KHALEEJI COMMERCIAL BANK BSC

RISK MANAGEMENT DISCLOSURES

(Based on Basel 3, Basel 2 (Pillar III) and IFSB guidelines)

30 June 2016

These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports and PD-3.1.6 Semi-annual Disclosures, CBB Rule Book, Volume II for Islamic Banks. These disclosures should be read in conjunction with the detailed risk management disclosures made in the annual report for the year ended 31 December 2015, and the condensed consolidated interim financial information for the six months ended 30 June 2016.

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Executive Summary

The Central Bank of Bahrain's ("CBB") Basel 3 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2015. The banks are required to maintain minimum capital adequacy ratio of 12.5% on a consolidated basis [i.e. CET1 – 6.5%, AT1-1.5%, Tier 2 – 2% and CCB – 2.5%] and a capital adequacy ratio of 8% on a solo basis [i.e. CET1 – 4.5%, AT1 – 1.5% and Tier 2 – 2%]. These disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports of the CBB Rule Book, Volume II for Islamic Banks and Section PD-3.1.6: Publication of reviewed (Unaudited) quarterly financial statements for locally incorporated banks. Section PD-1.3 reflect the requirements of Basel 2 - Pillar 3 and the Islamic Financial Services Board's ("IFSB") recommended disclosures for Islamic banks and PD 3.1.6 highlights the requirement to make quantitative disclosures described in PD-1.3 on their web site along with the half yearly financial statements.

All figures presented in this section are reported in BD thousands and are as of 30 June 2016 unless otherwise stated.

Khaleeji Commercial Bank BSC (the "Bank") has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk to determine its capital requirements. This section contains quantitative information on risk components and capital adequacy. The quantitative disclosures relating to remuneration are disclosed on annual basis in the Bank's annual report. For qualitative and quantitative disclosures relating to the Bank's risk management policies, capital adequacy policies and practices, corporate governance and remuneration, refer to the Pillar 3 disclosures in the section "Risk Management Disclosure" of the annual report for the year ended 31 December 2015.

The Bank's Tier I and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel 3 framework.

The Banks total risk weighted assets as at 30 June 2016 amounted to BD 589,871 thousand. Credit risk accounted for 90.9 percent, operational risk 7.1 percent, and market risk 2 percent of the total risk weighted assets. Tier I and total regulatory capital were BD 109,514 thousand and BD 114,011 thousand, respectively, as at 30 June 2016.

At 30 June 2016, Bank's CET1 and T1 capital and total capital adequacy ratios were 18.57 percent and 19.33 percent, respectively.

1 Group Structure

The Bank operates under a retail banking license granted by the CBB on 20 October 2003. The Bank does not have significant operating subsidiaries. The subsidiaries set-up is primarily special purpose entities with nominal capital to execute specific investment transactions. The subsidiaries qualify as commercial entities as per the CBB guidelines and are risk weighted as investments for capital adequacy computation purposes.

2 Capital Management and Capital Adequacy Ratio

2.1 Capital management

The Bank's policy is to maintain a strong capital base to develop and retain investor, creditor and market confidence and to sustain business growth. The Bank recognises the impact of a high level of capital on shareholders' returns, while not losing sight of the security and market confidence afforded by a sound capital base. The Bank aims to maintain a minimum total capital adequacy ratio significantly in excess of that mandated by the CBB.

2.2 Capital structure, minimum capital requirements and capital adequacy

Following is the break-up of capital structure as at 30 June 2016:

BD 000's

Eligible capital	**30 June 2016**
Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	105,000
Statutory reserve	7,431
Retained earnings	3,718
Current interim cumulative net profit	4,230
Unrealized gains on available for sale financial instruments	-
Total CET1 capital prior to the regulatory adjustments	**120,379**
Less: Investment in own shares	(9,251)
Less: Investments in financial entities where ownership is < 10% of the issued common share capital (amount above 10% CET1a)	(1,614)
Total Common Equity Tier 1 capital after the regulatory adjustments	**109,514**
Other Capital	
AT1	**-**
General financing loss provision – (Tier 2)	4,497
Total available AT1 & T2 Capital	**4,497**
Total Capital	**114,011**

	30 June 2016
Credit risk weight exposures	536,307
Market risk weight exposures	11,563
Operational risk weight exposures	42,001
Total risk weighted exposures	**589,871**

Capital adequacy ratio (CET1 and T1)	**18.57%**
Capital adequacy ratio (Total capital)	**19.33%**

The above capital adequacy ratios are calculated by dividing the respective regulatory capital base by the total Risk Weighted Assets (RWAs).

