KHALEEJI COMMERCIAL BANK BSC

RISK MANAGEMENT DISCLOSURES

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

30 June 2017

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 2016, and the condensed consolidated interim financial information for the six months ended 30 June 2017.

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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 2017 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 2016.

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 exposures as at 30 June 2017 amounted to BD 686,142 thousand. Credit risk accounted for 90.9 percent, operational risk 7.9 percent and market risk 1.2 percent of the total risk weighted exposures. Tier I and total regulatory capital were BD 110,715 thousand and BD 115,235 thousand, respectively, as at 30 June 2017.

At 30 June 2017, Bank's CET1 and T1 capital and total capital adequacy ratios were 16.14 percent and 16.79 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 Statement of Financial position under the regulatory scope of consolidation

The table below shows the link between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

	Statement of Financial position as in published financial statements	Statement of Financial position as per Regulatory Reporting	Reference
ASSETS			
Cash and bank balances	**58,510**	**58,503**	
Placements with financial institutions	**63,316**	**63,316**	
Financing assets	**363,327**	**370,339**	
Of which General financing loss provisions	-	(3,482)	a
Investment in sukuk	**93,080**	**93,080**	
Of which related to Insignificant Investments in Financial Entities	3,864	3,864	b
Of which Capital adjustments related to Investment in financial entities where ownership is < 10% of issued common share capital (amount above 10% CET1a)	913	914	c
Of which related to other investments	89,216	89,216	
Assets acquired for leasing	**100,047**	**100,047**	
Lease rental receivables	**4,009**	**5,047**	
Of which General financing loss provisions	**-**	**(1,038)**	d
Investment in equity securities	**55,499**	**55,499**	
Of which related to Insignificant Investments in Financial Entities	15,148	15,148	e
Of which Capital adjustments related to Investment in financial entities where ownership is < 10% of issued common share capital (amount above 10% CET1a)	3,581	3,581	f
Of which related to other investments	40,351	40,351	
Investment in real estate	**21,751**	**18,271**	
Development property	**6,003**	**-**	
Other assets	**15,396**	**15,578**	
Property and equipment	**8,198**	**8,198**	
TOTAL ASSETS	**789,136**	**787,878**	
LIABILITIES			
Placements from financial institutions	**97,199**	**97,199**	
Placements from non-financial institutions and individuals	**95,480**	**95,480**	
Customers' current accounts	**86,552**	**86,671**	
Other liabilities	**7,596**	**5,638**	
TOTAL LIABILITIES	**286,827**	**284,988**	
EQUITY OF INVESTMENT ACCOUNT HOLDERS	**383,160**	**383,160**	
OWNERS' EQUITY			
Share capital	**105,000**	**105,000**	g
Statutory reserve	**7,962**	**7,962**	h
Treasury shares	**(8,832)**	**(8,832)**	i
Employee share incentive scheme	**(111)**	**(111)**	j
Investment fair value reserve	**(23)**	**(23)**	k
Retained earnings	**11,448**	**11,214**	l
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	**115,444**	**115,210**	
General financing loss provisions	**-**	**(4,520)**	a+d
Non-controlling interest	**3,705**	**-**	
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY	**789,136**	**787,878**	

