AL SALAM BANK-BAHRAIN B.S.C.

BASEL III - PILLAR III

DISCLOSURES

30 June 2016

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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.

During the period, the Board of Directors of BMI recommended to the Bank to approve the surrender of the banking license and commercial registration of BMI. The Board has further recommended to the Bank to approve transfer of all the assets and liabilities of BMI to the Bank. Following these Board recommendations, a notice has been issued to convene an Extraordinary General Meeting ("EGM") of the shareholders on 14 August 2016 to approve the above matters. Once the approval of shareholders is obtained in the "EGM", BMI will proceed with the legal formalities required to give effect for the same. Upon completion of the legal formalities, the operations of BMI will be merged with the Bank. All the assets of BMI will be transferred to the Bank and the Bank will assume all liabilities of BMI.

Further, during the period, the Bank acquired 70% stake in Al Salam Bank Seychelles Limited ("ASBS"), (previously "BMIO") an offshore bank in Seychelles through share allotment as detailed in note 3 of the interim condensed consolidated financial statements for the period ended 30 June 2016. ASBS operates under an offshore banking license issued by the Central Bank of Seychelles. All legal formalities in relation to the share allotment have been completed and the process of converting ASBS into fully compliant Islamic operations is in progress. In accordance with CA-B.1.4 of the CBB Rulebook, for the purpose of disclosure of risk weighted exposures and for capital adequacy calculation, the Bank has obtained an approval from the CBB to aggregate the risk weighted exposures of ASBS and hence, the risk weighted exposures of ASBS do not form part of all disclosures in this Basel III - Pillar III Disclosure Document.

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 interim condensed 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)

	Jun-2016	Dec-2015	Dec-2014	Dec-2013	Dec-2012	Dec-2011	Dec-2010
Total operating income	24,756	57,811	46,068	26,087	23,062	12,740	22,300
Net profit	8,380	10,548	15,821	12,372	10,308	497	7,316
Total assets	1,685,335	1,656,643	1,955,297	1,088,252	942,218	923,907	856,598
Total equity	317,969	320,002	328,803	246,097	208,065	200,625	201,860
Key Ratios	**Jun-2016**	**Dec-2015**	**Dec-2014**	**Dec-2013**	**Dec-2012**	**Dec-2011**	**Dec-2010**
Earnings per share (fils)	4.1	5.8	8.0	8.3	6.9	0.2	5.0
Return on average assets (%)*	1.0	0.6	1.0	1.2	1.1	0.1	0.9
Return on average equity (%)*	5.3	3.3	5.5	5.4	5.1	0.2	3.6
Cost to operating income (%)	54.1	43.7	57.3	43.7	49.7	91.0	60.6
Dividend payout ratio (%)	NA	86.7	67.7	60.5	72.6	-	-
Dividend yield ratio (%)	NA	5.4	3.8	3.6	9.4	-	-
Net profit margin on Islamic financing contracts (%)	2.4%	2.8%	2.8%	2.6%	1.4%	1.3%	1.5%

* Annualised

2 Financial Performance and Position (continued)

Table 2.2 Financial Summary

(BD '000s)