Break-up of capital requirement in accordance with the capital adequacy module of the CBB for the period ended 30 June 2016 is as follows (in BD 000's):

Exposure classification	Exposure[1]			Risk weighted assets[2]			Capital requirement @ 12.5%		
	Self – Financed	IAH	Total	Self – Financed	IAH	Total	Self – Financed	IAH	Total
Cash and collection items	5,267		**5,267**	-	-	**-**	-	-	**-**
Sovereigns	242	71,979	**72,221**	-	-	**-**	-	-	**-**
Bahraini PSEs	-	-	**-**	-	-	**-**	-	-	**-**
Banks	-	36,016	**36,016**	-	3,525	**3,525**	-	441	**441**
Corporates	99,529	236,566	**336,095**	107,390	70,686	**178,076**	13,424	8,836	**22,260**
Past due facilities	-	-	**-**	-	-	**-**	-	-	**-**
Investments in equities	40,056	-	**40,056**	54,640	-	**54,640**	6,830	-	**6,830**
Investment in sukuks	27,267	-	**27,267**	113,506	-	**113,506**	14,188	-	**14,188**
Holdings of real estate	55,285	-	**55,285**	184,148	-	**184,148**	23,019	-	**23,019**
Other assets	2,412		**2,412**	2,412	-	**2,412**	302	-	**302**
Credit Risk	230,058	344,561	**574,619**	462,096	74,211	**536,307**	57,763	9,277	**67,040**
Market Risk	11,563	-	**11,563**	11,563	-	**11,563**	1,445	-	**1,445**
Operational Risk	42,001	-	**42,001**	42,001	-	**42,001**	5,250	-	**5,250**
Total	**283,622**	**344,561**	**628,183**	**515,660**	**74,211**	**589,871**	**64,458**	**9,277**	**73,735**

[1] Represents unsecured portion of the credit exposure after deducting credit risk mitgant.
[2] For capital adequacy computations, 100% of the RWAs are reckoned for self-financed assets while only 30% is considered for assets funded through equity of investment account holders (IAH).

3 Credit Risk

3.1 Levels of exposure

Gross credit exposure along with average credit exposure broken down under different exposure classes as at 30 June 2016 is as follows:

BD000's

	Average [1] Exposure	Gross Exposure		
		Self – Financed	IAH	Total
Cash and bank balances	28,745	5,008	22,472	27,480
Placement with financial institutions	42,628	-	34,873	34,873
Financing assets[2]	341,648	104,422	249,800	354,222
Investment in sukuk	61,703	-	55,394	55,394
Investment in equity securities	60,645	58,901	-	58,901
Assets acquired for leasing(including lease rental receivables) [2]	83,994	91,420	-	91,420
Investments in associates	2,605	2,605	-	2,605
Investment property	19,071	19,071	-	19,071
Development property	6,441	6,173	-	6,173
Other assets, including property and equipment	20,363	17,714	-	17,714
Total funded Credit Exposure	**667,843**	**305,314**	**362,539**	**667,853**
Financial guarantees [3]	9,797	9,431	-	9,431
Undrawn commitments to extend finance [3]	25,810	24,435	-	24,435
Total unfunded Credit Exposure	**35,607**	**33,866**	**-**	**33,866**

[1] Represents quarterly average balances for the six month period ended 30 June 2016.
[2] Gross of collective provision.
[3] Represents unfunded exposures amounts after considering their credit conversion factors.

3.2 Concentration of credit risk

3.2.1 Geographic distribution

The geographical exposure profile as at 30 June 2016 was as follows:

BD 000's

30 June 2016	GCC Countries	Europe	USA	Asia	Australia	Total
Assets						
Cash and bank balances	25,724	-	1,726	30	-	27,480
Placement with financial institutions	34,873	-	-	-	-	34,873
Financing assets	331,740	18,904	-	-	-	350,644
Investment in sukuk	55,394	-	-	-	-	55,394
Investment in equity securities	32,913	-	-	22,320	3,668	58,901
Assets acquired for leasing (including lease rentals receivable)	90,501	-	-	-	-	90,501
Investment in associates	2,605	-	-	-	-	2,605
Investment property	19,071	-	-	-	-	19,071
Development property	6,173	-	-	-	-	6,173
Other assets	9,025	1	-	663	-	9,689
Property and equipment	8,025	-	-	-	-	8,025
Total funded exposures	**616,044**	**18,905**	**1,726**	**23,013**	**3,668**	**663,356**
Guarantees	21,224	-	-	-	-	21,224
Undrawn financing facilities	62,029	494	-	-	-	62,523
Total unfunded exposures	**83,253**	**494**	**-**	**-**	**-**	**83,747**