2.3 **Composition of Capital as at 30 June 2017**

	Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 31st December 2016 to 31 December 2018)	Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Common Equity Tier 1 capital: instruments and reserves				
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	**112,851**		g+h+i
2	Retained earnings	**11,214**		l
3	Accumulated other comprehensive income (and other reserves)	**(23)**		k
4	Not Applicable	-		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1	-	-	
6	**Common Equity Tier 1 capital before regulatory adjustments**	**124,042**		
Common Equity Tier 1 capital: regulatory adjustments				
7	Prudential valuation adjustments	-	-	
8	Goodwill (net of related tax liability)	-	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-	
11	Cash-flow hedge reserve	-	-	
12	Shortfall of provisions to expected losses	-	-	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	-	
14	Not applicable.	-	-	
15	Defined-benefit pension fund net assets	-	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	**(8,832)**	-	i
17	Reciprocal cross-holdings in common equity	-	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	**19,012**	**19,012**	b+e
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability).	-	-	
22	Amount exceeding the 15% threshold	-	-	
23	of which: significant investments of financials in the common stock	-	-	
24	of which: mortgage servicing rights	-	-	
25	of which: deferred tax assets arising from temporary differences	-	-	
26	National specific regulatory adjustments	-	-	
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	**(4,495)**		c+f
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-		
28	**Total regulatory adjustments to Common equity Tier 1**	**(13,327)**		
29	**Common Equity Tier 1 capital (CET1)**	**110,715**		
Additional Tier 1 capital: instruments				
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-		
31	of which: classified as equity under applicable accounting standards	-		
32	of which: classified as liabilities under applicable accounting standards	-		
33	*Directly issued capital instruments subject to phase out from Additional Tier 1*	-		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-		
35	*of which: instruments issued by subsidiaries subject to phase out*	-		
36	**Additional Tier 1 capital before regulatory adjustments**	-		
Additional Tier 1 capital: regulatory adjustments				

Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 31st December 2016 to 31 December 2018)		Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
37	Investments in own Additional Tier 1 instruments	-	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-	
41	National specific regulatory adjustments	-		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-		
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**		
44	**Additional Tier 1 capital (AT1)**	**-**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**110,715**		
Tier 2 capital: instruments and provisions				
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-		
47	*Directly issued capital instruments subject to phase out from Tier 2*	-		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-		
49	*of which: instruments issued by subsidiaries subject to phase out*	-		
50	Provisions	**(4,520)**		a+d
51	**Tier 2 capital before regulatory adjustments**	**(4,520)**		
Tier 2 capital: regulatory adjustments				
52	Investments in own Tier 2 instruments	-	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	-	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		-	
56	National specific regulatory adjustments	-		
57	**Total regulatory adjustments to Tier 2 capital**	**-**		
58	**Tier 2 capital (T2)**	**(4,520)**		
59	**Total capital (TC = T1 + T2)**	**106,195**		
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	**20,301**		
60	**Total risk weighted assets**	**686,141**		
Capital ratios				
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	**16.14%**		
62	Tier 1 (as a percentage of risk weighted assets)	**16.14%**		
63	Total capital (as a percentage of risk weighted assets)	**16.79%**		
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	**2.50%**		
65	*of which: capital conservation buffer requirement*	**2.50%**		
66	*of which: bank specific countercyclical buffer requirement (N/A)*	**N/A**		
67	*of which: D-SIB buffer requirement (N/A)*	**N/A**		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	**13.64%**		
National minima including CCB (if different from Basel 3)				
69	CBB Common Equity Tier 1 minimum ratio	**9%**		
70	CBB Tier 1 minimum ratio	**10.5%**		
71	CBB total capital minimum ratio	**12.5%**		

Amounts below the thresholds for deduction (before risk weighting)			

Common disclosure template to be used during the transition of regulatory adjustments (i.e. from 31st December 2016 to 31 December 2018)		Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
72	Non-significant investments in the capital of other financials	**19,012**		b+e
73	Significant investments in the common stock of financials	-		
74	Mortgage servicing rights (net of related tax liability)	-		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-		
Applicable caps on the inclusion of provisions in Tier 2				
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	**(4,520)**		a+d
77	Cap on inclusion of provisions in Tier 2 under standardised approach	**8,577**		
78	N/A	-		
79	N/A	-		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)				
80	*Current cap on CET1 instruments subject to phase out arrangements*	***NA***		
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	***NA***		
82	*Current cap on AT1 instruments subject to phase out arrangements*	***NA***		
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	***NA***		
84	*Current cap on T2 instruments subject to phase out arrangements*	***NA***		
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	***NA***		

2.4 **Unconsolidated legal entities for regulatory purposes**

Legal entities that are included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation:

Legal Entity name	**Entity classification as per CBB Rules & Guidelines**	**Treatment by the Bank for regulatory purposes**	**Extracts of financials as at 30 June 2017 (Amount in BD 000's)**	
			Total assets	**Total equity**
Harbour West 2 Real Estate SPC	Commercial entity	Risk weighted (look through approach)	9,757	9,757
Harbour West 4 Real Estate SPC	Commercial entity	Risk weighted (look through approach)	6,042	6,042
Eqarat Al Khaleej	Commercial entity	Risk weighted	3,588	1,426
Surooh LTD	Commercial entity	Risk weighted	6,520	2,994
True Horse Real Estate L.L.C.	Commercial entity	Risk weighted (look through approach)	5,090	1,500

