AL SALAM BANK-BAHRAIN B.S.C.

BASEL III - PILLAR III

DISCLOSURES

31 December 2015

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1 Introduction

The Central Bank of Bahrain ("CBB") requirements, which act as a common framework for the implementation of the Basel III accord in the Kingdom of Bahrain came into effect on 1 January 2015.

The Basel III accord is built on three pillars:

- **Pillar I** deals with the basis for the computation of the regulatory capital adequacy ratio. It defines the calculation of Risk Weighted Assets (RWAs) for credit risk, market risk and operational risk, as well as the derivation of the regulatory capital base. The capital adequacy ratio is then calculated as the ratio of the Bank's regulatory capital to its total RWAs.
- **Pillar II** involves the process of supervisory review of a financial institution's risk management framework and its capital adequacy.
- **Pillar III** relates to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process.

The disclosures in this document are in addition to the disclosures included in the annual condensed consolidated financial statements which are prepared in accordance with Financial Accounting Standards issued by Accounting and Auditing Organization for Islamic Financial Institutions and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2) and relevant CBB directives.

2 Financial Performance and Position

The Bank was incorporated on 19 January 2006 in the Kingdom of Bahrain. The Bank operates under Islamic Shari'a principles in accordance with the regulatory requirements for Islamic banks set by the CBB. The Bank's ordinary shares are listed in the Bahrain Bourse and Dubai Financial Market and operates under an Islamic retail banking license issued by CBB.

During 2014, the Bank made an offer to acquire 100% of the issued and paid up shares of BMI, at an exchange ratio of eleven new shares of the Bank for each share of BMI. The acquisition through share exchange was approved by the shareholders of the Bank in their Extraordinary General Assembly Meeting held on 8 October 2013. The Bank issued 643,866,927 new shares of the Bank. This resulted in proceeds of BD 72,886 thousands from the new issue, including a share premium of BD 8,499 thousands. The goodwill arising out of above acquisition amounted to BD 25,971 thousands.

The Bank and its subsidiary BMI operate through eleven branches in the Kingdom of Bahrain. The Bank together with its subsidiaries are referred to as the "Group".

The consolidated financial statements and capital adequacy regulatory disclosures of the Group have been prepared on a consistent basis where applicable.

Table 2.1 Key Financial Indicators **(PD 1.3.9 a,b,c)**

(BD '000s)

		Dec-2015	Dec-2014	Dec-2013	Dec-2012	Dec-2011	Dec-2010
Total operating income		57,811	46,068	26,087	23,062	12,740	22,300
Net profit		10,548	15,821	12,372	10,308	497	7,316
Total assets		1,656,643	1,955,297	1,088,252	942,218	923,907	856,598
Total equity		320,002	328,803	246,097	208,065	200,625	201,860
Key Ratios		**Dec-2015**	**Dec-2014**	**Dec-2013**	**Dec-2012**	**Dec-2011**	**Dec-2010**
Earnings per share (fils)		5.8	8.0	8.3	6.9	0.2	5.0
Return on average assets (%)*		0.6	1.0	1.2	1.1	0.1	0.9
Return on average equity (%)*		3.3	5.5	5.4	5.1	0.2	3.6
Cost to operating income (%)		43.7	57.3	43.7	49.7	91.0	60.6
Dividend payout ratio (%)		86.7%	68.8%	60.5%	72.9%	-	-
Dividend yield ratio (%)		5.4	3.8	3.6	9.4	-	-
Net profit margin on Islamic financing contracts (%)		2.8%	2.8%	2.6%	1.4%	1.3%	1.5%

2 Financial Performance and Position (continued)

Table 2.2 Financial Summary

(BD '000s)

Consolidated Financial Position		Dec-2015	Dec-2014	Dec-2013	Dec-2012	Dec-2011	Dec-2010
Cash and balances with banks and Central Bank of Bahrain		152,572	277,751	86,097	66,843	72,318	95,791
Sovereign Sukuk		313,109	145,789	-	-	-	-
Central Bank of Bahrain Sukuk		-	-	102,937	117,612	125,027	68,632
Murabaha and Wakala receivables from banks		103,345	182,110	118,227	103,290	135,698	137,299
Corporate Sukuk		64,157	88,193	91,106	74,993	49,650	60,959
Murabaha financing		268,848	270,428	156,142	127,537	135,383	114,572
Mudaraba financing		239,031	189,601	114,084	99,572	57,706	19,309
Ijarah Muntahia Bittamleek		155,217	141,052	110,631	82,954	66,477	56,756
Musharaka		7,154	10,851	19,145	17,467	11,711	8,127
Assets under conversion		32,032	308,659	-	-	-	-
Non-trading investments		123,514	147,096	125,923	204,202	223,320	212,432
Investments in real estate		68,786	65,149	66,718	2,500	2,500	3,373
Development properties		49,021	59,262	65,891	-	-	-
Investment in associates		9,994	10,492	8,537	7,573	-	7,578
Other assets		43,892	32,893	22,814	36,908	43,028	69,911
Goodwill		25,971	25,971	-	-	-	-
Murabaha and Wakala payables to banks		120,795	121,266	106,796	90,852	104,573	101,300
Wakala payables to non-banks		842,570	1,034,052	584,365	521,929	515,147	456,447
Current accounts		224,366	226,648	70,532	83,921	66,585	57,362
Term financing		35,986	21,337	23,637	-	-	-
Liabilities under conversion		2,327	149,621	-	-	-	-
Other liabilities		48,246	45,418	30,979	19,175	20,721	21,164
Equity of Investment Accountholders (EOIA)		62,351	28,152	25,846	18,276	16,256	18,465
Capital		**Dec-2015**	**Dec-2014**	**Dec-2013**	**Dec-2012**	**Dec-2011**	**Dec-2010**
Capital adequacy (%)		20.1	* 18.7	* 21.4	* 20.9	* 24.9	* 24.7
Equity/total assets (%)		19.3	16.8	22.6	22.1	21.7	23.6
Total deposits/equity (times)		3.5x	4.3x	2.8x	3.0x	3.0x	2.6x
Liquidity and Other Ratios		**Dec-2015**	**Dec-2014**	**Dec-2013**	**Dec-2012**	**Dec-2011**	**Dec-2010**
Islamic financing contracts/total assets (%)		40.5	31.3	36.0	34.8	29.4	23.2
Investments/total assets (%)		19.0	22.8	34.3	31.2	30.4	33.9
Liquid assets/total assets (%)		34.3	31.7	28.2	30.5	36.0	35.3
Islamic financing contracts/customer deposits (%)		59.4	47.5	57.5	52.5	45.4	37.3
Number of employees		368	457	191	202	215	223

* In accordance with Basel II rules and regualtion as per the the Volume 2 of CBB rulebook.

3 Capital Structure

The Group's total capital comprises of CET 1 and Tier 2 capital which is detailed in the following table: **(PD 1.3.11)**

The issued and paid up share capital of the Group was BD 214,093 thousands at 31 December 2015, comprising of 2,140,931 thousand shares of BD 0.100 each. (PD 1.3.11)

The Group's total capital of BD 301,054 thousands comprises CET 1, AT 1 and Tier 2 capital as detailed below: **(PD 1.3.11)**

The management believes that the current capital structure addresses the current and future activities of the Group.