3.2.2 Industry/ sector-wise distribution

The Board of Directors has stipulated maximum exposures to various industry sectors. The industry/ sector wise exposure as at 30 June 2016 was as follows:

BD 000's

30 June 2016	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	27,480	-	-	27,480
Placements with financial institutions	34,873	-	-	34,873
Financing assets [1]	12,704	87,944	249,996	350,644
Investment in sukuk	-	1,210	54,184	55,394
Investment in equity securities	15,147	40,085	3,669	58,901
Assets acquired for leasing (including lease rentals receivable)	-	89,597	904	90,501
Investment in associates	-	2,605	-	2,605
Investment property	-	19,071	-	19,071
Development property	-	6,173	-	6,173
Other assets	146	2,080	7,463	9,689
Property and equipment	-	6,722	1,303	8,025
Total funded exposure	**90,350**	**255,487**	**317,519**	**663,356**
Guarantees	723	8,303	12,198	21,224
Undrawn financing facilities	-	10,530	51,993	62,523
Total unfunded exposures	**723**	**18,833**	**64,191**	**83,747**

[1] Financing asset exposures have been classified based on the purpose of financing.

3.2.3 Transactions with related counterparties

Related counterparties are those entities which are related to the Bank through significant shareholding, control, or both. Wherever the Bank has entered into business transactions with such counterparties, such transactions have been done at an arm's length basis and on commercial terms that bring no disadvantage to the Bank. For the purpose of identification of related counterparties, the Bank strictly follows the guidelines issued by CBB for this purpose. Transactions with related parties during the six months period ended 30 June 2016 and outstanding balances pertaining to related parties are as follows:

BD 000's

30 June 2016	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Investment in equity securities	-	-	2,284	25,987	28,271
Investment in associates	2,605	-	-	-	2,605
Other assets	117	-	-	963	1,080
Liabilities					
Placement with Banks	-	-	8,294	-	8,294
Customers' current accounts	18	-	334	2,085	2,437
Equity of investment account holders	111	150	2,121	951	3,333

BD 000's

30 June 2016	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Income					
Income from financing assets and assets acquired for leasing	6	-	-	-	6
Other Income	-	-	-	190	190
Expenses					
Return to investment account holders	1	1	19	8	29
Staff cost	-	528	-	-	528
Other expenses	-	-	-	117	117

3.2.4 Exposures exceeding materiality thresholds

The Bank is required to carry out capital adjustments (deduction) for its exposure to significant investments in capital of banking and financial entities subject to certain materiality thresholds as defined in the Capital Adequacy Module ("CA Module") of the CBB Rule Book.

Further, the exposures in excess of limits prescribed by Credit Risk Management Module ("CM Module") (single obligor limit of 15% of total capital and aggregate limit for connected counterparty exposure of 25% of total capital) are subject to risk weight of 800%. For investment in a financial entity where ownership is < 10% of the issued common capital, 40% of the amount exceeding 10% of CET1(a) is subject to deduction from CET1(a). The following table summarises the exposures exceeding regulatory limits as of 30 June 2016:

Counterparty	Exposure type	Total exposure	Exposure as a percentage of total capital	Exposure in excess of the limits
Connected counterparties	Investments, financing and other assets	40,796	35.78%	12,294
Investment in financial entities	Investment in financial entities <10%	15,148	13.29%	4,035*

* In line with the transitional provisions of CA module 40% of the exposure exceeding materiality threshold (BD 1,614) has been considered for regulatory capital adjustment.

3.2.5 Exposures in highly leveraged counterparties

The Bank has no exposure to highly leveraged and other high risk counterparties as per definition provided in the CBB rule book PD 1.3.24 (e).

3.2.6 Residual contractual maturity of the credit portfolio and investment in sukuks

The Bank's policy allows exposures up to a maximum period of 7 years for corporate customers and 25 years for retail customers with any exceptions to be approved by the Board of directors. The Bank constantly monitors the residual maturity profile of its assets to ensure that any mismatch with the maturity of its liabilities is kept within acceptable limits. The contractual residual maturity profile by type of financing contract of the Bank's credit portfolio and investment in sukuk in banking book is given in the table below (in BD 000's):