2.5 **Disclosure template for main feature of regulatory capital instruments**

1.	Issuer	**Khaleeji Commercial Bank B.S.C**
2.	Unique identifier	**KHCB**
3.	Governing law(s) of the instrument	**All applicable laws and regulations of the Kingdom of Bahrain**
	Regulatory treatment	
4.	Transitional CBB rules	**Common Equity Tier 1**
5.	Post-transitional CBB rules	**Common Equity Tier 1**
6.	Eligible at solo/group/group & solo	**Group and solo**
7.	Instrument type (types to be specified by each jurisdiction)	**Equity Shares**
8.	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	**BD 105 million**
9.	Par value of instrument	**BD 0.100**
10.	Accounting classification	**Shareholders' Equity**
11.	Original date of issuance	**Various**
12.	Perpetual or dated	**Perpetual**
13.	Original maturity date	**No Maturity**
14.	Issuer call subject to prior supervisory approval	**No**
15.	Optional call date, contingent call dates and redemption amount	**Not applicable**
16.	Subsequent call dates, if applicable	**Not applicable**
	Coupons / dividends	
17.	Fixed or floating dividend/coupon	**Dividend as decided by the Shareholders**
18.	Coupon rate and any related index	**Not applicable**
19.	Existence of a dividend stopper	**Not applicable**
20.	Fully discretionary, partially discretionary or mandatory	**Fully discretionary**
21.	Existence of step up or other incentive to redeem	**No**
22.	Noncumulative or cumulative	**Non-cumulative**
23.	Convertible or non-convertible	**Non-convertible**
24.	If convertible, conversion trigger (s)	**Not applicable**
25.	If convertible, fully or partially	**Not applicable**
26.	If convertible, conversion rate	**Not applicable**
27.	If convertible, mandatory or optional conversion	**Not applicable**
28.	If convertible, specify instrument type convertible into	**Not applicable**
29.	If convertible, specify issuer of instrument it converts into	**Not applicable**
30.	Write-down feature	**No**
31.	If write-down, write-down trigger(s)	**Not applicable**
32.	If write-down, full or partial	**Not applicable**
33.	If write-down, permanent or temporary	**Not applicable**
34.	If temporary write-down, description of write-up mechanism	**Not applicable**
35.	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	**Not applicable**
36.	Non-compliant transitioned features	**No**
37.	If yes, specify non-compliant features	**Not applicable**

2.6 Capital structure, minimum capital requirements and capital adequacy

Following is the break-up of capital structure as at 30 June 2017:

BD 000's

Eligible capital	30 June 2017
Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	105,000
Statutory reserve	7,962
Less: Employee stock incentive program funded by the bank (outstanding)	(111)
Retained earnings	8,139
Current interim cumulative net profit	3075
Unrealized gains on available for sale financial instruments	(23)
Total CET1 capital prior to the regulatory adjustments	**124,042**
Less: Investment in own shares	(8,832)
Less: Investments in financial entities where ownership is < 10% of the issued common share capital (amount above 10% CET1a)	(4,495)
Total Common Equity Tier 1 capital after the regulatory adjustments	**110,715**
Other Capital	
AT1	**-**
General financing loss provision – (Tier 2)	4,520
Total available AT1 & T2 Capital	**4,520**
Total Capital	**115,235**

	30 June 2017
Credit risk weight exposures	623,797
Market risk weight exposures	8,063
Operational risk weight exposures	54,282
Total risk weighted exposures	**686,142**

Capital adequacy ratio (CET1 and T1)	**16.14%**
Capital adequacy ratio (Total capital)	**16.79%**

