Excepting 100% cash collateralized transactions which are approved by the Investment and Credit Committee) with the interested party abstaining from voting. The Bank complies with relevant rules issued by the regulatory authorities in this respect and all transactions are appropriately disclosed in the consolidated financial statements.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8. Disclosure of the regulatory capital requirements for credit risk under standardized approach:

Exposure funded by Self Finance

	Risk weighted assets	Capital requirement
Claims on banks	52,500	6,563
Claims on corporate portfolio	358,629	44,829
Investments in equity securities	631	79
Holding of real estate	24,404	3,051
Regulatory retail portfolio	740	93
Past due facilities	17,063	2,133
Other assets	481	60
Aggregation	613,013	76,627
Total	**1,067,461**	**133,435**

Exposure funded by Unrestricted Investment Accounts (URIA)

	Risk weighted assets	Capital requirement
Claims on corporate portfolio	127,145	15,893
Holding of real estate	848	106
Regulatory retail portfolio	102,538	12,817
Past due facilities	16,826	2,103
Total	**247,357**	**30,919**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

9. Gross credit exposures:

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash and balances with banks and central banks	242,185	238,874
Commodity and other placements with banks, financial and other institutions	76,305	51,788
Murabaha and other financings	1,828,429	1,799,740
Musharaka financing	116,561	107,201
Investments	849,802	828,777
Other assets	64,385	72,465
Fixed assets	21,741	21,588
Intangible assets	64,140	64,881
Total on balance sheet credit exposure	**3,263,548**	**3,185,314**
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit, acceptance and endorsements	270,296	260,463
Financing commitments, Undrawn facilities and other credit related liabilities	1,061,810	865,105
Total off balance sheet credit exposure	**1,332,106**	**1,125,568**
Total credit exposure	**4,595,654**	**4,310,882**
Total credit exposure financed by URIA	**1,188,752**	**1,112,906**
Total credit exposure financed by URIA (%)	**25.87%**	**25.82%**

Average gross credit exposures have been calculated based on the average of balances outstanding during the period ended 30 June 2017.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

10. Geographical distribution of credit exposures:

	Asia	Middle East	Europe	North America	Others	Total
On-balance sheet items						
Cash and balances with banks and central banks	78,643	130,992	18,925	13,625	-	242,185
Commodity and other placements with banks, financial and other institutions	76,305	-	-	-	-	76,305
Murabaha and other financings	675,784	1,128,016	3,794	-	20,835	1,828,429
Musharaka financing	114,801	1,760	-	-	-	116,561
Investments	711,868	137,934	-	-	-	849,802
Other assets	43,139	19,748	1,498	-	-	64,385
Fixed assets	20,719	1,022	-	-	-	21,741
Intangible assets	18,950	45,190	-		-	64,140
Total on balance sheet items	**1,740,209**	**1,464,662**	**24,217**	**13,625**	**20,835**	**3,263,548**
Off balance sheet items	**1,218,360**	**112,608**	**-**	**-**	**1,138**	**1,332,106**
Total credit exposure	**2,958,569**	**1,577,270**	**24,217**	**13,625**	**21,973**	**4,595,654**

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

11. Industrial distribution of credit exposures:

	Government, Banks and financial institutions	Trading and manufacturing	Property and construction	Services	Private Individuals	Textile	Others	Total
On-balance sheet items								
Cash and balances with banks and central banks	242,185	-	-	-	-	-	-	242,185
Commodity and other placements with banks, financial and other institutions	76,305	-	-	-	-	-	-	76,305
Murabaha and other financings	803,042	320,310	52,354	29,216	452,395	101,110	70,002	1,828,429
Musharaka financing	15,246	49,631	18,459	7,481	24,274	9	1,461	116,561
Investments	719,050	22,812	6,157	-	101,696	55	32	849,802
Other assets	34,036	1,697	3,284	-	8,761	-	16,607	64,385
Fixed assets	20,719	-	1,022	-	-	-	-	21,741
Intangible assets	64,140	-	-	-	-	-	-	64,140
Total on balance sheet items	**1,974,723**	**394,450**	**81,276**	**36,697**	**587,126**	**101,174**	**88,102**	**3,263,548**
Off balance sheet items	**623,215**	**295,801**	**152,305**	**16,659**	**162,666**	**56,839**	**24,621**	**1,332,106**
Total credit exposure	**2,597,938**	**690,251**	**233,581**	**53,356**	**749,792**	**158,013**	**112,723**	**4,595,654**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