Maturity Scale	**< 1 M**	**1 - 3 M**	**3 - 6 M**	**6M - 1Y**	**1 - 3Y**	**3 – 5Y**	**5 - 10Y**	**10 - 20Y**	**Over 20Y**	**Total**
Credit portfolio:										
Murabaha	**6,401**	**27,869**	**15,680**	**15,958**	**68,347**	**70,669**	**101,616**	**-**	**-**	**306,540**
Musharaka	**2,062**	**-**	**-**	**5,710**	**554**	**674**	**468**	**-**	**-**	**9,468**
Mudaraba	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,222**	**-**	**1,222**
Wakala	**5,250**	**4,382**	**5,790**	**-**	**12,815**	**5,159**	**-**	**-**	**-**	**33,396**
Istisna	**18**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18**
Ijarah	**-**	**-**	**-**	**117**	**785**	**2,384**	**17,889**	**55,341**	**13,985**	**90,501**
Total	**13,731**	**32,251**	**21,470**	**21,785**	**82,501**	**78,886**	**119,973**	**56,563**	**13,985**	**441,145**
Investment in sukuk– banking book	2,413	24	-	-	2,179	-	50,778	-	-	**55,394**
Total	**2,413**	**24**	**-**	**-**	**2,179**	**-**	**50,778**	**-**	**-**	**55,394**
Grand Total	**16,144**	**32,275**	**21,470**	**21,785**	**84,680**	**78,886**	**170,751**	**56,563**	**13,985**	**496,539**

3.3 Equity risk in banking book

The Bank has certain equity investments in the Banking book and they are subject to credit risk weighting under the capital adequacy framework.

Information on equity investments	BD 000's
Privately held	58,901
Dividend income	503
Realized loss on sale of investments during the period	(209)

The following are the categories under which equity investments are included in the capital adequacy computations as per the requirements of the CBB rules:

BD 000's

Equity investments in banking book	**Gross exposure**		**Risk weighted exposure**		**Capital requirement @ 12.5%**	
	Self-financed*	**IAH**	**Self-financed**	**IAH**	**Self-financed**	**IAH**
Listed	-	-	-	-	-	-
Unlisted	16,096	-	24,144	-	3,018	-
Investments in unlisted real estate companies	31,090	-	124,360	-	15,545	-
Unquoted equity investment	10,101	-	80,808	-	10,101	-
Capital deduction (no RW)	1,614	-	-	-	-	-
Total	**58,901**	**-**	**229,312**	**-**	**28,664**	**-**

3.4 Geographical and sector wise break up of impairment allowances and impaired and past due accounts

BD 000's

	GCC Countries	Europe	Asia	USA	Total
Impaired:					
3 months to 1 year	10,390	-	-	-	**10,390**
1 year to 3 years	3,571	-	-	-	**3,571**
More than 3 years	11,335	-	-	-	**11,335**
	25,296	-	-	-	**25,296**
Less: Specific impairment allowance:					
At 1 January 2016	10,309	-	-	-	**10,309**
Charge during the period	1,369	-	-	-	**1,369**
Write back during the year	(26)	-	-	-	**(26)**
Write off during the year	-	-	-	-	-
At 30 June 2016	**11,652**	**-**	**-**	**-**	**11,652**
Carrying amount	**13,644**	**-**	**-**	**-**	**13,644**
Past due but not impaired, including substandard:					
Up to 3 months	21,976	-	-	-	**21,976**
3 months to 1 year	18,099	615	-	-	**18,714**
More than 1 year	316	-	-	-	**316**
	40,391	**615**	**-**	**-**	**41,006**
Collective impairment allowance *	**4,301**	**196**	**-**	**-**	**4,497**

BD 000's

	Banks and financial institutions	Real estate	Others	Total
Impaired:				
3 months to 1 year	-	2,910	7,480	**10,390**
1 year to 3 years	-	620	2,951	**3,571**
More than 3 years	-	6,200	5,135	**11,335**
	-	**9,730**	**15,566**	**25,296**
Less: Specific impairment allowance:				
At 1 January 2016	-	5,107	5,202	**10,309**
Charge during the period	-	66	1,303	**1,369**
Write back during the year	-	-	(26)	**(26)**
Write off during the year	-	-	-	-
At 30 June 2016	**-**	**5,173**	**6,479**	**11,652**
Carrying amount	**-**	**4,557**	**9,087**	**13,644**
Past due but not impaired, including substandard:				
Up to 3 months	-	13,079	8,897	**21,976**
3 months to 1 year	-	9,522	9,192	**18,714**
More than 1 year	-	299	17	**316**
	-	**22,900**	**18,106**	**41,006**
Collective impairment allowance *	**136**	**1,866**	**2,495**	**4,497**

* Collective impairment allowance is allocated based on gross exposure excluding impaired exposures on which specific provision is maintained.