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 2017 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	7,403	-	**7,403**	-	-	**-**	-	-	**-**
▪ Sovereigns	11,720	82,411	**94,131**	-	-	**-**	-	-	**-**
▪ Other sovereigns PSEs	-	16,625	**16,625**	-	4,097	**4,097**	-	512	**512**
▪ Banks	-	84,076	**84,076**	-	11,770	**11,770**	-	1,471	**1,471**
▪ Corporates	172,824	183,422	**356,246**	197,394	54,854	**252,248**	24,674	6,857	**31,531**
▪ Past due facilities	31,026	-	**31,026**	42,457	-	**42,457**	5,307	-	**5,307**
▪ Investments in equities	25,245	-	**25,245**	111,129	-	**111,129**	13,891	-	**13,891**
▪ Investment in sukuks	-	2,947	**2,947**	-	884	**884**	-	111	**111**
▪ Holdings of real estate	58,730	-	**58,730**	198,796	-	**198,796**	24,850	-	**24,850**
▪ Other assets	2,416		**2,416**	2,416	-	**2,416**	302	-	**302**
Credit Risk	309,364	369,481	**678,845**	552,192	71,605	**623,797**	69,024	8,951	**77,975**
Market Risk	8,063	-	**8,063**	8,063	-	**8,063**	1,008	-	**1,008**
Operational Risk	54,282	-	**54,282**	54,282	-	**54,282**	6,785	-	**6,785**
Total	**371,709**	**369,481**	**741,190**	**614,537**	**71,605**	**686,142**	**76,817**	**8,951**	**85,768**

[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 2017 is as follows:

BD000's

	Average [1] Exposure	Gross Exposure		
		Self – Financed	IAH	Total
Cash and bank balances	51,312	18,830	39,673	58,503
Placement with financial institutions	65,284	-	63,316	63,316
Financing assets[2]	357,488	182,788	187,551	370,339
Investment in sukuk	91,005	460	92,620	93,080
Investment in equity securities	55,507	55,500	-	55,500
Assets acquired for leasing(including lease rental receivables) [2]	99,910	105,093	-	105,093
Investments in associates	4,613	4,623	-	4,623
Investment property	21,764	18,271	-	18,271
Development property	6,003	-	-	-
Other assets, including property and equipment	18,282	19,153	-	19,153
Total funded Credit Exposure	**771,168**	**404,718**	**383,160**	**787,878**
Financial guarantees [3]	10,405	10,376	-	10,376
Undrawn commitments to extend finance [3]	21,309	18,643	-	18,643
Total unfunded Credit Exposure	**31,714**	**29,019**	**-**	**29,019**

[1] Represents quarterly average balances for the six month period ended 30 June 2017.
[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 2017 was as follows:

BD 000's

30 June 2017	GCC Countries	Europe	USA	Asia	Australia	Total
Assets						
Cash and bank balances	42,777	8,548	7,162	23	-	**58,510**
Placement with financial institutions	63,316	-	-	-	-	**63,316**
Financing assets	344,672	18,655	-	-	-	**363,327**
Investment in sukuk	93,080	-	-	-	-	**93,080**
Investment in equity securities	31,297	-	-	20,534	3,668	**55,499**
Assets acquired for leasing (including lease rentals receivable)	104,056	-	-	-	-	**104,056**
Investment in associates	4,623	-	-	-	-	**4,623**
Investment property	21,751	-	-	-	-	**21,751**
Development property	6,003	-	-	-	-	**6,003**
Other assets	9,995	15	-	763	-	**10,773**
Property and equipment	8,198	-	-	-	-	**8,198**
Total funded exposures	**729,768**	**27,218**	**7,162**	**21,320**	**3,668**	**789,136**
Guarantees	22,888	-	-	-	-	22,888
Undrawn financing facilities	41,830	445	-	-	-	42,275
Total unfunded exposures	**64,718**	**445**	**-**	**-**	**-**	**65,163**

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 2017 was as follows:

BD 000's

30 June 2017	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	58,510	-	-	**58,510**
Placements with financial institutions	63,316	-	-	**63,316**
Financing assets [1]	11,714	83,574	268,039	**363,327**
Investment in sukuk	3,864	460	88,756	**93,080**
Investment in equity securities	15,147	36,683	3,669	**55,499**
Assets acquired for leasing (including lease rentals receivable)	-	103,983	73	**104,056**
Investment in associates	-	4,623	-	**4,623**
Investment property	-	21,751	-	**21,751**
Development property	-	6,003	-	**6,003**
Other assets	663	2,209	7,901	**10,773**
Property and equipment	-	6,740	1,458	**8,198**
Total funded exposure	**153,214**	**266,026**	**369,896**	**789,136**
Guarantees	619	8,623	13,646	22,888
Undrawn financing facilities	-	8,667	33,608	42,275
Total unfunded exposures	**619**	**17,290**	**47,254**	**65,163**