12. Maturity breakdown of credit exposures:

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	Total
On-balance sheet items								
Cash and balances with banks and central banks	224,264	17,921	-	-	-	-	-	242,185
Commodity and other placements with banks, financial and other institutions	61,607	-	14,698	-	-	-	-	76,305
Murabaha and other financings	161,730	197,210	198,186	970,140	281,823	19,340	-	1,828,429
Musharaka financing	678	1,549	5,645	75,170	30,025	3,494	-	116,561
Investments	208,615	331,739	72,755	50,364	51,223	56,891	78,215	849,802
Other assets	23,910	-	19,318	15,226	5,931	-	-	64,385
Fixed assets	35	17	1,803	3,312	778	14,774	1,022	21,741
Intangible assets	-	-	-	1,440	5,151	31,122	26,427	64,140
Total on balance sheet items	**680,839**	**548,436**	**312,405**	**1,115,652**	**374,931**	**125,621**	**105,664**	**3,263,548**
Off balance sheet items	**773,106**	**265,462**	**94,986**	**183,192**	**15,360**	**-**	**-**	**1,332,106**
Total credit exposure	**1,453,945**	**813,898**	**407,391**	**1,298,844**	**390,291**	**125,621**	**105,664**	**4,595,654**
Customers' current accounts	657,075	-	-	-	-	-	-	657,075
Due to banks, financial and other institutions	366,757	11,532	110,702	2,471	-	-	-	491,462
Due to investors	464,287	89,699	162,434	3,447	-	-	-	719,867
Equity of unrestricted investment accountholders	425,190	134,111	371,858	116,013	-	-	-	1,047,172
	1,913,309	**235,342**	**644,994**	**121,931**	**-**	**-**	**-**	**2,915,576**

13. Related-party balances under credit exposure:

A number of banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 30 June 2017 were as follows:

Affiliated companies	618,944
Directors & key management	4,894
Total	**623,838**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

14. Past due and impaired financings and related provisions for impairment:

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	80,203	70,015	10,188
Agriculture	6,793	3,384	3,409
Construction	26,172	4,090	22,082
Finance	2,980	356	2,624
Trade	37,589	24,206	13,383
Personal	24,861	7,559	17,302
Real estate	8,027	5,486	2,541
Other sectors	1,343	449	894
Total	**187,968**	**115,545**	**72,423**
Ageing analysis			
Over 3 months up to 1 year	22,714	7,018	15,696
Over 1 year up to 3 years	43,366	23,976	19,390
Over 3 years	121,888	84,551	37,337
Total	**187,968**	**115,545**	**72,423**

Details of impairment provisions at 30 June 2017	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Specific impairment provisions	107,951	7,594	115,545
General impairment provisions	6,904	-	-
Details of impairment provision charge and write back for the period			
Charge for the period	(4,614)	-	(4,614)
Write back during the period	428	2,895	3,323

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

15. Past due and impaired financings by geographical areas:

Analysis by Geography	Gross exposure	Impairment Provisions	Net exposure
Asia	125,908	100,996	24,912
Middle East	62,060	14,549	47,511
Total	**187,968**	**115,545**	**72,423**

16. Details of credit facilities outstanding that have been restructured during the period ended 30 June 2017:

Restructured financings during the period ended 30 June 2017 aggregated to BD5.9 million. This restructuring had an impact of BD0.2 million on present earnings during the period ended 30 June 2017. Further, this restructuring is expected to have positive impact of BD0.7 million on the Group's future earnings. Extension of maturity dates was the basic nature of concessions given to all the restructured facilities.