3.5 Renegotiated facilities

Exposures classified as neither past due nor impaired financing facilities include facilities renegotiated during the period ended 30 June 2016 amounting to BD 14,936 thousand that otherwise might have become past due in future as per their original repayment terms. The renegotiated terms usually require settlement of profits accrued till date on the facility and / or part of the principal and / or obtaining of additional collateral coverage.

3.6 Legal action and write off of exposures

The Bank has policies for initiation and prosecution of legal action when all amicable avenues for settlement of dues from a customer have been exhausted. As at 30 June 2016, the Bank was involved in forty litigations for recovery of dues from clients amounting to BD 2.4 million. In addition, there were five claims brought by five of the clients against the Bank amounting to of BD 2.793 million which the Bank is defending, BD 2.7 million claim is being dismissed and the total claims currently is BD 93K. The Bank has made adequate provisions for any loss that may arise from such litigations.

The Bank has a policy that permits write-off of exposures when there is no possibility of recovery of the dues through legal and other means. The Bank has not written off any facility during the period ended 30 June 2016.

3.7 Penalties for delayed payments

In cases where customers delay the payments of dues to the Bank, the Bank has the right to collect penalties, subject to the provisions of the agreement between the customer and the Bank. The Bank recovers such penalties from customers when the amounts are significant. As per policy such penalties are maintained in a separate account and used for charity purposes approved by the Bank's Shari'a Board.

The Bank has a policy of creating a contribution for Charity and Zakah fund for any non-Islamic income earned. During the six months period ended 30 June 2016, an amount of BD 34 thousands was transferred to Charity and Zakah fund.

3.8 Credit risk mitigation

The position of collateral cover for all credit exposures categorized on the basis of the type of security as on 30 June 2016 is given in the table below:

BD 000's

Collateral Type	Murabaha	Musharaka	Mudaraba	Wakala	Istisna	Ijara	Value of collateral [1]	Gross Exposure [2]	% of cover	% of Total
Real estate	220,380	27,710	325	15,707	2,844	161,045	428,011	238,918	179%	89%
Listed securities	542	-	-	-	-	-	542	256	212%	0%
Bank guarantee	2,454	-	-	-	-	-	2,454	2,254	109%	1%
Cash collateral	27,577	-	-	635	-	11	28,223	57,082	49%	6%
Others	22,961	-	-	-	-	-	22,961	30,576	75%	5%
Unsecured	-	-	-	-	-	-	-	133,364	-	0%
Total	273,914	27,710	325	16,342	2,844	161,056	482,191	462,450	104%	100%

[1] Represents collateral values based on the last valuation carried out based on the Bank's valuation policy including collaterals which exceed the book value of the facility.

[2] The amounts are gross of collective impairment allowance of BD 4,497 thousand and specific allowance of BD 11,652 thousand.

The Bank has a policy of disposal of asset held as collateral not readily convertible into cash, after completion of necessary legal formalities. During the half year ended 30 June 2016, the Bank repossessed and sold nothing.

3.9 Regulatory capital requirements by type of financing contracts

BD 000's

Financing contracts	Exposure		Credit Risk Weighted Assets		Capital Requirement @ 12.5%	
	Self-financed	IAH	Self-financed	IAH	Self-financed	IAH
Murabaha	87,203	216,853	95,947	59,662	11,993	7,458
Ijara assets (including lease rentals receivable)	90,501	-	1,114	-	139	-
Musharaka	9,469	-	9,469	-	1,184	-
Mudharabah	1,172	-	1,172	-	147	-
Wakala	3,000	32,929	3,000	9,879	375	1,235
Istisna	-	18	-	5	-	1
Total	**191,345**	**249,800**	**110,702**	**69,546**	**13,838**	**8,694**

4 Market Risk

4.1 Regulatory capital allocation against market rate risk

The table below shows the market risk position for each category of the market risk as at period ended 30 June 2016 along with the maximum and minimum values during the period:

BD 000's

	As at 30 June	Max	Min
Equity position risk	-	-	-
Market risk on trading positions in sukuk*	-	-	-
Foreign exchange risk	925	1,216	925
Commodity risk	-	-	-
Total (A)	**925**	**1,216**	**925**
Risk Weighted Assets (A x 12.5)	11,563	15,200	11,563
Capital requirement @ 12.5%	1,445	1,900	1,445

* Represents 30% of the exposure since the sukuk investments are allocated from IAH pool.