Table 3.1 Breakdown of Group Capital Base **(PD 1.3.12, 13, 14, 15, 16)**

(BD '000s)

	CET1	AT1	T2
Issued and fully paid up ordinary shares	214,093		
Legal/statutory reserves	12,481		
Share premium	12,209		
Retained earnings	26,824		
Current interim cumulative net income / losses	12,345		
Unrealized gains and losses on available for sale financial instruments	(148)		
All other reserves	(2,692)		
Unrealized gains and losses arising from fair valuing equities	19,673		
Total CET1 capital prior to regulatory adjustments	**294,785**		
Less:			
Goodwill	(25,971)		
Total Common Equity Tier 1 capital after the regulatory adjustments above	**268,814**		
Asset revaluation reserve - Property, plant, and equipment			24,253
General financing loss provisions			7,987
Total Available AT1 & T2 Capital	**268,814**		**32,240**
Total Tier 1		**268,814**	
Total Capital (CET1 + AT1 + T2) (PD 1.3.20 a)			**301,054**

Table 3.2 (BD '000s)

Risk Weighted Assets (RWA)	Amount
Credit risk	1,381,565
Market risk	19,606
Operational risk	99,967
Total Risk Weighted Assets (b)	**1,501,138**
Capital Adequacy Ratio for the Group (a/b) (PD 1.3.20 a)	
CET 1 ratio (PD 1.3.20 a)	**17.9%**
AT 1 ratio (PD 1.3.20 a)	**17.9%**
Total capital ratio (PD 1.3.20 a)	**20.1%**
Minimum capital ratio required by CBB Regulations under Basel III (%)	**12.5%**

3 Capital Structure (continued)

Table 3.3 (PD 1.3.20 b)

Capital Adequacy Ratio of the Group's significant subsidiaries*:	Tier 1	Total
BMI Bank B.S.C. (c)	17.40%	18.40%

* Calculated in accordance with Capital Adequacy Module of Volume 1 issued by CBB.

4 Capital Adequacy Ratios (CAR)

No impediments on the transfer of funds or reallocation of regulatory capital exist and the Group has adequate capital to support the current and future activities of the Group. **(PD 1.3.6.c and PD 1.3.16)**

4.1 Capital Management

Internal Capital Adequacy Assessment Process (ICAAP)

The Group's capital management aims to maintain an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always maintaining minimum regulatory ratio requirements.

The key principles driving capital management include:

- Adequate capital is maintained as buffer for unexpected losses to protect stakeholders i.e. shareholders and depositors.
- Maximize return on capital and generate sustainable return above the cost of capital.

The adequacy of the Group's capital is monitored using, primarily, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the CBB. The primary objective of the Group's capital management is to ensure that it complies with externally imposed capital requirements. The Group complied in full with all externally imposed capital requirements during the year ended 31 December 2015.

5 Profile of Risk-Weighted Assets and Capital Charge

The Group has adopted the standardized approach for credit risk and market risk and the basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk-weighted capital requirement for credit, market and operational risks are given below.

5.1 Credit Risk

A Definition of exposure classes per Standard Portfolio (PD 1.3.21 a)

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard portfolio approach mentioned under the CBB's Basel III capital adequacy framework covering the standardized approach for credit risk.

The descriptions of the counterparty classes along with the risk weights to be used to derive the risk weighted assets are as follows:

a. Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on Bahrain and GCC sovereigns are risk weighted at 0%. Claims on all other sovereigns are given a risk weighting of 0% where such claims are denominated and funded in the relevant domestic currency of that sovereign. Claims on sovereigns, other than those mentioned above are risk weighted based on their credit ratings.

b. Claims on public sector entities (PSEs)

Bahrain PSEs are assigned 0% risk weight. Other sovereign PSE's, in the relevant domestic currency and for which the local regulator has assigned risk weight as 0%, are assigned 0% risk weight by the CBB. PSEs other than those mentioned above are risk weighted based on their credit ratings.

c. Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims on locally incorporated banks may be assigned a risk weighting of 20% where such claims on the banks are of an original maturity of three months or less and the claims are denominated and funded in either Bahraini Dinars or US Dollars.

Preferential risk weights that are one category more favorable than the standard risk weighting are assigned to claims on foreign banks licensed in Bahrain of an original maturity of three months or less denominated and funded in the relevant domestic currency. Such preferential risk weights for short-term claims on banks licensed in other jurisdictions are allowed only if the relevant supervisor also allows this preferential risk weighting to short-term claims on its banks.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation. Investment in subordinated debt of banking, securities and financial entities are risk weighted at a minimum risk weight of 100% for listed entities or 150% for unlisted entities, unless such investments exceed 20% of the total capital of investee entity, in which case they are deducted from the Group's capital.

d. Claims on corporate portfolio, including insurance companies

Claims on corporate portfolio including insurance companies are risk weighted based on credit ratings. Risk weightings for unrated corporate

e. Claims on regulatory retail portfolio

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due Islamic financing contracts), if it meets the criteria mentioned in the CBB's rule book.

f. Mortgages

Claims secured by mortgages on residential mortgage and commercial real estate are subject to a minimum of 35%, 75% and 100% risk weight respectively.

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

g. Past due receivables (PD 1.3.22 a)
The unsecured portion of the account receivables and lease payment receivables (other than a qualifying residential mortgage financing contract) that is past due for more than 90 days, is risk-weighted as follows (net of specific provisions and including partial write-offs):

(a) 150% risk weight when specific provisions are less than 20% of the outstanding amount of the loan.

(b) 100% risk weight when specific provisions are 20% or more of the outstanding amount of the loan.

h. Investment in securities and sukuk

Investments in listed equities are risk weighted at 100% while unlisted equities are risk weighted at 150%.

i. Holding of real estate
All other holdings of real estate by banks (i.e. owned directly, subsidiaries or associate companies or other arrangements such as trusts, funds or REITs) are risk-weighted at 200%. Investment in listed real estate companies and investment in unlisted real estate companies are risk-weighted at 300% and 400% respectively. Premises occupied by the Group are weighted at 100%.

j. Underwriting of non-trading book items
Where the Group has acquired assets on its consolidated statement of financial position in the banking book which it is intending to place with third parties under a formal arrangement and is underwriting the placement, the following risk weightings apply during the underwriting period (which may not last for more than 90 days). Once the underwriting period has expired, the usual risk weights should apply.

(a) For holdings of private equity, a risk weighting of 100% applies instead of the usual 150%.
(b) For holdings of real estate, a risk weight of 100% applies instead of the usual 200% risk weight.

k. Other assets
These are risk weighted at 100%.

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

Table 5.1 Funded and Unfunded Exposures

(BD '000s)

	Gross Credit Exposure	Average Gross Credit Exposure *	Funded Exposure	Unfunded Exposure (after CCF)	Cash Collateral	Eligible Guarantees	Eligible CRM	RWA for CAR	Minimum Capital Charge
Cash	7,819	7,600	7,819	-	-	-	-	-	-
Claims on sovereigns	523,535	567,489	509,451	14,084	-	-	-	3,092	387
Claims on banks	207,835	309,963	191,506	16,329	-	-	614	51,733	6,467
Claims on corporate portfolio	259,213	337,203	217,260	41,953	10,693	-	12,317	216,250	27,031
Claims on regulatory retail portfolio	20,772	27,597	20,772	-	-	-	-	15,579	1,947
Mortgages	272,528	269,071	268,294	4,234	-	-	51,085	192,615	24,077
Past due receivables over 90 days	128,765	106,232	128,765	-	186	-	1,954	162,627	20,328
Investments in Securities and Sukuk	29,197	40,316	29,197	-	-	-	-	48,297	6,037
Holding of Real Estate	211,503	206,905	209,929	1,573	-	-	-	637,833	79,729
Other assets and Specialized financing	58,541	96,283	58,541	-	4,484	-	4,484	53,539	6,692
Total	**1,719,708**	**1,968,659**	**1,641,534**	**78,173**	**15,363**	**-**	**70,454**	**1,381,565**	**172,696**

* The Group has calculated the average gross credit exposures based on average quarterly balances.