17. Credit exposures which are covered by eligible financial collateral:

Exposure funded by Self Finance

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	863,892	73,712
Claims on Sovereign	361,609	794
Regulatory retail portfolio	117,642	13,989
Claims Secured by Residential Property	14,738	58
Past due financings	32,284	2,899
Total	**1,390,165**	**91,452**

Exposure funded by Unrestricted Investment Accounts

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	452,566	28,749
Retail Portfolio	455,822	99
Past due financings	44,140	5,031
Total	**952,528**	**33,879**

Counterparty Credit Risk (CCR)

	Gross Positive Fair Value of Contracts	Netting Benefit	Credit Risk Mitigation	Net Value Exposure at Default	Risk Weighted Assets
Profit Rate Contracts	191	-	-	191	191
Foreign Exchange Contracts	2,225	-	-	2,225	1,037
Total	**2,416**	**-**	**-**	**2,416**	**1,228**

18. Market Risk

Market risk is the risk of potential loss arising from change in the value of any exposure due to adverse changes in the underlying benchmark market rates, i.e. foreign exchange rates, equity prices and profit rates.

The Market Risk Management Policy of the Bank address all aspects of market risk. Implementation of the policy, procedures and monitoring of regulatory and internal limits for the Bank is the responsibility of the relevant business units with oversight by the Asset-Liability Committee (ALCO) and the Board Audit, Governance & Risk Management Committee.

The capital charge for market risk is computed as per the standardized approach.

18.1 The key market risk factors that the Bank is exposed to are discussed below

18.1.1 Foreign exchange risk:

Foreign exchange risk is the risk that the foreign currency positions taken by the Bank may be adversely affected due to volatility in foreign exchange rates. The responsibility for management of foreign exchange risk rests with the Treasury Department of the Bank. Foreign exchange risk management in the Bank is ensured through regular measurement and monitoring of net open foreign exchange positions. The foreign exchange transactions carried out by the Bank are on behalf of customers and are on a back-to-back basis.

18.1.2 Profit rate risk:

Profit rate risk is the risk that the Bank will incur a financial loss as a result of mismatch in the profit rate on the assets, investment account holders and customer liabilities. The profit distribution is based on profit sharing agreements instead of guaranteed return to investment account holders, therefore, the Bank is not subject to any significant profit rate risk. However, the profit sharing arrangements will result in displaced commercial risk when the Bank's results do not allow the Bank to distribute profits in line with the market rates.

18.1.3 Price risk:

Investment price risk is the risk of reduction in the market value of the Bank's portfolio as a result of diminution in the market value of individual investment.

18.1.4 Commodity risk:

The Bank does not have exposure to the commodity market.

18.2 Market risk management strategy

The market risk strategy of the Bank is approved by the Board and amendments to the policies are approved by the Board. The senior management of the Bank is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring and controlling risks.

Strategies for market risk management includes:

1. The Bank will comply with the provisions of the market risk strategy while assuming any market risk exposures.
2. A limit structure will be established to monitor and control the market risk in its portfolio.
3. Each new product/process is reviewed to manage the market risk.
4. Appropriate measurement techniques are in place to proactively measure and monitor market risk.
5. Stress testing is conducted regularly to assess the impact of changes in the market variables.
6. Sufficient capital will be held at all times to meet the capital requirements in line with CBB Basel III Pillar I requirements.

18. Market Risk (continued)

18.3 Market risk management strategy

The various techniques used by the Bank for the purposes of measuring and monitoring of market risk are as follows:

- Overnight open positions
- Profit rate gap analysis
- Earnings at Risk
- Economic Value

Risk Management department of the Bank monitors the positions vis-à-vis the limits approved by the Board.