5 Operational Risk

5.1 Regulatory capital allocation against operational risk

The Bank uses the Basic Indicator Approach ("BIA") in calculating its regulatory capital requirement for operational risk.

The risk weighted assets and capital requirement for operational risk as at 30 June 2016 is as given below:

BD 000's

Average gross income for 3 years (A)	22,400
Operational Risk Weighted Assets B = (A x 15% x 12.5)	42,001
Capital requirement (B x 12.5%)	5,250

6 Other Risks

6.1 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations on account of a maturity mismatch between assets and liabilities. The Bank's approach to managing liquidity is to ensure that it will always have sufficient funds to meet its liabilities when due without incurring unacceptable losses or risking damage to the Bank's reputation.

Maturity profile of assets and liabilities based on residual contractual maturity or expected maturity as at 30 June 2016 is as follows:

BD 000's

30 June 2016	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	27,480	-	-	-	-	**27,480**
Placements with financial institutions	34,713	160	-	-	-	**34,873**
Financing assets	32,740	21,469	32,349	85,832	178,254	**350,644**
Investment in sukuk	55,394	-	-	-	-	**55,394**
Investment in equity securities	-	-	-	58,901	-	**58,901**
Assets acquired for leasing (including lease rental receivables)	37	-	114	730	89,620	**90,501**
Investment in associates	-	-	-	933	1,672	**2,605**
Investment properties	-	-	-	-	19,071	**19,071**
Development property	-	-	-	-	6,173	**6,173**
Other assets	593	-	116	8,980	-	**9,689**
Property and equipment	-	-	-	-	8,025	**8,025**
Total assets	**150,957**	**21,629**	**32,579**	**155,376**	**302,815**	**663,356**

Liabilities	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Placements from financial institutions	46,328	-	-	15,042	-	**61,370**
Placements from non-financial institutions and individuals	13,862	16,061	23,256	4,693	1,625	**59,497**
Customers' current accounts*	34,595	8,095	4,627	2,710	5,112	**55,139**
Other liabilities	1,861	429	852	6,254	-	**9,396**
Total liabilities	**96,646**	**24,585**	**28,735**	**28,699**	**6,737**	**185,402**
Equity of Investment Account Holders*	**147,714**	**35,227**	**48,028**	**24,086**	**107,484**	**362,539**
Restricted Investment accounts	**-**	**-**	**9,306**	**3,652**	**-**	**12,958**
Commitments	**697**	**1,945**	**12,981**	**53,773**	**14,351**	**83,747**

* The bank follows behavioral approach to compute expected maturity profile of customer current accounts and equity of Investment account holders.

Following are the key liquidity ratios which reflect the liquidity position of the Bank for the past 5 years:

Figures in %

	June 2016	2015	2014	2013	2012
Interbank assets to interbank liabilities	61.36%	115.60%	176.87%	222.39%	95.70%
Liquid assets to total assets	17.75%	22.75%	25.23%	27.80%	19.81%
Liquid assets to total deposits	24.68%	30.65%	34.69%	38.46%	33.33%
Net liquid assets to total deposits	11.81%	20.96%	23.03%	27.50%	9.25%

6.2 Profit rate risk in the banking book

A summary of the Bank's profit rate gap position at 30 June 2016 is as follows:

BD 000's

30 June 2016	Up to 3 months	3 - 6 months	6 months - 1 year	1 - 3 years	More than 3 years	Total
Assets						
Placements with financial institutions	34,713	160	-	-	-	**34,873**
Financing assets	32,740	21,469	32,349	85,832	178,254	**350,644**
Assets acquired for leasing (including lease rental receivables)	37	-	114	730	89,620	**90,501**
Investments securities (sukuks)	55,394	-	-	-	-	**55,394**
Total profit rate sensitive assets	**122,884**	**21,629**	**32,463**	**86,562**	**267,874**	**531,412**
Liabilities						
Placements from financial institutions	46,328	-	-	15,042	-	**61,370**
Placements from non-financial institutions and individuals	13,862	16,061	23,256	4,693	1,625	**59,497**
Customers' current accounts *	34,595	8,095	4,627	2,710	5,112	**55,139**
Equity of investment account holders*	147,714	35,227	48,028	24,086	107,484	**362,539**
Total profit rate sensitive liabilities	**242,499**	**59,383**	**75,911**	**46,531**	**114,221**	**538,545**
Profit rate gap	**(119,615)**	**(37,754)**	**(43,448)**	**40,031**	**153,653**	**(7,133)**

* The bank follows behavioral approach to compute expected maturity profile of customer current accounts and equity of Investment account holders.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios.