Note a: In accordance with the Public Disclosure requirements to disclose the regulatory capital requirements for credit risk under standardised approach, have been extracted from the workings prepared based on the Form PIRI and Form PIR submitted to the CBB by the Bank and BMI respectively.

Note b: The gross credit exposure is arrived at after considering the following:
- inclusion of unfunded exposure (after CCF); and
- deduction of excess amount over maximum permitted large exposure limit.

Note c: The unfunded exposure before (CCF) as of 31 December 2015 is BD 177,959 thousands.

Following is the Gross credit exposure by Islamic financing contracts which represents the exposure on accounts receivable and lease payments receivable which are collateralized by cash or eligible guarantee: **(PD 1.3.25 b, c)**

Table 5.2 Portfolio by Islamic financing contracts (excluding equity contracts and assets under conversion)

(BD '000s)

	Gross Credit Exposure	Average Gross Credit Exposure *	Funded Exposure	Unfunded Exposure (after CCF)	Cash Collateral	Eligible Guarantees	Eligible CRM	RWA for CAR	Minimum Capital Charge
Sovereign Sukuk	317,792	203,822	317,792	-	-	-	-	-	-
Murabaha and Wakala receivables from banks	103,403	137,925	103,403	-	-	-	-	12,585	1,573
Corporate sukuk	65,120	120,569	65,120	-	-	-	-	58,776	7,347
Murabaha financing	274,333	317,780	267,587	6,746	5,028	-	10,729	216,169	27,021
Mudaraba financing	280,675	238,348	249,822	30,853	7,406	-	4,026	216,052	27,007
Ijarah Muntahia Bittamleek	156,360	164,972	156,281	79	15	-	52,867	92,791	11,599
Musharaka	7,573	9,189	7,165	408	-	-	-	8,025	1,003
Total	**1,205,256**	**1,192,605**	**1,167,170**	**38,086**	**12,449**	**-**	**67,622**	**604,398**	**75,550**

Note: The above amounts include profit accrued on these contracts.
* The Group has calculated the average gross credit exposures based on average quarterly balances.

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

Excessive risk concentration (PD 1.3.26 a)
Concentrations arise when a number of counterparties 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. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk concentrations and thresholds
The first level of protection against undue credit risk is through country, industry and threshold limits, together with customer and customer bank credit limits, set by the Risk Committee. Credit exposure to individual customers or customer banks is then controlled through a tiered hierarchy of delegated approval authorities based on the risk rating of the customer under the Group's internal credit rating system. Where unsecured facilities sought are considered to be beyond prudential limits, Group's policies require collateral to mitigate the credit risk in the form of cash, securities, and legal charges over the customer's assets or third-party guarantees.

Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of connected counterparties exceeding 15 percent of total capital.

As at 31 December 2015, the Group's exposures in excess of 15% of the obligor limits to individual counterparties, and excluding Central Bank exposures were nil. (PD 1.3.23 f)

Risk mitigation, collateral and other credit enhancements
The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly include cash, lien on property and guarantees from banks. With the exception of cash, the Group monitors the concentration of its credit risk mitigants in order to minimize exposure to one type of collaterals. As at 31 December 2015, the collaterals eligible for CRM (after applying regulatory haircuts) amounted to BD 82,227 thousands. (PD 1.3.25 a)

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses with respect to Murabaha and Ijarah facilities. The Bank also makes use of master netting agreements with counterparties where relevant. **(PD 1.3.25 a)**

The main types of guarantors include rated banks and other financial institutions and Sovereigns which are rated by ECAI's along with personal guarantees of the Board of Directors/key management personnel of the borrower and other high net worth individuals.

The Group obtains additional collateral as and when the value of the collateral originally obtained is assessed at lower than the minimum acceptable Loan to Value (LTV) ratio of collateral. Also, where the customer is not in a position to provide additional collateral, the Group in consultation with its legal department evaluates the available legal and contractual options.

The Group ensures that at the inception of the facility, third party valuation of the tangible collaterals is obtained and performs an annual review of the facility whereby the revised collateral valuation is obtained from the third party. In line with the Basel III Pillar III regulations, the Bank performs monthly collateral value stress tests to evaluate the effect of devaluations on their collateral portfolio. The devaluation parameters differ depending on the collateral type.

In case of default, the Group will work with the counterparty to discuss how the outstanding facility can be settled. As a last resort, the counterparty's assets will be used to settle the outstanding obligation.

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

5.1.1 Geographical Distribution of Exposures

The exposures are allocated to individual geographic areas based on the country where the exposure risk specific to the facility exists. The Geographical distribution of exposures by exposure type (including financing contracts, non trading investments, investments in real estate, development property and investment in associates) and funded or unfunded by is as follows:

Table 5.4 (PD 1.3.23 b) **(BD '000s)**

Contribution by Equity and Current Accounts							
Exposure type	**GCC Countries**	**Arab World**	**Europe**	**Asia Pacific**	**North America**	**Others**	**Total**
Cash and balances with banks and Central Bank of Bahrain	123,708	32	18,901	433	9,297	201	**152,572**
Sovereign Sukuk	313,082	-	27	-	-	-	**313,109**
Murabaha and Wakala receivables from banks	40,994	-	-	-	-	-	**40,994**
Corporate Sukuk	43,701	-	16,785	2,627	-	1,044	**64,157**
Murabaha financing	197,110	12,472	26,465	32,801	-	-	**268,848**
Mudaraba financing	235,187	-	1	1,885	-	1,958	**239,031**
Ijarah Muntahia Bittamleek	155,217	-	-	-	-	-	**155,217**
Musharaka	7,154	-	-	-	-	-	**7,154**
Assets under conversion	25,671	-	398	632	-	5,331	**32,032**
Non-trading investments	110,392	-	-	13,097	-	25	**123,514**
Investments in real estate	49,759	-	-	19,027	-	-	**68,786**
Development properties	46,078	-	2,943	-	-	-	**49,021**
Investment in associates	-	7,525	-	-	-	2,469	**9,994**
Other assets	42,300	2	1,588	-	-	2	**43,892**
Total funded exposures	**1,390,353**	**20,031**	**67,108**	**70,502**	**9,297**	**11,030**	**1,568,321**
Contingent Liabilities & Commitments	164,072	23	13,071	744	-	49	**177,959**
Total unfunded exposures	**164,072**	**23**	**13,071**	**744**	**-**	**49**	**177,959**
Total exposures	**1,554,425**	**20,054**	**80,179**	**71,246**	**9,297**	**11,079**	**1,746,280**

Table 5.5 (PD 1.3.23 b) **(BD '000s)**

Contribution by Equity of investment account holders							
Exposure type	**GCC Countries**	**Arab World**	**Europe**	**Asia Pacific**	**North America**	**Others**	**Total**
Murabaha and Wakala receivables from banks	62,351	-	-	-	-	-	**62,351**
Total funded exposures	**62,351**	**-**	**-**	**-**	**-**	**-**	**62,351**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**62,351**	**-**	**-**	**-**	**-**	**-**	**62,351**