Consolidated Financial Position	Jun-2016	Dec-2015	Dec-2014	Dec-2013	Dec-2012	Dec-2011	Dec-2010
Cash and balances with banks and Central Bank of Bahrain	193,700	152,572	277,751	86,097	66,843	72,318	95,791
Sovereign Sukuk	307,591	313,109	145,789	102,937	117,612	125,027	68,632
Murabaha and Wakala receivables from banks	135,890	103,345	182,110	118,227	103,290	135,698	137,299
Corporate Sukuk	45,949	64,157	88,193	91,106	74,993	49,650	60,959
Murabaha financing	259,230	268,848	270,428	156,142	127,537	135,383	114,572
Mudaraba financing	234,411	239,031	189,601	114,084	99,572	57,706	19,309
Ijarah Muntahia Bittamleek	155,807	155,217	141,052	110,631	82,954	66,477	56,756
Musharaka	10,059	7,154	10,851	19,145	17,467	11,711	8,127
Assets under conversion	27,860	32,032	308,659	-	-	-	-
Non-trading investments	129,990	123,514	147,096	125,923	204,202	223,320	212,432
Investments in real estate	71,879	68,786	65,149	66,718	2,500	2,500	3,373
Development properties	41,947	49,021	59,262	65,891	-	-	-
Investment in associates	10,606	9,994	10,492	8,537	7,573	-	7,578
Other assets	34,445	43,892	32,893	22,814	36,908	43,028	69,911
Goodwill	25,971	25,971	25,971	-	-	-	-
Assets held-for-sale	-	-	-	-	-	-	-
Murabaha and Wakala payables to banks	125,933	120,795	121,266	106,796	90,852	104,573	101,300
Wakala payables to non-banks	765,112	842,570	1,034,052	584,365	521,929	515,147	456,447
Current accounts	284,698	224,366	226,648	70,532	83,921	66,585	57,362
Term financing	73,917	35,986	21,337	23,637	-	-	-
Liabilities under conversion	741	2,327	149,621	-	-	-	-
Other liabilities	47,000	48,246	45,418	30,979	19,175	20,721	21,164
Liabilities relating to assets classified as held-for-sale	-	-	-	-	-	-	-
Equity of Investment Accountholders (EOIA)	69,965	62,351	28,152	25,846	18,276	16,256	18,465
Capital	**Jun-2016**	**Dec-2015**	**Dec-2014**	**Dec-2013**	**Dec-2012**	**Dec-2011**	**Dec-2010**
Capital adequacy (%)	19.5	20.1	18.7	21.4	20.9	24.9	24.7
Equity/total assets (%)	18.9	19.3	16.8	22.6	22.1	21.7	23.6
Total deposits/equity (times)	3.5x	3.5x	4.3x	2.8x	3.0x	3.0x	2.6x
Liquidity and Other Ratios	**Jun-2016**	**Dec-2015**	**Dec-2014**	**Dec-2013**	**Dec-2012**	**Dec-2011**	**Dec-2010**
Islamic financing contracts/total assets (%)	39.1	40.5	31.3	36.0	34.8	29.4	23.2
Investments/total assets (%)	17.8	19.0	22.8	34.3	31.2	30.4	33.9
Liquid assets/total assets (%)	37.8	34.3	31.7	28.2	30.5	36.0	35.3
Islamic financing contracts/customer deposits (%)	58.9	59.4	47.5	57.5	52.5	45.4	37.3
Number of employees	343	368	457	191	202	215	223

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 30 June 2016, comprising of 2,140,931 thousand shares of BD 0.100 each. (PD 1.3.11)

The Group's total capital of BD 296,243 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	13,716		
Share premium	12,209		
Retained earnings	25,961		
Current interim cumulative net income / losses	8,710		
Unrealized gains and losses on available for sale financial instruments	(268)		
All other reserves	(2,810)		
Unrealized gains and losses arising from fair valuing equities	20,842		
Total Minority Interest in banking subsidiaries given recognition in CET1 capital	31		
Total CET1 capital prior to regulatory adjustments	**292,484**		
Less:			
Goodwill	(25,971)		
Total Common Equity Tier 1 capital after the regulatory adjustments above	**266,513**		
Asset revaluation reserve - Property, plant, and equipment			24,253
General financing loss provisions			5,478
Total Available AT1 & T2 Capital	**266,513**		**29,731**
Total Tier 1		**266,513**	
Total Capital (PD 1.3.20 a)			**296,244**

Table 3.2

(BD '000s)

	Risk Weighted Exposures		
	Credit	Operational	Market
Risk Weighted Exposures (self-financed)	1,413,667	84,841	16,696
Risk Weighted Exposures (URIA)	4,198	-	-
Aggregation of Risk Weighted Exposures	2,745	895	-
Risk Weighted Exposures after Aggregation	**1,420,610**	**85,736**	**16,696**
Total Risk Weighted Exposures			**1,523,042**
	CET 1	**T1**	**Total Capital**
% of Total Risk Weighted Exposures (CAR) (PD 1.3.20 a)	**17.50%**	**17.50%**	**19.45%**
Minimum Required by CBB Regulations under Basel III (after CCB)	**9.00%**	**10.50%**	**12.50%**

3 Capital Structure (continued)

Table 3.3 (PD 1.3.20 b)

Capital Adequacy Ratio of the Group's significant subsidiaries*:	CET 1	T1	Total
BMI Bank B.S.C. (c)	15.80%	15.80%	16.77%

* Calculated in accordance with Capital Adequacy Module of Volume 1 issued by CBB. ASBS has not been considered as a significant subsidiary as the regulatory capital is less than 5% of the Group's consolidated capital base.

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 period ended 30 June 2016.