[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 2017 and outstanding balances pertaining to related parties are as follows:

BD 000's

30 June 2017	Associates	Directors/Key management personnel & Sharia board members	Significant shareholders / entities in which directors are interested	Assets under management (including special purpose entities)	Total
Assets					
Financing assets	-	967	5,710	-	6,677
Investment in equity securities	130	-	2,284	24,201	26,615
Other assets	4,740	-	-	1,116	5,856
Liabilities					
Customers' current accounts	61	-	2,528	1,359	3,948
Equity of investment account holders	661	170	14,068	920	15,819

BD 000's

30 June 2017	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	-	16	146	-	162
Expenses					
Return to investment account holders	8	2	78	10	98
Staff cost	-	908	-	-	908
Other expenses	-	-	-	76	76

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, 60% 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 2017:

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	43,515	37.76%	14,781
Investment in financial entities	Investment in financial entities <10%	19,012	16.50%	7,520*

* In line with the transitional provisions of CA module 60% of the exposure exceeding materiality threshold (BD 4,495) has been considered for regulatory capital adjustment.

3.2.5 Exposures in highly leveraged counterparties

The following balances represent the financing facilities to highly leveraged or other high risk counterparties as of 30 June 2017:

Counterparties	Gross BD '000	Provision BD '000	Net BD '000
Counterparty # 1	11,504	-	11,504

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 [1]
Credit portfolio:										
Murabaha	12,055	10,786	13,523	38,239	82,809	66,733	117,800	35	-	**341,980**
Musharaka	3,606	-	-	-	868	-	450	-	-	**4,924**
Mudaraba	-	-	-	-	-	-	1,226	-	-	**1,226**
Wakala	1,974	-	-	-	9,430	7,275	-	-	-	**18,679**
Ijarah	-	178	-	13	1,156	10,141	17,325	55,142	21,139	**104,094**
Total	**17,635**	**10,964**	**13,523**	**38,252**	**94,263**	**84,149**	**136,801**	**55,177**	**21,139**	**471,903**
Investment in sukuk– banking book	1,498	-	-	-	743	7,012	83,827	-	-	**93,080**
Total	**1,498**	**-**	**-**	**-**	**743**	**7,012**	**83,827**	**-**	**-**	**93,080**
Grand Total	**19,133**	**10,964**	**13,523**	**38,252**	**95,006**	**91,161**	**220,628**	**55,177**	**21,139**	**564,983**

[1] The amounts are gross of collective impairment allowance of BD 4,520 thousand.

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	55,499
Dividend income	310
Realized loss on sale of investments during the period	3
Unrealized loss on investment securities and included in CET	(23)

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
Unlisted	13,987	-	20,981	-	2,623	-
Investments in unlisted real estate companies	28,598	-	114,391	-	14,299	-
Other exposure with excess of large exposure limits	9,333	-	74,664	-	9,333	-
Capital deduction	3,581	-	-	-	-	-
Total	**55,499**	**-**	**210,036**	**-**	**26,255**	**-**

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 and non-performing					
3 months to 1 year	29,007	-	-	-	**29,007**
1 year to 3 years	8,900	-	-	-	**8,900**
More than 3 years	9,291	-	-	-	**9,291**
	47,198	**-**	**-**	**-**	**47,198**
Less: Specific impairment allowance:					
At 1 January 2017	15,057	108	-	-	**15,165**
Charge during the period	3,148	-	-	-	**3,148**
Write back during the year	(788)	(108)	-	-	**(896)**
Write off during the year	(265)	-	-	-	**(265)**
At 30 June 2017	**17,152**	**-**	**-**	**-**	**17,152**
Carrying amount	**30,046**	**-**	**-**	**-**	**30,046**
Past due but not impaired:					
Up to 3 months	55,434	7,321	-	-	**62,755**
3 months to 1 year	-	-	-	-	**-**
More than 1 year	-	275	-	-	**275**
	55,434	**7,596**	**-**	**-**	**63,030**
Collective impairment allowance *					
At 1 January 2017	(3,213)	-	-	(191)	(3,404)
Net charge for the period	(1,118)	(189)	-	191	(1,116)
At 30 June 2017	**(4,331)**	**(189)**	**-**	**-**	**(4,520)**