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

5.1.1 Geographical Distribution of Exposures (continued)

The Group has a certain few past due financing contracts that have not been settled as of 31 December 2015. All past due but not impaired financing facilities are covered by sufficient collaterals that include cash, real estate and personal guarantees. As at 31 December 2015, a specific provision of BD 24,513 thousands has been taken against past due financing contracts. During the year, additional specific provisions were made amounting to BD 21,802 thousands and recoveries were made amounting to BD 594 thousands. Also as of 31 December 2015, a collective impairment provision of BD 5,049 thousands (31 December 2014: BD 4,709 thousands) has been maintained against financing contracts. During the year, additional collective impairment provision was created amounting to BD 500 thousands. In addition to the provisions held, the financing portfolio and other assets acquired through Bahraini Saudi Bank ("BSB") business combination were subject to write down of BD 5,497 thousands. (PD 1.3.23 h, i)

Table 5.6 The geographical distribution of exposures including impaired assets and the related impairment provisions **(PD 1.3.23 i)**

(BD '000s)

	Contribution by Equity and Current Account			
	Past Due Financing Contracts including Impaired Financing Contracts	**Specific Provision against Financing Contracts**	**Collective Impairment Provision Financing Contracts**	**Impaired Financing Contracts**
GCC Countries	104,944	7,488	5,049	23,306
Europe	8,142	-	-	-
Asia Pacific	33,364	9,425	-	33,364
Total	**146,450**	**16,913**	**5,049**	**56,670**

* This excludes impairment provision amounting to BD 7,600 thousands relating to an aircraft. This aircraft was on lease in Asia Pacific region and the lease was terminated during the year. On termination of lease, this aircraft was transferred to other assets.

Table 5.7 **(BD '000s)**

	Contribution by Equity of Investment Accountholders					
	Gross Credit Exposure	**Past Due Financing Contracts including Impaired Financing Contracts**	**Specific Provision Financing Contracts**	**Collective Impairment Provision Financing Contracts**	**Impaired Financing Contracts**	**Specific Provision on Impaired Investments**
GCC Countries	62,351	-	-	-	-	-
Total	**62,351**	**-**	**-**	**-**	**-**	**-**

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

5.1.2 Exposure by Industry

Table 5.8 Exposure by type of credit exposure **(PD 1.3.23 c)**

(BD '000s)

Contribution by Equity and Current Account								
Exposure Type	**Trading and Manufacturing**	**Banks and Financial Institutions**	**Real Estate**	**Aviation**	**Individuals**	**Government**	**Others ***	**Total**
Cash and balances with banks and Central Bank of Bahrain	-	72,278	-	-	-	80,294	-	**152,572**
Sovereign Sukuk	-	-	-	-	-	313,109	-	**313,109**
Murabaha and Wakala receivables from banks	-	40,994	-	-	-	-	-	**40,994**
Corporate Sukuk	-	49,594	14,563	-	-	-	-	**64,157**
Murabaha financing	68,462	47,709	37,205	-	83,827	17,842	13,803	**268,848**
Mudaraba financing	30,084	12,800	62,692	-	22,330	75,470	35,655	**239,031**
Ijarah Muntahia Bittamleek	18,167	999	59,249	-	53,810	716	22,276	**155,217**
Musharaka	-	-	147	-	6,726	-	281	**7,154**
Assets under conversion	4,689	-	12,371	-	9,366	-	5,606	**32,032**
Non-trading investments	-	153	84,766	2,025	-	1,787	34,783	**123,514**
Investments in real estate	-	-	68,786	-	-	-	-	**68,786**
Development properties	-	-	49,021	-	-	-	-	**49,021**
Investment in associates	-	9,994	-	-	-	-	-	**9,994**
Other assets	1,013	21	18,649	9,146	2,942	5,296	6,825	**43,892**
Goodwill	-	-	**-**	**-**	**-**	**-**	**-**	**-**
Total funded exposures	**122,415**	**234,542**	**407,449**	**11,171**	**179,001**	**494,514**	**119,229**	**1,568,321**
Contingent Liabilities & Commitments	48,678	19,359	43,907	-	1,456	28,168	36,391	**177,959**
Total unfunded exposures	**48,678**	**19,359**	**43,907**	**-**	**1,456**	**28,168**	**36,391**	**177,959**
Total exposures	**171,093**	**253,901**	**451,356**	**11,171**	**180,457**	**522,682**	**155,620**	**1,746,280**

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

5.1.2 Exposure by Industry (continued)

Table 5.9 Exposure by type of credit exposure **(PD 1.3.23 c)**

(BD '000s)

Contribution by Equity of Investment Accountholders								
Exposure Type	**Trading and Manufacturing**	**Banks and Financial Institutions**	**Real Estate**	**Aviation**	**Individuals**	**Government**	**Others ***	**Total**
Murabaha and Wakala receivables from banks	-	62,351	-	-	-	-	-	**62,351**
Total funded exposures	**-**	**62,351**	**-**	**-**	**-**	**-**	**-**	**62,351**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-	**-**
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**-**	**62,351**	**-**	**-**	**-**	**-**	**-**	**62,351**

* Includes specialised financing hospitality sector.

Table 5.10 The exposure by industry including impaired assets and the related impairment is as follows:

(BD '000s)

Contribution by Equity and Current Account		
	Past Due Financing Contracts including Impaired Financing Contracts	**Specific Provision against Financing Contracts**
Trading and manufacturing	60,319	10,858
Banks and financial institutions	109	3,586
Real estate	31,620	1,147
Aviation	-	7,600
Individuals	26,146	907
Government	-	-
Others	28,256	415
Total	**146,450**	**24,513**

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

5.1.2 Exposure by Industry (continued)

Table 5.11 The exposure by industry including impaired assets and the related impairment is as follows:

(BD '000s)

Contribution by Equity of Investment Accountholders							
	Gross Credit Exposure	**Funded Exposure**	**Unfunded Exposure**	**Past Due Financing Contracts including Impaired Financing Contracts**	**Carrying Value of Impaired Investments**	**Specific Provision against Financing Contracts**	**Specific Provision on Impaired Investments**
Banks and financial institutions	62,351	62,351	-	-	-	-	-
Total	**62,351**	**62,351**	**-**	**-**	**-**	**-**	**-**

5.1.3 Exposure by External Credit Rating

The Group uses public information provided by external rating agencies (accredited External Credit Assessment Institutions – ECA). The lowest of the ratings based on information available to public is used as an input in computing rated exposures. **(PD 1.3.22 c, d, e)**

Table 5.12 **(BD '000s)**

	Gross Credit Exposure*	**Rated Exposure**	**Unrated Exposure**
Cash	7,819	-	7,819
Claims on sovereigns	523,535	80,756	442,779
Claims on banks	207,835	172,299	35,536
Claims on corporate portfolio	259,191	8,547	250,644
Regulatory retail portfolio	20,772	-	20,772
Mortgages	272,528	-	272,528
Past due receivables over 90 days	128,772	-	128,772
Investments in Securities and Sukuk	29,197	-	29,197
Holding of Real Estate	211,518	-	211,518
Other assets and Specialized financing	58,541	-	58,541
Total	**1,719,708**	**261,602**	**1,458,106**

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio through the internal risk rating system. As such, the Group uses internal risk ratings that are supported by a variety of financial analytics, combined with processed market information, to provide main inputs for measurement of counterparty credit risk. All internal ratings are tailored to various categories and are derived in accordance with the Group's credit policy and are assessed and updated on a regular basis. **(PD 1.3.22 e)**

* Gross credit exposure considered for calculation of capital adequacy ratio purpose

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

5.1.3 Exposure by External Credit Rating (continued)

Note a: In accordance with the Public Disclosure requirements to disclose the regulatory capital requirements for credit risk under standardised approach, the above amounts have been extracted from the workings prepared based on the Form PIRI and Form PIR submitted to the CBB by the Bank and BMI respectively.