18.4 Limits monitoring

Regulatory/In-House Policy Limits and guidelines as approved by the Board are strictly adhered to, deviations if any are immediately escalated and action taken wherever necessary.

18.5 Portfolio review process

As part of the risk review process, Risk Management Department monitors the Bank's overall exposure to market risk. Reports of such review is submitted to ALCO and the Board Audit Governance & Risk Management Committee.

18.6 Management Information System

Reports on market risk are a calendar item at the meetings of the AGRMC. The reports provide the Bank’s ALCO and the sub-committee of the Board an update on the market risk exposure in the books of the Bank.

18.7 Stress Testing

The Bank employs four categories of stress testing, profit rates, foreign exchange rates, equity prices and Sukuk prices. For each category the worst possible shocks that might realistically occur in the market are considered for stress testing.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

19. Disclosure of regulatory capital requirements for market risk under the standardized approach:

	Risk weighted assets			Capital requirement		
	30 June 2017	**Maximum Value**	**Minimum Value**	**30 June 2017**	**Maximum Value**	**Minimum Value**
Foreign exchange risk	533	67,744	533	67	8,468	67
Aggregation						
Foreign exchange risk	232	5,211	232	29	651	29
Profit Rate Risk (Trading Book)	24,715	32,323	24,715	3,089	4,040	3,089
Equity Position Risk	8,458	9,120	8,458	1,057	1,140	1,057
Total	**33,938**	**114,398**	**33,938**	**4,242**	**14,300**	**4,242**

20. Currency risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Substantial portion of the Group's assets and liabilities are denominated in US Dollars, Bahraini Dinars, UAE Dirhams and Pakistani Rupee. Bahraini Dinars and UAE Dirhams are pegged to US Dollars and as such currency risk is minimal. The Bank's investment in FBL is in Pak Rupees (PKR) and exposes the Bank to foreign exchange risk. The cumulative foreign exchange loss as of 30 June 2017 amounted to BD12.8 million (included in the foreign exchange translation reserve statement of changes in equity).

The significant net foreign currency positions at 30 June 2017 were as follows:

	Long/(Short)
Pakistani Rupee	191,256
United States Dollars	225,153

21. Equity position in Banking book

At 30 June 2017, the Group's sukuk and investment securities aggregated to BD567.4 million. Out of the total investment securities, BD94.4 million were listed investment securities and the remaining BD473 million represented unlisted investment securities.

Cumulative realized income from sale of investment securities during the period ended 30 June 2017 amounted to BD3.2 million. Total unrealized loss recognized in the consolidated statement of changes in owners' equity amounted to BD1.5 million.

At 30 June 2017, capital requirements using standardized approach aggregated to BD0.6 million for listed investment securities and BD3.2 million for unlisted investment securities after aggregation/pro-rata aggregation of investments in Banking and other financial entities.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

22. Profit Rate Risk in the Banking Book

Profit rate risk in the Bank's banking book is the risk of adverse changes in expected net earnings and economic value of the balance sheet resulting from the impact of changes in profit rates on mismatched maturity and repricing assets and liabilities in the banking book.

22.1. Following are the sources of profit rate risk:

• Maturity mismatch: The non-alignment of maturities/revaluation dates of assets and liabilities gives rise to profit rate risk. In the case of fixed profit rates, maturities are considered whereas for floating or variable profit rates the revaluation/rollover dates are considered.

• Basis value risk: Assets and liabilities with similar maturities/revaluation dates and highly, though imperfectly, correlated profit rate benchmarks (USD-LIBOR and BIBOR) are exposed to basis risk.

• Profit rate curve risk: Changes to the values, slope and shape of the profit rate curve that impact the assets and liabilities of the Bank in a dissimilar manner gives rise to profit rate risk.

• Risk of counterparty's options underlying assets: The availability of options, with the Bank's counterparties, to make prepayments or early withdrawals can leave the Bank with excess or deficit funds that need to be invested or funded again at unknown profit rates.