BD 000's

	Banks and financial institutions	Real estate	Others	Total
Impaired:				
3 months to 1 year	-	12,025	16,982	**29,007**
1 year to 3 years	-	2,335	6,565	**8,900**
More than 3 years	-	5,215	4,076	**9,291**
	-	**19,575**	**27,623**	**47,198**
Less: Specific impairment allowance:				
At 1 January 2017	-	4,188	10,977	**15,165**
Charge during the period	-	691	2,457	**3,148**
Write back during the year	-	(207)	(689)	**(896)**
Write off during the year	-	(263)	(2)	**(265)**
At 30 June 2017	**-**	**4,409**	**12,743**	**17,152**
Carrying amount	**-**	**15,166**	**14,880**	**30,046**
Past due but not impaired:				
Up to 3 months	6,475	30,656	25,624	**62,755**
3 months to 1 year	-	-	-	**-**
More than 1 year	-	-	275	**275**
	6,475	**30,656**	**25,899**	**63,030**
Collective impairment allowance *				
At 1 January 2017	(115)	(840)	(2,449)	(3,404)
Net charge for the period	(4)	(1,001)	(111)	(1,116)
At 30 June 2017	**(119)**	**(1,841)**	**(2,560)**	**(4,520)**

* 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 2017 amounting to BD 6,091 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 the restructuring date 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 2017, the Bank was involved in fifty three litigations for recovery of dues from clients amounting to BD 8 million. In addition, there were four claims brought by four of the clients against the Bank of BD 130K which the Bank is defending. 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 written off an amount of BD 844 thousands and BD 433 pertaining to two corporate finance clients and twenty seven individual clients respectively in the six months period ended 30 June 2017.

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 2017, an amount of BD 369 thousands was transferred to Charity and Zakah fund, out of which BD 9 thousands is related to non-Islamic income earned on 10 transactions.

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 2017 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	198,660	196	17,134	3,777	-	113,306	333,073	266,125	125%	90%
Listed Securities	252	-	-	-	-	-	252	294	86%	0%
Unlisted Securities	-	-	-	-	-	-	-	-	-	0%
Bank Guarantee	-	-	-	-	-	-	-	-	-	0%
Cash Collateral	28,230	-	-	-	-	20	28,250	50,445	56%	8%
Unsecured	-	-	-	-	-	-	-	146,464	0%	0%
Others	7,216	-	-	-	-	-	7,216	25,725	28%	2%
Total	**234,358**	**196**	**17,134**	**3,777**	**-**	**113,326**	**368,791**	**489,053**	**75%**	**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 4,520 thousand and specific allowance of BD 19,152 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 2017, the Bank repossessed a real estate collateral amounting to BD 295 thousands after a settlement with a borrower.

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	163,561	168,339	160,426	46,672	20,053	5,834
Ijara assets (including lease rentals receivable)	104,056	-	-	-	-	-
Musharaka	8,558	-	8,558	-	1,070	-
Mudharabah	1,157	-	1,157	-	145	-
Wakala	2,500	19,212	2,500	5,764	313	721
Total	**279,832**	**187,551**	**172,641**	**52,436**	**21,581**	**6,555**

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 2017 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	645	796	645
Commodity risk	-	-	-
Total (A)	**645**	**796**	**645**
Risk Weighted Assets (A x 12.5)	8,063	9,950	8,063
Capital requirement @ 12.5%	1,008	1,244	1,008

* 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 2017 is as given below:

BD 000's

Average gross income for 3 years (A)	28,950
Operational Risk Weighted Assets B = (A x 15% x 12.5)	54,281
Capital requirement (B x 12.5%)	6,785

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 2017 is as follows:

BD 000's

30 June 2017	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	58,510	-	-	-	-	**58,510**
Placements with financial institutions	62,286	1,030	-	-	-	**63,316**
Financing assets	29,012	13,523	38,239	93,126	189,427	**363,327**
Investment in sukuk	93,080	-	-	-	-	**93,080**
Investment in equity securities	-	-	-	55,499	-	**55,499**
Assets acquired for leasing (including lease rental receivables)	173	-	18	1,156	102,709	**104,056**
Investment in associates	-	-	931	-	3,692	**4,623**
Investment properties	-	-	-	-	21,751	**21,751**
Development property	-	-	-	-	6,003	**6,003**
Other assets	1,455	-	127	9,191	-	**10,773**
Property and equipment	-	-	-	-	8,198	**8,198**
Total assets	**244,516**	**14,553**	**39,315**	**158,972**	**331,780**	**789,136**

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	71,991	-	10,190	15,018	-	**97,199**
Placements from non-financial institutions and individuals	54,441	12,622	26,916	679	822	**95,480**
Customers' current accounts*	54,359	12,194	7,432	4,354	8,213	**86,552**
Other liabilities	2,303	515	480	4,298	-	**7,596**
Total liabilities	**183,094**	**25,331**	**45,018**	**24,349**	**9,035**	**286,827**
Equity of Investment Account Holders*	**169,742**	**35,891**	**48,931**	**28,306**	**100,290**	**383,160**
Restricted Investment accounts	**6,254**	**-**	**-**	**4,532**	**-**	**10,786**
Commitments	**23,265**	**9,561**	**22,257**	**8,433**	**1,647**	**65,163**

* 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 2017	2016	2015	2014	2013
Interbank assets to interbank liabilities	86.50%	162.20%	115.60%	176.87%	222.39%
Liquid assets to total assets	27.23%	27.30%	22.75%	25.23%	27.80%
Liquid assets to total deposits	38.02%	35.94%	30.65%	34.69%	38.46%
Net liquid assets to total deposits	20.83%	25.78%	20.96%	23.03%	27.50%

6.2 **Profit rate risk in the banking book**

A summary of the Bank's profit rate gap position at 30 June 2017 is as follows:

BD 000's

30 June 2017	**Up to 3 months**	**3 - 6 months**	**6 months - 1 year**	**1 - 3 years**	**More than 3 years**	**Total**
Assets						
Placements with financial institutions	62,286	1,030	-	-	-	**63,316**
Financing assets	29,012	13,523	38,239	93,126	189,427	**363,327**
Assets acquired for leasing (including lease rental receivables)	173	-	18	1,156	102,709	**104,056**
Investments securities (sukuks)	93,080	-	-	-	-	**93,080**
Total profit rate sensitive assets	**184,551**	**14,553**	**38,257**	**94,282**	**292,136**	**623,779**
Liabilities						
Placements from financial institutions	71,991	-	10,190	15,018	-	**97,199**
Placements from non-financial institutions and individuals	48,256	7,358	14,796	24,962	108	**95,480**
Customers' current accounts *	1,386	-	-	-	-	**1,386**
Equity of investment account holders*	155,854	76,338	134,391	16,576	1	**383,160**
Total profit rate sensitive liabilities	**277,487**	**83,696**	**159,377**	**56,556**	**109**	**577,225**
Profit rate gap	**(92,936)**	**(69,143)**	**(121,120)**	**37,726**	**292,027**	**46,554**

* 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 2017	± 12,476	± 931	± 11,545

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 2017, 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 no penalties paid to the CBB.

8 Financial Performance

Following are basic quantitative indicators of the financial performance:

(Annualised rates)

	June 2017	2016	2015	2014	2013
Return on average equity	**5.16%**	4.77%	7.48%	3.00%	(16.06)%
Return on average assets	**0.80%**	0.77%	1.27%	0.53%	(3.69)%
Finance income to finance expense	**234.89%**	375.08%	231.02%	147.77%	147.77%
Cost-to-Income-Ratio*	**54.04%**	44.31%	53.64%	156.56%	156.56%

* 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 2017	2016	2015	2014	2013
Allocated income to IAH	8,302	16,286	16,933	12,843	13,315
Distributed profit *	3,838	7,156	7,382	8,841	8,719
Mudarib fees	4,464	9,130	9,551	4,002	4,596
As at 30 June					
IAH [1]	402,917	380,975	378,596	336,010	260,609
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 56.63% as against the average rate contractually agreed with IAH holders of 67.84% on average. Hence the bank has sacrificed mudarib fees on average of 11.21%.