Note b: The gross credit exposure is arrived at after considering the following:
- inclusion of unfunded exposure (after CCF); and
- risk weighting of excess amount over maximum permitted large exposure limit at 800%.

5.1.4 Maturity Analysis of Exposures

Table 5.13 Residual contractual maturity of the Group's major types of funded credit exposures are as follows: **(PD 1.3.23 g) (PD 1.3.24 a)**

(BD '000s)

	within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 – 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total Over 12 months	Total
Cash	7,819	-	-	-	**7,819**	-	-	-	-	**-**	**7,819**
Claims on sovereigns	106,746	-	62,099	12,278	**181,123**	120,719	192,492	-	15,117	**328,328**	**509,451**
Claims on banks	145,514	577	4,772	20,602	**171,465**	17,346	2,695	-	-	**20,041**	**191,506**
Claims on corporate portfolio	9,939	8,800	13,450	17,094	**49,283**	110,486	57,433	-	36	**167,955**	**217,238**
Regulatory retail portfolio	664	2,693	76	37	**3,470**	13,222	4,054	26	-	**17,302**	**20,772**
Mortgages	6,175	2,844	20,201	8,062	**37,282**	70,088	128,338	26,566	6,020	**231,012**	**268,294**
Past due receivables over 90 days	32,612	444	2	27,623	**60,681**	63,745	3,302	389	655	**68,091**	**128,772**
Investments in Securities and Sukuk	402	-	-	-	**402**	28,795	-	-	-	**28,795**	**29,197**
Holding of Real Estate	155	-	-	5,090	**5,245**	204,699	-	-	-	**204,699**	**209,944**
Other assets and Specialized financing	-	-	20,747	1,203	**21,950**	22,569	13,326	375	321	**36,591**	**58,541**
Total	**310,026**	**15,358**	**121,347**	**91,989**	**538,720**	**651,669**	**401,640**	**27,356**	**22,149**	**1,102,814**	**1,641,534**

Table 5.14 The residual contractual maturity analysis of unfunded exposures after applying CCF is as follows:

(BD '000s)

	within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 – 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total Over 12 months	Total
Claims on Sovereigns	1,635	-	-	12,449	**14,084**	-	-	-	-	**-**	**14,084**
Claims on banks	14,690	6	1,078	415	**16,189**	140	-	-	-	**140**	**16,329**
Claims on corporate portfolio	11,914	2,832	13,552	4,757	**33,055**	5,061	3,751	60	26	**8,898**	**41,953**
Mortgages	1,469	1,016	379	1,079	**3,943**	291	-	-	-	**291**	**4,234**
Holding of Real Estate	-	206	-	1,072	**1,278**	295	-	-	-	**295**	**1,573**
Total	**29,708**	**4,060**	**15,009**	**19,772**	**68,549**	**5,787**	**3,751**	**60**	**26**	**9,624**	**78,173**

Unfunded exposures are divided into the following exposure types in accordance with the calculation of credit risk weighted assets in the CBB's Basel III capital adequacy framework:

Credit related contingent items: Credit related contingent items comprise undrawn contracted financing commitments as detailed below:

Undrawn amount on Islamic financing contracts represent commitments that have not been drawn down or utilized at the reporting date and are due to be paid from the future use of the resources respectively. The nominal amount provides the calculation base to which a CCF is applied for calculating the exposure. CCF ranges between 20% and 50% for commitments with original maturity of up to one year and over one year respectively & 0% CCF is applicable for commitments which can be unconditionally cancelled at any time.

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

5.1.4 Maturity analysis of exposures (continued)

The table below summarizes the notional principal amounts and the relative exposure before applying credit risk mitigation:

Table 5.15 **(BD '000s)**

	Notional Principal	Credit Exposure *
Contingent liabilities on behalf of customers	40,013	27,866
Irrevocable unutilised commitments	123,469	35,859
Forward foreign exchange contracts	14,448	14,448
Capital expenditure commitments	29	-
RWA	**177,959**	**78,173**

* Credit exposure is after applying CCF.

Table 5.16 Expected maturity analysis by major type of credit exposure - Funded

(BD '000s)

	1 - 6 months	6 - 12 months	Total within 12 months	1 – 5 years	Over 5 years	Total Over 12 months	Total
Cash and balances with banks and Central Bank of Bahrain	135,505	11,215	**146,720**	5,852	-	**5,852**	**152,572**
Sovereign Sukuk	721	46,618	**47,339**	72,206	193,564	**265,770**	**313,109**
Murabaha and Wakala receivables from banks	103,345	-	**103,345**	-	-	**-**	**103,345**
Corporate Sukuk	675	16,566	**17,241**	37,238	9,678	**46,916**	**64,157**
Murabaha & Mudaraba financing	45,936	153,444	**199,380**	214,864	93,635	**308,499**	**507,879**
Ijarah Muntahia Bittamleek	4,272	6,222	**10,494**	62,881	81,842	**144,723**	**155,217**
Mushakara	1,951	819	**2,770**	2,793	1,591	**4,384**	**7,154**
Assets under conversion	-	-	**-**	22,163	9,869	**32,032**	**32,032**
Non-trading investments	-	-	**-**	123,157	357	**123,514**	**123,514**
Investment in real estate	-	-	**-**	68,786	-	**68,786**	**68,786**
Development properties	-	-	**-**	49,021	-	**49,021**	**49,021**
Investment in associates	-	-	**-**	7,525	2,469	**9,994**	**9,994**
Other assets	34,590	2,144	36,734	3,056	4,102	**7,158**	**43,892**
Goodwill	-	-	**-**	-	25,971	**25,971**	**25,971**
Total	**326,995**	**237,028**	**564,023**	**669,542**	**423,078**	**1,092,620**	**1,656,643**

Table 5.16 (a) Expected maturity analysis by major type of credit exposure - Unfunded

(BD '000s)

	within 1 month	1 - 3 months	3 - 6 months	6 - 12 months	Total within 12 months	1 – 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total Over 12 months	Total
Unutilised commitments	19,788	13,931	30,334	42,087	**106,140**	9,654	7,502	120	53	**17,329**	**123,469**
Capital expenditure towards commitments	-	-	-	-	**-**	29	-	-	-	**29**	**29**
Contingent liabilities	13,566	4,286	11,743	6,398	**35,993**	4,020	-	-	-	**4,020**	**40,013**
Forward foreign exchange contracts	14,448	-	-	-	**14,448**	-	-	-	-	**-**	**14,448**
Total	**47,802**	**18,217**	**42,077**	**48,485**	**156,581**	**13,703**	**7,502**	**120**	**53**	**21,378**	**177,959**

5.1.5 (a) Maturity analysis of funding

Table 5.17 Expected maturity analysis by major type of funding

(BD '000s)