22.2. Profit rate risk strategy

The Board of the Bank approves and reviews the profit rate risk strategy and amendments to the profit rate risk policies. ALCO of the Bank is responsible for implementing the profit rate risk strategy approved by the Board. As a strategy the following measures are initiated:

• Strive to maintain appropriate spread between cost of funds and yield on financing
• Reduce the maturity/repricing mismatch between assets and liabilities
• Review the profit rate offered on liabilities products to remain competitive in the market
• Identify profit rate sensitive products the Bank wishes to engage in

22.3. Measurement of profit rate risk

The Bank has adopted the following methods for profit rate risk measurement in the baking book:

• Re-pricing gap analysis: measures the gap between the Rate Sensitive Assets (RSAs) and Rate Sensitive Liabilities (RSLs)

• Economic value of equity (EVE) – Duration Gap: This measures the loss in value of the portfolio due a small change in profit rates. The Bank will adopt EVE measure using duration (weighted-average term to- maturity of the security's cash-flows) estimates for various time bands. Assumptions for the computation of economic value are subscribed from Basel II guidelines and international best practices.

• Income Effect - Earnings-at-risk (EaR): Earnings perspective involves analyzing the impact of changes in profit rates on accrual or reported earnings in the near term. In the earnings perspective, the focus of analysis is the impact of changes in profit rates on accrual or reported earnings. The Bank also performs a stress testing of the impact of 200 basis points on the capital of the Bank.

22.4. Profit rate risk monitoring and reporting

Profit rate risk is monitored by reviewing the repricing profile of the Rate Sensitive Assets and Rate Sensitive Liabilities.

MIS on profit rate risk, including the impact of shift in profit rates on the earnings and economic value is presented to the ALCO and the Board Audit Governance and Risk Management Committee.

22.5. Disclosure of Profit rate risk:

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates.

	USD	PKR	AED
Total profit rate exposure	286,282	152,199	142,698
Rate shock (assumed) (+/-)	0.17%	0.07%	0.09%
Total estimated impact (+/-)	**487**	**107**	**128**

23. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which includes but not limited to legal risk and Sharia compliance risk. This definition excludes strategic and reputational risks.

The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks to an acceptable level.

23.1 Operational risk management strategy

The Bank has in place a robust framework for the management of Operational Risk. Policies and Procedures on Operational Risk provide detailed guidelines for management of Operational Risks in the Bank.

All new products and processes are reviewed to identify the operational risks therein and mitigants are put in place.

The approach to Operational Risk includes emphasis on:

- Establishment of an effective governance structure with clear reporting lines and segregation of duties.
- Maintenance of an effective internal control environment.
- Escalation and resolution of risk and control incidents and issues.

23.2 Operational risk monitoring and reporting

A monthly report on Operational Risk events is submitted by the support and business departments, the events are reviewed and discussed, and shortcomings are resolved, external loss events are also recorded and reviewed in terms of its relevance to the Bank's operations.

A robust Risk Control and Self-Assessment process has been implemented; whereby significant risks in a process is identified and evaluated taking into consideration the inherent risk and residual risk.

Key Risk Indicators (KRIs) for all the significant risk areas have been developed and trends thereof are being monitored. the Bank has also established bank-wide Key Risk Indicators (KRI) which are constantly monitored to assess the overall operational risk profile of the Bank.

The AGRMC is periodically updated on the operational risk profile of the Bank which include the review of the operational risk events, KRI monitoring and details of any operational risk event leading to financial or reputational loss.

23.3 Operational risk mitigation and control

The Operational Risk management process through RCSA, KRI and loss reporting is complemented by the department-level procedures which ensure that concerned staffs are well aware of their responsibilities and processes associated with their responsibilities.