An analysis of the Bank's sensitivity to an increase or decrease in market profit rates by 200bps parallel increase / decrease (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	Effect on value of assets	Effect on income statement	Effect on economic capital
At 30 June 2016	± 10,628	± 143	± 10,485

6.3 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. The Bank does not engage in proprietary trading of equity, foreign exchange or its derivatives. However, the Bank enters into Shari'a compliant foreign exchange risk/ profit rate risk transactions to hedge its risks arising out of mismatch in its asset liability portfolios. Clear policies for such transactions are in place. For other credit markets transactions (primarily interbank placements), the Bank has established a matrix of counterparty limits based on external credit rating of such counterparties. Such limits are constantly monitored by the Banks Risk Management Department. As at 30 June 2016, the Bank did not have any open position in foreign currency risk management instruments.

6.4 Concentration risk

Concentration risks arises when a number of obligors, counterparties or investees are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Accordingly, such concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or region. The Bank has established exposure limits to various geographic regions and industry sectors. For break-up of exposure geography and industry/ sector wise, please refer points 3.2.1 and 3.2.2 above.

6.5 Reputational risk

Reputation risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base, lead to costly litigation that could have an adverse impact on liquidity or capital of the Bank. Being an Islamic Bank, reputation is an important asset and among the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments and poor communication to investors. The Bank has a well-developed and coherently implemented communication strategy to cover such contingencies. The Bank also allocates additional capital for such risks under its ICAAP.

6.6 Displaced commercial risk

Displaced Commercial Risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by equity of investment account holders. This can be due to the return on such assets being lower than that of competitors. The Bank has adequate policies and procedures in place to identify, monitor and address all potential risks that may arise from such activities. Please refer to the section on IAH for further details.

6.7 Other risks

Other risks include strategic risk, fiduciary risks, and regulatory risks etc. which are inherent in all business and are not easily measurable or quantifiable. The Bank's Board has overall responsibility for approving and reviewing the risk strategies and amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board. The management also ensures that internal systems of corporate governance and regulatory compliance for management of fiduciary and reputational risks are robust and effective. The Bank also allocates additional capital for such risks under its ICAAP.

7 Compliance Disclosure

During the period, there were two penalties imposed by the CBB of BD 100 due to unclear account with Bahrain Credit Reference Bureau.

8 Financial Performance

Following are basic quantitative indicators of the financial performance:

(Annualised rates)

	June 2016	2015	2014	2013	2012
Return on average equity	**7.52%**	7.48%	3.00%	(16.06)%	0.64%
Return on average assets	**1.24%**	1.27%	0.53%	(3.69)%	0.18%
Finance income to finance expense	**284.97%**	231.02%	147.77%	147.77%	201.89%
Cost-to-Income-Ratio*	**51.31%**	53.64%	156.56%	156.56%	84.54%

* Cost has been considered excluding impairment allowances.

9 Product Disclosures

9.1 Equity of investment account holders (IAH's)

The details of income distribution to IAH holders for the last five years are given below:

BD 000's

	June 2016	2015	2014	2013	2012
Allocated income to IAH	8,188	16,933	12,843	13,315	9,923
Distributed profit *	3,440	7,382	8,841	8,719	6,297
Mudarib fees	4,749	9,551	4,002	4,596	3,626
As at 30 June					
IAH [1]	371,625	378,596	336,010	260,609	193,245
Profit Equalisation Reserve (PER)	-	-	-	-	-
Investment Risk Reserve (IRR)	-	-	-	-	-
Profit Equalisation Reserve-to-IAH (%)	-	-	-	-	-
Investment Risk Reserve-to-IAH (%)	-	-	-	-	-

[1] Represents average balance
* Includes contribution towards deposit protection scheme

During the period the average mudarib share as a percentage of total investment profit was 57.14% as against the average rate contractually agreed with IAH holders of 65.76% on average. Hence the bank has sacrificed mudarib fees on average of 8.62%.