	1 - 6 months	6 - 12 months	Total within 12 months	1 – 5 years	Total
Murabaha and Wakala payables to banks	91,067	13,437	**104,504**	16,291	**120,795**
Wakala payables to non-banks	-	84,257	**84,257**	758,313	**842,570**
Current accounts	224,366	-	**224,366**	-	**224,366**
Term financing	-	7,531	**7,531**	28,455	**35,986**
Liabilities under conversion	2,327	-	**2,327**	-	**2,327**
Other liabilities	19,995	20,329	**40,324**	7,922	**48,246**
Equity of Investment Accountholders	18,706	12,470	**31,176**	31,175	**62,351**
Total	**356,461**	**138,024**	**494,485**	**842,156**	**1,336,641**

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.2 Market Risk

Market risk arises from fluctuations in global yields on financial instruments and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board of Directors has set limits on the risk that may be accepted. This is monitored on a regular basis by the Group's Asset and Liability Committee. **(PD 1.3.27 a)**

Table 5.18 The Group's capital charge in respect of market risk in accordance with the standardized methodology is as follows:

(BD '000s)

	Risk Weighted Asset	Year End Capital Charge	Capital Charge –Minimum*	Capital Charge –Maximum*
Price risk	15,913	1,273	-	1,273
Equity position risk	-	-	-	-
Sukuk risk	-	-	-	-
Foreign exchange risk	3,693	295	232	438
Options risk	-	-	-	-
Commodity risk	-	-	-	-
Total market risk	**19,606**	**1,568**	**232**	**1,711**

Foreign exchange positions constitute a major component of the market risk capital charge. The Group maintains a conservative market risk exposure that is focused on the foreign exchange risk coming from the Group's banking book open positions. The open positions were taken in order of running the Group's day to day operations that include private equity funding for the Group's investment portfolio. The Group monitors these open positions on a daily basis through the automated system reports. **(PD 1.3.27 a)**

* The information in these columns shows the minimum and maximum capital charge of each of the market risk categories on a day during the year ended 31 Decemeber 2015.

The Group has an investment in a foreign subsidiary denominated in Australian Dollars (AUD) amounting to AUD 24,096 thousands (31 December 2014: 24,096 thousands). In order to measure its exposure to currency risk, the Group performs sensitivity analysis following the standard shocks, which calculates the effect on assets and income of the Group as a result of 10% appreciation / depreciation in foreign currency in relation to the reporting currency of the Group. This is calculated using various percentages based upon the judgement of the management of the Group. The Group continues to manage its foreign currency risk and exposure through borrowings in the interbank market **(PD 1.3.42).**

Following is the impact on earnings due to reasonable possible immediate and sustained changes in foreign currency rates on the net long position:

The effect on income solely due to reasonable possible immediate and sustained changes in foreign currency rates affecting the investment is as follows:

Table 5.18 (a)

At 31 December 2015 **(BD '000s)**

Currency	Particular	Change	Net exposure in AUD	Net exposure in BD	Impact on Equity
Australian dollar	Long position (Investment in a foreign subsidiary)	**10%**	**7,596**	**2,095**	**209**

5.3 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes or systems, or from external events. Operational risk is inherent in all business activities and can never be eliminated entirely; however shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk. To achieve this goal, the Group has developed an operational risk framework which encompasses identification, measurement, management and monitoring of risk through risk control and mitigation. A variety of underlying processes are being deployed across the Group including risk and control self assessments, Key Risk Indicators (KRI), event management, new product review and approval processes and business contingency plans. **(PD 1.3.21 c)**

The Group's policy dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff that are independent of the individuals initiating the transactions. Each business line including Operations, Information Technology, Human Resources, Legal & Compliance and Financial Control is further responsible for employing the aforementioned framework processes and control programs to manage its operational risk within the guidelines established by the policy, and to develop internal procedures that comply with these policies. To ensure that all operational risks to which the Group is exposed to are adequately managed, support functions are also involved in the identification, measurement, management, monitoring and control/mitigation of operational risk, as appropriate. **(PD 1.3.28) (PD 1.3.29)**

Consistent with the fundamental principle of ownership, the relevant business units are accountable and responsible for managing the operational risks relevant to their respective businesses. Consequently, business and support units have documented procedures and controls in place along with departmental instruction manuals. All changes to such procedures are subject to agreement by all respective business units and sign off by the Board of Directors, Risk Management and Compliance Group and Internal Audit. **(PD 1.3.28) (PD 1.3.29)**

The Group has a well established disaster recovery program, and has documented updated procedures covering all activities necessary for business continuity in case of a business disrupting event. Internal Audit also provides an independent assessment to evaluate the program's effectiveness.

Due to their independence from the business units within the Group, the Internal Audit Department have a well drafted audit program to periodically review all business areas and communicate all exceptions and control lapses, if any, to the business unit's head. In turn, the business unit's head will amend the policies and procedures to cover the gaps identified in the audit report. In line with best practices, the Internal Audit function reports directly to the Audit Committee.

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.3 Operational Risk (continued)

During 2015, an amount of BD 7.9 thousand was paid as penalty to the Central Bank for the failue to comply with CBB requirements relating to Paragraphs BR-1.1.4 A and BR-4A.1.1 of Volume 2 of the CBB Rulebook to submit the following reports to CBB before the respective deadline dates.
1) Corporate Governance Report for the year ended 31st December 2015.
2) IIS update for the period ended 30 June 2015 and the year ended 31st December 2015.
3) Penalties paid on individual transaction failures relating to Electronic Fund transfer System.

In accordance with the basic indicator approach methodology of Basel III, the total minimum capital charge in respect of operational risk was BD 12,496 thousands. This capital charge was computed by categorizing the Group's activities into its specific business lines (as defined by the Basel III framework) and multiplying the business line's average gross income for the last three financial years by a predefined beta factor. **(PD 1.3.19)**

Table 5.19 **(BD '000s)**

	Dec 2015
Gross income	57,811
Number of years with positive gross income	3
Average	53,316

The Group uses the Temenos T24 core system developed by Globus, for obtaining the data needed for analysis of events and data related to credit, market and operational risk assessment. Following the data consolidation, the Group uses the Fermat integrated risk solution package that would allow for automated capital adequacy calculations, and exposure analysis for credit, market and operational risks. Together, the Temenos T24 and Fermat systems are considered an integral part of the Group's Risk Management Framework.

Non-Shari'a compliant income for the year ended 31 December 2015 amounted to BD 189 thousands (31 December 2014: BD 211 thousands). This has arisen primarily from conventional financing and investments, penalty charges from customers and income on current accounts balances held with correspondent banks. (PD 1.3.30 a, b)

5.4 Rate of Return Risk

(PD 1.3.21 e)
Rate of return risk arises from the possibility that changes in return rates will affect future profitability or the fair values of financial instruments. The Group is exposed to rate of return risk as a result of mismatches of return rate repricing of assets and liabilities. In addition, rate of return risk can also affect the Group through market wide rate changes that are brought on by changes in the economy. The effect of the market rates is reflected and can be seen in the Group's pricing of contracts as they carry competitive pricing that follows the market. When risks are high, the market tends to place a higher rate of return to maintain the risk/return profile. Accordingly, the market reduces the rate of return when it identifies a decrease in the market wide risk that would be reflected by banks decreasing their rate of return pricing.