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 2017	2016	2015	2014	2013	June 2017	2016	2015	2014	2013
1 Month [2]	541	834	1,009	1,304	1,488	14.1	11.6	13.7	14.7	17.1
3 Months	168	405	350	380	680	4.4	5.7	4.7	4.3	7.8
6 Months	718	1,346	1,330	1,455	1,100	18.7	18.8	18.0	16.5	12.6
12 Months	1,532	3,039	3,667	4,179	3,606	39.9	42.5	49.7	47.3	41.4
18 Months	3	8	2	1	-	0.1	0.1	-	0.0	-
24 Month	109	25	5	75	228	2.8	0.4	0.1	0.8	2.6
VIP Mudaraba	767	1,499	1,019	1,447	1,617	20.0	20.9	13.8	16.4	18.5
PER and IRR expenses	-	-	-	-	-	-	-	-	-	-
Total	**3,838**	**7,156**	**7,382**	**8,841**	**8,719**	**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 2017	4.09	-	-	2.20	1.89
2016	4.27	-	-	2.40	1.88
2015	1.95	-	-	2.57	1.99
2014	3.82	-	-	1.19	2.63
2013	5.11	-	-	1.76	3.35

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

(Annualised rates)

Type of deposit	June 2017	2016	2015	2014	2013
1 month Mudharaba [3]	0.67%	0.64%	0.78%	1.15%	1.12%
3 months Mudharaba	1.70%	1.55%	1.75%	2.19%	2.98%
6 months Mudharaba	3.15%	2.85%	2.69%	3.08%	3.64%
12 months Mudharaba	2.76%	2.62%	2.75%	3.39%	4.27%
18 months Mudharaba	2.72%	2.67%	2.80%	3.30%	-
24 months Mudharaba	3.48%	3.01%	2.91%	4.92%	5.07%
VIP Mudharaba	2.48%	2.32%	2.00%	3.49%	4.09%

[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 2017:

Particular	Allocation at 1 January 2017	Movement	Allocation at 30 June 2017	Proportion of total assets (%)	% of funding by IAH as at 30 June 2017
Cash and bank balances	**36,967**	**2,706**	**39,673**	10.35%	**67.81%**
Placements with financial institutions	**78,714**	**(15,398)**	**63,316**	16.52%	**100.00%**
Financing assets:	**215,528**	**(27,977)**	**187,551**	**48.95%**	**50.64%**
-Murabaha	215,521	(27,970)	187,551	48.95%	50.64%
-Istisna	7	(7)	-	-	-
Investment securities – Sukuk	**73,443**	**19,177**	**92,620**	**24.17%**	**99.51%**
Total	**404,652**	**(21,492)**	**383,160**		

The Bank comingles IAH funds with its own funds and invests them into a pool of assets, IAH funds are invested only in certain class of assets based on underlying risk. Further, the Bank follows single obligor limits prescribed by CBB which restricts exposure to a single asset or counterparty.

Variations in Mudarib's agreed profit-sharing ratio from the contractually agreed ratio

	2017	2016	2015	2014	2013
Average mudarib share as a percentage of total income allocated to IAH	56.63%	53.57%	55.68%	40.26%	35.43%
Average mudarib share contractually agreed with IAH	67.84%	64.80%	62.81%	52.44%	50.97%
Average mudarib fees sacrificed by the Bank	11.21%	11.23%	7.13%	12.18%	15.54%

9.2 **Restricted Investment Accounts (RIA's)**

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					June 2017	2016	2015	2014	2013
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	-	-	-	-	-

9.2 Restricted Investment Accounts (RIA's)(Continued)

RIA name	**Details**	**Launch date**	**Projected returns**	**Return frequency**	**Return annualized (%)**				
					June 2017	**2016**	**2015**	**2014**	**2013**
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	-	-	-	-	-