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 claims are

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	Risk-Weighted Assets	Minimum Capital Charge
Cash	7,184	7,520	7,184	-	-	-	-	-	-
Claims on sovereigns	503,696	528,057	490,249	13,447	-	-	-	5,747	718
Claims on banks	230,851	324,614	215,995	14,857	-	-	4,116	54,866	6,858
Claims on corporate portfolio	273,106	282,627	222,065	51,041	16,381	-	23,049	231,435	28,929
Claims on regulatory retail portfolio	22,291	22,747	22,291	-	274	-	274	16,513	2,064
Mortgages	262,155	268,269	261,205	949	-	-	52,245	184,967	23,121
Past due receivables over 90 days	138,223	125,538	137,852	371	377	-	4,941	172,685	21,586
Investments in Securities and Sukuk	17,784	27,449	17,784	-	-	-	-	36,080	4,510
Holding of Real Estate	227,426	207,617	219,161	8,265	-	-	-	687,777	85,972
Other assets and Specialized financing	42,966	64,205	42,966	-	955	-	14,658	27,795	3,474
Total	**1,725,682**	**1,858,643**	**1,636,752**	**88,930**	**17,987**	**-**	**99,283**	**1,417,865**	**177,232**

* 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 30 June 2016 is BD 184,819 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)
Sovereign Sukuk	312,470	294,469	312,470	-
Murabaha and Wakala receivables from banks	135,923	184,001	135,923	-
Corporate sukuk	46,415	75,688	46,415	-
Murabaha financing	294,774	285,656	266,359	28,415
Mudaraba financing	260,819	241,386	235,915	24,904
Ijarah Muntahia Bittamleek	156,272	158,215	156,272	-
Musharaka	10,083	7,860	10,071	12
Total	**1,216,756**	**1,247,275**	**1,163,425**	**53,331**

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 30 June 2016, the Group's exposures in excess of 15% of the obligor limits to individual counterparties, and excluding Central Bank exposures were BHD 45,917 thousands. (PD 1.3.23 f)

Table 5.3 (PD 1.3.23 f)

(BD '000s)

	Financed by Equity and Current Account		Financed by Equity of investment account holders		
	On Balance Sheet Exposure	Off Balance Sheet Exposure	On Balance Sheet Exposure	Off Balance Sheet Exposure	Total Exposure
Counterparty A	32,738	13,179	-	-	**45,917**
Total	**32,738**	**13,179**	**-**	**-**	**45,917**

The excess above 15% of the single obligor limits for the above mentioned exposure has been risk weighted at 800% for the purpose of calculation of capital adequacy ratio.

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 30 June 2016, the collaterals eligible for CRM (after applying regulatory haircuts) amounted to BD 99,283 thousands.

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	182,585	38	7,030	858	3,189	-	**193,700**
Sovereign Sukuk	206,907	-	95,748	2,627	-	2,309	**307,591**
Murabaha and Wakala receivables from banks	65,925	-	-	-	-	-	**65,925**
Corporate Sukuk	28,410	-	17,539	-	-	-	**45,949**
Murabaha financing	169,172	30,649	25,666	32,800	-	943	**259,230**
Mudaraba financing	221,142	-	1	13,268	-	-	**234,411**
Ijarah Muntahia Bittamleek	155,807	-	-	-	-	-	**155,807**
Musharaka	10,059	-	-	-	-	-	**10,059**
Assets under conversion	22,898	-	398	4,530	-	34	**27,860**
Non-trading investments	111,105	-	-	11,414	7,471	-	**129,990**
Investments in real estate	52,490	-	-	19,389	-	-	**71,879**
Development properties	39,004	-	2,943	-	-	-	**41,947**
Investment in associates	-	7,549	-	-	-	3,057	**10,606**
Other assets	24,526	-	2,162	7,742	-	15	**34,445**
Goodwill	25,971	-	-	-	-	-	**25,971**
Total funded exposures	**1,316,001**	**38,236**	**151,487**	**92,628**	**10,660**	**6,358**	**1,615,370**
Contingent Liabilities & Commitments	178,094	23	5,959	743	-	-	**184,819**
Total unfunded exposures	**178,094**	**23**	**5,959**	**743**	**-**	**-**	**184,819**
Total exposures	**1,494,095**	**38,259**	**157,446**	**93,371**	**10,660**	**6,358**	**1,800,189**

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	69,965	-	-	-	-	-	**69,965**
Total funded exposures	**69,965**	**-**	**-**	**-**	**-**	**-**	**69,965**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**69,965**	**-**	**-**	**-**	**-**	**-**	**69,965**