This risk is minimized as the Group's rate sensitive assets and liabilities are mostly for short tenures. In addition, the Group's cautious asset liability strategy avoids funding short term lending facilities from long term borrowings. The Group has set limits for profit return risk and these are monitored on an ongoing basis by the Group's Asset and Liability Committee (ALCO).

The Group has implemented a system to automate the process of monitoring, measuring and reporting profit rate risk on a daily basis through the use of gap analysis based on repricing buckets. Any fixed rate assets and liabilities will be repriced at their maturity date. In addition, the system generates stress tests to analyse the effect of shock changes in profit rates on the Group's assets and liabilities. This monitoring process is independently run on a daily basis from within the Risk Management & Compliance. Material rate of return risks are identified and mitigated through the coordination of the Market Risk Department and ALCO.

The below table provides a summary of the Group's profit rate of return sensitivity position based on the contractual repricing or maturity dates, whichever is earlier for the year ended 31 December 2015 and year ended 31 December 2014.

Table 5.20 **(BD '000s)**

Profit rate risk in the Banking Book			
200bp Profit Rate Shocks			
Rate shock	Currency	Effect on net profit at 31 December 2015	Effect on net profit at 31 December 2014
Upward rate shocks:	USD	3,820	2,840
	BHD	4,740	4,160
Downward rate shocks:	USD	(3,820)	(2,840)
	BHD	(4,740)	(4,160)

5.5 Equity Position Risk

(PD 1.3.21 d) (PD 1.3.31)
Equity position risk arises from the possibility of changes in the price of equities or equity indices and the corresponding effect they will have on future profitability or the fair values of financial instruments. The Group is exposed to equity risk in the non-trading position and investment portfolio primarily in its core international and GCC markets.

Equity risk in the banking book is effectively managed by the active involvement of the Executive and Investment committees; adhering to the policies and procedures in

Executive and Investment Committee Oversight
The Board of Director's involvement begins with the approval of the Investment Policy which essentially determines the following: aggregate portfolio parameters, asset class restrictions, approval authorities, risk tolerance, maturity considerations, exit strategy and governance issues.

The Executive Committee has delegated authority within the overall Board authority. It provides direction to the Executive Management on all business matters and assumes the role of the Board to address matters arising between Board meetings. The Committee is responsible for business matters concerning credit and market risks, strategy review and recommendations to the Board. The Investment Committee reviews and approves all transactions related to corporate and real estate investments, as well as monitoring their performance on an ongoing basis. In addition, the Committee is responsible to oversee the performance of the fund managers and recommend exit strategies to maximize return to its investors.

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.5 Equity Position Risk (continued)

Executive and Investment Committee Oversight (continued)

The objectives are defined in terms of risks, returns & time horizon. When approved by the Board, the Investment Policy for the Group will outline the permissible investments, asset classes, limits on asset classes & lines of authority for approvals. The policy will allow the Group to deploy the Investment Committee's strategy as per the Board approved structure. The policy is to be reviewed on a yearly basis for comparison to the prevailing economic climate and expectations for the medium to long term. The Investment Committee maintains regular oversight over the investment portfolio.

Policies & Procedures

Investment policies, as approved by the Board of Directors, are documented and communicated to the appropriate personnel. Senior management reviews and ensures the existence of adequate policies, procedures and management information systems for managing equity investment activities on regular and long term basis. Through their qualified professionals, the Investments Department is responsible for measuring, monitoring, controlling and reporting on the equity risks with respect to investments to both the Senior Management and the Investment Committee. In addition to the aforesaid policies, the Investment Procedure Manual documents the processes and procedures for all investment actions. Investment Department Responsibilities include initial due diligence of investments, periodic review of holdings, investment valuation and realization of returns. All equity investments are reviewed for their suitability in the portfolio in light of the portfolio objectives, policy allocations and risk limits defined by the Board. All of the investment portfolio is subject to independent third party valuations that are conducted periodically.

Internal Controls

With regard to internal controls, the investment activity is subject to the same rigorous checks and balances in place for the commercial banking activity. Adequacy of internal controls is ensured by the recruitment of adequate qualified professionals, proper definition and communication of departmental and personnel roles, separation of responsibilities of origination and implementation, independent reporting by the Financial Controls Department, periodic internal audit of the existence and implementation of processes and controls. All recommendations of the Investment Department are documented in the form of Investment Portfolio Reports and Investment Memorandums and are subject to independent risk review by Risk Management. Responsibility for all deployments and receipt of redemption proceeds vests with the Investment Administration Department. The Investment Department ensures transparency in valuation by sourcing pricing from the available sources and using conservative valuation principles in accordance with international accounting standards. In addition, the Investment Middle Office operates as an independent department that is responsible for undergoing the due diligence for investments proposed by the Investments Department. This way, the Investment Department can specialize in sourcing deals and performing the initial analysis, whereas the Investment Middle Office will focus on preparing the detailed due diligence analysis at the start of an investment. Moreover, the Investment Administration Department will perform the investment management duties of monitoring the investment company and preparing performance reports along with other required documentation. This set-up helps streamline processes as each group will focus on a specific set of duties that results in time savings as well as having independence controls.

Table 5.21 Equity positions in the Banking Book

	(BD '000s)
Quoted Equities	12,420
Unquoted Equities	111,094
Profit earned for EOIA before smoothing	1,471
Net realized gain during the year	8,334
Net unrealized gain during the year	399

The Group's equity positions strategy consists of investments that are expected to bring in capital gains or for strategic reasons. The strategy has been drafted after

5.6 Displaced Commercial Risk

(PD 1.3.41) (PD 1.3.21 f)
The Group is exposed to displaced commercial risk in the event of having Equity of investment accounts (EOIA) profit rates that are lower than market rates, thus putting the Group in risk of paying EOIA account holders from shareholder funds to cover the profit volatility risk. ASBB has mitigated this risk through the set-up of an investment risk reserve that will be used in case of a drop in EOIA profit rates. The reserve is funded from the excess returns during periods of high profit returns in order to normalize profit rate drops that can arise.

5.7 Liquidity Risk

(PD 1.3.36) (PD 1.3.37)
The Group monitors in an active manner its liquidity profile through analysis of the liquidity gap across specific timeframes in order to maintain the net asset liability position that is within the Board's risk appetite. The maintenance of the net asset liability position is done through the monitoring of the Group's liquidity indicators through which the Group's liquidity profile can be assessed. In addition, the Group further mitigates its liquidity risk by establishing multiple funding sources to decrease it's correlation to an individual funding counterparty. The multiple funding lines can be used to offset any shortage resulting from the Group's obligations and/or to settle any shortage from each of the current accounts and Equity of investment accounts.

6 Equity of Investment Accountholders

Equity of investment accounts ("EOIA") [previously known as Unrestricted Investment Accounts] are investors' funds held by the Group to be invested as appropriate without restriction as to where, how and for what purpose the funds are invested. EOIA funds are invested in short term Murabaha with banks and CBB sukuks using specific limits assigned for each institution. Savings accounts and call accounts comprise the EOIA, payable on demand and the account holder has the right to withdraw or transfer funds without penalty. In general, EOIA provides a profit earning investment option for the risk reserve account holder.