The RCSA process also helps to identify the material operational risks and decision on appropriate controls to be implemented to mitigate the risks is arrived at. At times a decision is taken whether to accept the risks, reduce the level of activity involved, transfer the risk, or withdraw from the associate activity completely jointly by the Risk Management Department along with the concerned business/support department.

The Risk Management Department in consultation with the Legal department monitors the pending legal cases against the Bank. Wherever required Risk Management Department in coordination with the Legal Department assesses the impact of legal cases on the Reputational risk profile of the Bank.

23. Operational Risk (continued)

23.4 Business Continuity Plan

The Bank has in place a Business Continuity Policy which deals with policy initiatives to ensure that the Bank continues its critical activities following a disastrous event.

This provides the plan for continuity of business operations at all times in case of any potential disruptions resulting from unanticipated loss of services or infrastructure.

A Business Continuity Plan Site has been set up at the Muharraq Branch and the West-Riffa Branch. The premises are well equipped with the required infrastructure. A Business Continuity Steering Committee and Business Continuity Implementation Committee has been set up, which oversee the implementation of the Business Continuity Plan in the Bank.

23.5 Reputation Risk

Reputation risk is the risk that an event will adversely affect the Bank’s reputation in the market, which, in turn, may adversely impact its ability to effectively undertake its activities.

Sound corporate governance is a cornerstone in managing reputation risk. The Bank has in place a Reputational Risk Management Policy which details the Bank’s multi-faceted approach relating to the management of reputational risk. The Bank also has a Corporate Governance Policy and a Code of Ethics and Business Conduct for the members of the Board, management and staff. This Code helps to build an atmosphere of professionalism, integrity and ethical behaviour within the Bank to avoid reputation risks.

24. Disclosure of regulatory capital requirements for operational risk under the basic indicator approach:

For regulatory reporting, the capital requirement for operational risk is calculated based on basic indicator approach. According to this approach, the Bank's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15% under CBB Basel III guidelines. The capital requirement for operational risk at 30 June 2017 aggregated to BD21.3 million.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

25. Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows.

Liquidity risk arises either:

• From the inability to manage unplanned decreases or changes in funding sources; or
• from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank, Funding and liquidity management is performed centrally by the Treasury, with oversight from the ALCO and AGRMC. ALCO is responsible for setting the framework and for effective monitoring of the Bank's liquidity risk. the Bank's liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds from the market, or have sufficient High Quality Liquid Assets (HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses.

The liquidity policy also sets out the minimum acceptable standards for the management of the Bank's assets and liabilities including maintenance of HQLAs, prudent assets and liabilities maturity mismatch limits, and a mechanism of monitoring liquidity risk in the Bank.

25.1. Liquidity risk strategy

A consolidated view on liquidity risk and a proposed future short and long term strategy (to be reviewed at least annually) is prepared as per the annual business plan of the Bank. The liquidity strategy is presented in the ALCO and approved by the Board as part of the annual Strategy and Business Plan of the Bank. The Liquidity Risk Policy and Liquidity Contingency Policy are annually reviewed by the Board.

25.2. Liquidity risk monitoring and reporting

ALCO monitors liquidity risk, including liquidity mismatch limits, maintenance of regulatory liquidity ratios and the funding maturity profile on a regular basis. RMD submits a quarterly report to the AGRMC which includes an analysis of the Bank's adherence to limits in the various maturity buckets on a static and dynamic basis.

25.3. Liquidity Stress Testing

Stress testing of the liquidity risk profile of the Bank based on certain Board approved parameters is also performed and presented to the AGRMC on a quarterly basis.

25.4. Liquidity Contingency Management

The Bank has also a Liquidity Contingency Policy which provides guidelines to withstand either temporary or longer-term disruptions in its ability to fund some or all of its activities in a timely manner and at a reasonable cost

25.5. Liquidity ratios:

	30 June 2017
Liquid assets to total assets	9.76%
Short term assets to short term liabilities	53.22%

26. Legal contingencies and compliance

At 30 June 2017, the Group had contingent liabilities towards customer and other claims aggregating to BD124 million. The management is of the view that these claims are not likely to result into potential liabilities.