Ratio of profit distributed to PSIA by type of IAH (based on tenor):

BD 000's

Mudaraba Tenor	Profit distribution amount in BD					Ratio of profit paid as a percentage of total				
	June 2016	2015	2014	2013	2012	June 2016	2015	2014	2013	2012
1 Month [2]	401	1,009	1,304	1,488	1,629	11.7	13.7	14.7	17.1	25.9
3 Months	163	350	380	680	655	4.7	4.7	4.3	7.8	10.4
6 Months	679	1,330	1,455	1,100	474	19.7	18.0	16.5	12.6	7.5
12 Months	1,525	3,667	4,179	3,606	2,998	44.3	49.7	47.3	41.4	47.6
18 Months	4	2	1	-	-	0.1	-	0.0	-	-
24 Month	8	5	75	228	30	0.2	0.1	0.8	2.6	0.5
VIP Mudaraba	659	1,019	1,447	1,617	511	19.2	13.8	16.4	18.5	8.1
PER and IRR expenses	-	-	-			-	-	-	-	-
Total	**3,439**	**7,382**	**8,841**	**8,719**	**6,297**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[2] Includes saving account and call mudaraba

Distribution of profits by type of IAH products:

(Annualised rates)

Year	Avg. profit earned from IAH assets (%age of asset)	PER set aside as a %age of IAH assets	IRR set aside as a %age of IAH assets	Mudharib fees as a %age of IAH assets	Profit paid as a %age of IAH assets
June 2016	2.20	-	-	1.28	0.93
2015	1.95	-	-	2.57	1.99
2014	3.82	-	-	1.19	2.63
2013	5.11	-	-	1.76	3.35
2012	5.13	-	-	1.88	3.26

Following are the average profit rates declared and distributed to the investors by the Bank:

(Annualised rates)

Type of deposit	June 2016	2015	2014	2013	2012
1 month Mudharaba [3]	0.63%	0.78%	1.15%	1.12%	2.25%
3 months Mudharaba	1.43%	1.75%	2.19%	2.98%	3.08%
6 months Mudharaba	2.88%	2.69%	3.08%	3.64%	3.55%
12 months Mudharaba	2.63%	2.75%	3.39%	4.27%	4.46%
18 months Mudharaba	2.62%	2.80%	3.30%	-	-
24 months Mudharaba	3.03%	2.91%	4.92%	5.07%	5.07%
VIP Mudharaba	2.12%	2.00%	3.49%	4.09%	2.79%

[3] Includes saving account and call mudaraba

Market benchmark rates:

The Bank refers to the group of commercial Islamic banks incorporated in the Kingdom of Bahrain so as to benchmark the rate of return on IAH.

IAH account by type of assets:

The following table summarises the movement in type of assets in which the IAH funds are invested and allocated among various type of assets for the year ended 30 June 2016:

Particular	Allocation at 1 January 2016	Movement	Allocation at 30 June 2016	Proportion of total assets (%)
Cash and bank balances	29,256	(6,784)	22,472	81.80%
Placements with financial institutions	43,953	(9,080)	34,873	100.00%
Financing assets [4]	234,529	15,271	249,800	70.52%
Investment securities - Sukuk	63,533	(8,139)	55,394	100.00%
Total	**371,271**	**(8,732)**	**362,539**	

[4] Includes Murabaha, Wakala, and Istisna contracts.

9.2 Restricted Investment Accounts (RIA's)

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					June 2016	2015	2014	2013	2012
RIA 1 - Safana	An investment structure designed to participate in the equity interest of Safana Investment WLL. A company established for the purpose of acquiring reclaimed land to subdivide and sell, the Bank made an offer to buy back < BD 20,000 of each investors funds in RIA 1 at par. This offer was formalized in a letter to investors dated 25 May 2011. A total of 74 of the 95 RIA 1 investors accepted the offer at a cost of BD 1,220,000 to the Bank and resulting in a total of 39 investors being fully exited from the RIA. As a result, total investors funds have reduced to BD 8.34 million.	2007	61.78% over product tenor	Bullet payment on maturity	-	-	-	-	-
RIA 5 - North Gate	A restricted investment product which owns a 6.0% stake in Shaden Real Estate Investment WLL which in turn (through its subsidiaries), holds a parcel of reclaimed land measuring approximately 3.875 million Sq. Meters (located in Al-Hidd, Muharraq). The mixed-use plot will be sold to end users subsequent to the completion of infrastructure works. During the period, the Bank has bought back 4,040,000 shares (50%) from its investors at BD 4,242,000 at a profit of 5%.	2008	90.66% over product tenor	Bullet return at maturity	-	-	-	-	-
RIA 6 - Locata	A Restricted Mudaraba product which entitles the investors beneficial ownership of 25% equity share capital of Locata Corporation Pty Ltd., a company incorporated in Australia. The Company has invented a new and patented wireless radiolocation technology and shall use this funding to scale up its production capacity, sales/marketing channels and further product enhancement capabilities. During 2014, 479 shares were bought back from its investors.	2009	110.54% over product tenor	Bullet return at maturity	-	-	-	-	-