The Group provides the equity of investment accountholders as a service to savings account clients. Therefore, it is not the practice of the Group to guarantee the preservation of capital through the investment risk reserves. As a result, the Group has no displaced commercial risk. **(PD 1.3.32 a, i)**

This allocation of assets has not changed since the last financial year. The funds are invested and managed in accordance with Shari'a principles. **(PD 1.3.32 b)**

Equity of investment account holders' funds are commingled with the Group's funds and invested mostly in short term highly liquid Commodity Murabahas, CBB Sukuks and/or Wakala deposits. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested. There were no movements during the year in the investment risk reserve and the ending balance amounted to BD 7 thousands. In order to avoid excessive risk concentration the Group invests the commingled funds in such a way so as to comply with the CBB's large exposures limits. All Equity of investment accounts are classified as Mudarabas where fees are deducted before profit allocation, as there is no limit against their withdrawal. It should however be noted that Mudaraba account fees are subject to being partially or totally waived in order to match investment account holder market returns. **(PD 1.3.32 c, j, k)**

6 Equity of Investment Accountholders (continued)

Profit paid to the EOIA holders is based on the rate of return earned by the pool of profit bearing assets in which the EOIA have participated. The account holder participates in 45% of the profits earned in full after netting off the Mudarib fee as above. As a result, the share of profits earned by the EOIA holders for their Mudaraba accounts is equal to the share of profits paid to them. All equity of investment accounts are carried at cost plus accrued profits less amounts repaid. Income to Equity of investment account holders is allocated on the basis of their average daily balances in proportion to shareholders' balances. The profits paid to EOIA and the rate of return earned over the previous years are disclosed in the below table. **(PD 1.3.32 d, l)**

The Risk weighted assets of the Group include the contribution from EOIA which are subject to the 30% risk weight.

The EOIA holders and other customers can use the Group's relationship managers for any advice, mediation services, grievances and complaints. **(PD 1.3.10 j)**

There is no variation between Mudarib agreed sharing and contractual agreed ratio. Profit earned and paid and rate of return comparatives for the Equity of investment account holders for the year ended 31 December 2015 and years ended 31 December 2014, 2013, 2012, 2011, 2010 and 2009 are as follows: (PD 1.3.33 e, l, m, n)

Table 6.1 (BD '000s)

	Dec 2015	Dec 2014	Dec 2013	Dec 2012	Dec 2011
Shareholders	809	215	148	166	153
EOIA (before smoothing)	1,471	391	279	302	278
Total Profit	**2,280**	**606**	**427**	**468**	**431**
Profit earned for EOIA before smoothing	1,471	391	279	302	278
Profit paid for EOIA after smoothing	133	215	148	166	153
Ayadi Savnings related prize money	676	-	-	-	-
Balance of:					
PER	N/A	N/A	N/A	N/A	N/A
IRR	7	7	7	7	7
Annual Rate of Return Benchmark	3%	3%	3%	3%	3%
Annual Rate of Return (EOIA)	0.21%	0.76%	0.60%	0.70%	1.00%
PER Amount	-	-	-	-	-
PER %	-	-	-	-	-
IRR Amount	7	7	7	7	7
IRR %	-	-	-	-	-
Reconciliation					
Mudaraba Profit Earned	1,471	391	279	302	278
Mudarib fees	(662)	(176)	(131)	(135)	(125)
Profit credited to EOIA accounts	**809**	**215**	**148**	**167**	**153**
IRR movements	-	-	-	-	-
Profit on EOIA	**809**	**215**	**148**	**167**	**153**
EOIA Balance	62,351	28,152	25,846	18,276	16,256
RWA as per PIRI Report	6,506	4,387	4,394	3,655	3,251

Table 6.2

Date of statement of financial position	Profit Earned and Paid to EOIA	Rate of Return
31 December 2015	**1,471 profit earned and 809 profit paid**	**0.21%**
31 December 2014	**391 profit earned and 215 profit paid**	**0.76%**
31 December 2013	**279 profit earned and 148 profit paid**	**0.60%**
31 December 2012	**302 profit earned and 166 profit paid**	**0.70%**
31 December 2011	**278 profit earned and 153 profit paid**	**1.00%**
31 December 2010	**393 profit earned and 216 profit paid**	**1.00%**
Return on average EOIA assets (ROAA)	**December 2015: 1.18%**	
	December 2014: 1.28%	
	December 2013: 1.11%	
	December 2012: 1.18%	
	December 2011: 1.53%	
	December 2010: 2.25%	
Return on average equity (Total Owner's Equity) (ROAE)	**December 2015: 0.25%**	
	December 2014: 0.13%	
	December 2013: 0.13%	
	December 2012: 0.15%	
	December 2011: 0.14%	
	December 2010: 0.20%	

Table 6.3 Equity of investment accountholders by Counterparty Type and Islamic Product Murabaha **(PD 1.3.33 i)**

Murabaha and Wakala receivables from banks (BD '000s)

Counterparty	Total	Funded by	Funded by	% of EOIA to
Financial Institutions	62,351	62,351	-	100%
Total	**62,351**	**62,351**	**-**	**100%**

6 Equity of Investment Accountholders (continued)

Table 6.4 The changes in asset allocation ratio are as follows: **(PD 1.3.32 d)**

(BD '000s)

	Murabaha and Wakala receivables from banks		Corporate Sukuk		Murabaha and Mudaraba financing	
	EOIA	Self & Call Accounts	EOIA	Self & Call Accounts	EOIA	Self & Call Accounts
Asset Allocation as on 31 December 2015	62,351	40,994	-	-	-	-
Asset Allocation as on 31 December 2014	24,281	157,829	3,871	135,433		460,029
Asset Allocation as on 31 December 2013	21,969	96,258	3,877	87,229	-	261,700
Asset Allocation as on 31 December 2012	18,276	85,014	-	-	-	227,109
Asset Allocation as on 31 December 2011	10,759	124,939	-	-	5,497	187,592
Asset Allocation as on 31 December 2010	18,465	118,834	-	-	-	133,881

There are no off-balance sheet exposures arising from investment decisions attributable to the EOIA holders because EOIA are used for short term Islamic financing contracts.

7 Other

7.1 Currency Risk
The Group is exposed to foreign exchange rate risk through both its foreign exchange structural positions. Foreign exchange rate risk is managed by appropriate trading limits and stop loss parameters determined by ALCO and approved by its Board Executive committee. The Group's consolidated structural financial positions are reviewed regularly by ALCO in accordance with the Group's strategic plans and managed on a dynamic basis by the Treasury hedging such exposures, as appropriate.

7.2 Related Party Transactions
Related parties represent associated companies, major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's Senior Management. For further details refer Note 27 titled related party transactions in the annual condensed consolidated financial statements for the year ended 31 December 2015. (PD 1.3.10 e) (PD 1.3.23 d)

7.3 Restructured Facilities
As at 31 December 2015, the balance of most of the renegotiated financing facilities to individuals and corporate was BD 57,899 thousands. Most of the renegotiated facilities are performing and are fully secured. In general, facilities are renegotiated to optimize a facility's credit profile with respect to its recoverability. This can involve changing any of the profit rate, tenure or security package. There were no impact of restructured facilities on provisions and present and future earnings. (PD 1.3.23 j)

7.4 Assets Sold Under Recourse Agreements
The Group has not entered into any recourse agreement during the year ended 31 December 2015. (PD 1.3.23 k)

7.5 Legal Risk and Claims
As at 31 December 2015, legal suits amounting to BD 6,285 thousands were pending against the Group. Based on the opinion of the Group's legal counsel, the total liability arising from these cases is not considered to be material to the Group's annual consolidated financial statements as the Group has also filed counter cases against these parties. (PD 1.3.30 c)