27. Displaced Commercial Risk

The Bank is exposed to rate of return risk in the context of its Profit Sharing Investment Accounts (PSIA) fund management. An increase in benchmark rates may result in Investment Account Holder (IAH)s' having expectations of a higher rate of return. Although as per mudaraba agreement, IAHs are eligible for the actual return earned on the assets and all losses in normal course of business on PSIA are born by the IAHs, the Bank may however, under market pressure pay a return that exceeds the rate that has been actually earned on assets funded by IAHs.

This increased rate of return risk may result in displaced commercial risk where the Bank may forgo its share of profits as modareb to match the IAHs.

27.1 The following mechanism / guidelines are followed to avoid the displaced commercial risk in the Bank:

Expected Rate of Returns to IAHs
ALCO on periodic basis reviews the expected rates offered to IAHs to revise and adjust them with the benchmark rates. Business units offering PSIAs products monitors benchmark rates being offered by the relevant competitors and overall trend and recommend changes in the expected rates. This pro-active approach of adjusting the expected profit rates minimizes the displaced commercial risks of the Bank.

Profit Equalization and Investment Risk Reserves (PER & IRR)
A central principle of Islamic finance is that an investor participating in a Modaraba contract must bear all losses in normal course of business and are eligible for actual rate of returns earned on the assets. However, the Bank, to fulfill its fiduciary responsibility or to match benchmark rates or to avoid displaced commercial risk, creates reserves to make good such losses or meet the shortfall in expected returns. These reserves may be in the form of Profit Equalization Reserve and Investment Risk Reserves for PSIA Funds.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

28. Gross income from Mudaraba and profit paid to Unrestricted Investment Accountholders:

	30 June 2017
Income from unrestricted investment accounts	29,319
Less: return to unrestricted investment accounts	(16,364)
Group's share of income from unrestricted investment accounts as a Mudarib	**12,955**

For the period ended 30 June 2017 the return generated from unrestricted investment accountholders based on the average balance outstanding during the period stood at 2.3%. The return paid to unrestricted investment accountholders based on the average balance outstanding during the period period at 1.3%.

29. Gross return from Restricted Investment Accounts (RIA):

	30 June 2017
Gross income / (expense)	91
Mudarib fee	-

30. Average declared rate of return on General Mudaraba deposits:

	30 June 2017
30 Days	1.13
90 Days	1.60
180 Days	1.85
360 Days	2.50

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

31. Movement in Profit Equalization Reserve and Provisions – URIA:

	30 June 2017
Profit Equalization Reserve	
As at 30 June 2017	7,087
Amount appropriated as a percentage of gross income	1.6%
Provisions	
As at 30 June 2017	17,696

At 30 June 2017, the ratio of profit equalization reserve, investment risk reserve and provisions against equity of unrestricted investment accountholders stood at 0.68 %, 0.62% and 1.07% respectively.

At 30 June 2017, the ratio of financings to URIA stood at 74.4%.

At 30 June 2017, the percentage of each type of Islamic financing to total URIA financing was as follows:

	Percentage Financing to Total URIA Financing
Murabaha and other financings	71.63%
Musharaka financing	14.63%
Assets acquired for leasing	13.74%

The following table summarizes the breakdown of URIA and impairment provisions

	30 June 2017
Exposure : Banks	308,172
Exposure : Non-Banks	880,580
Provisions : Non-Banks	17,696

32. Performance ratios:

	30 June 2017
Return on average assets	0.28%
Return on average Shareholders' equity	1.94%
Cost to operating income Ratio	72.23%

33. Other disclosures

The audit fees charged and non-audit services provided by external auditors will be made available to the shareholders as and when requested. Such details will be made available to the Bank's shareholders as per their specific request provided that these disclosures would not negatively impact the Bank's interest and its competition in the market.

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