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 30 June 2016. All past due but not impaired financing facilities are covered by sufficient collaterals that include cash, real estate and personal guarantees. As at 30 June 2016, a specific provision of BD 19,358 thousands (31 December 2015: BD 24,513 thousands) has been taken against past due financing contracts. During the period, additional specific provisions were made amounting to BD 3,096 thousands and recoveries were made amounting to BD 687 thousands. Also as of 30 June 2016, a collective impairment provision of BD 5,478 thousands (31 December 2015: BD 5,049 thousands) has been maintained against financing contracts. During the period, additional collective impairment provision was created amounting to BD 429 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					
	Gross Credit Exposure	**Past Due Financing Contracts including Impaired Financing Contracts**	**Specific Provision against Financing Contracts**	**Collective Impairment Provision Financing Contracts**	**Impaired Financing Contracts**
GCC Countries	1,494,095	155,570	9,456	5,478	106,595
Arab World	38,259	-	-	-	-
Europe	157,446	7,834	477	-	7,834
Asia Pacific	93,371	34,688	9,425	-	34,687
North America	10,660	-	-	-	-
Others	6,358	-	-	-	-
Total	**1,800,189**	**198,092**	**19,358**	**5,478**	**149,116**

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**
GCC Countries	69,965				
Total	**69,965**	**-**	**-**	**-**	**-**

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	-	71,368	394	111	-	118,597	3,230	**193,700**
Sovereign Sukuk	-	-	-	-	-	234,330	73,261	**307,591**
Murabaha and Wakala receivables from banks	-	65,925	-	-	-	-	-	**65,925**
Corporate Sukuk	-	25,681	3,395	-	-	16,873	-	**45,949**
Murabaha financing	66,303	49,642	35,819	-	75,813	17,159	14,494	**259,230**
Mudaraba financing	40,724	12,940	55,806	-	31,716	61,226	31,999	**234,411**
Ijarah Muntahia Bittamleek	18,852	-	56,204	508	53,673	631	25,939	**155,807**
Musharaka	426	-	3,832	-	5,801	-	-	**10,059**
Assets under conversion	2,956	738	8,920	-	9,798	-	5,448	**27,860**
Non-trading investments	-	112	92,936	2,025	-	1,335	33,582	**129,990**
Investments in real estate	-	-	71,879	-	-	-	-	**71,879**
Development properties	-	-	41,947	-	-	-	-	**41,947**
Investment in associates	-	10,606	-	-	-	-	-	**10,606**
Other assets	1,627	1,994	7,123	7,572	3,116	4,265	8,748	**34,445**
Goodwill	-	25,971	-	-	-	-	-	**25,971**
Total funded exposures	**130,888**	**264,977**	**378,255**	**10,216**	**179,917**	**454,416**	**196,701**	**1,615,370**
Contingent Liabilities & Commitments	32,668	15,775	60,073	-	17,114	26,894	32,295	**184,819**
Total unfunded exposures	**32,668**	**15,775**	**60,073**	**-**	**17,114**	**26,894**	**32,295**	**184,819**
Total exposures	**163,556**	**280,752**	**438,328**	**10,216**	**197,031**	**481,310**	**228,996**	**1,800,189**

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	-	69,965	-	-	-	-	-	**69,965**
Total funded exposures	**-**	**69,965**	**-**	**-**	**-**	**-**	**-**	**69,965**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-	**-**
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**-**	**69,965**	**-**	**-**	**-**	**-**	**-**	**69,965**

* 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					
	Gross Credit Exposure	**Funded Exposure**	**Unfunded Exposure**	**Past Due Financing Contracts including Impaired Financing Contracts**	**Specific Provision against Financing Contracts**
Trading and manufacturing	163,556	130,888	32,668	68,507	11,049
Banks and financial institutions	280,752	264,977	15,775	9,037	-
Real estate	438,328	378,255	60,073	52,179	5,855
Aviation	10,216	10,216	-	-	-
Individuals	197,031	179,917	17,114	28,343	2,182
Government	481,310	454,416	26,894	-	-
Others	228,996	196,701	32,295	40,026	272
Total	**1,800,189**	**1,615,370**	**184,819**	**198,092**	**19,358**

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	69,965	69,965	-	-	-	-	-
Total	**69,965**	**69,965**	**-**	**-**	**-**	**-**	**-**

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	7,184	-	7,184
Claims on sovereigns	503,696	-	503,696
Claims on banks	230,851	127,785	103,066
Claims on corporate portfolio	273,106	-	273,106
Regulatory retail portfolio	22,291	-	22,291
Mortgages	262,155	-	262,155
Past due receivables over 90 days	138,223	-	138,223
Investments in Securities and Sukuk	17,784	-	17,784
Holding of Real Estate	227,426	-	227,426
Other assets and Specialized financing	42,966	-	42,966
Total	**1,725,682**	**127,785**	**1,597,897**

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 above 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.

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);
- 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	7,184	-	-	-	**7,184**	-	-	-	-	**-**	**7,184**
Claims on sovereigns	157,149	5,184	-	3,125	**165,458**	118,077	191,597	-	15,117	**324,791**	**490,249**
Claims on banks	154,493	4,209	11,572	33,563	**203,837**	8,292	3,866	-	-	**12,158**	**215,995**
Claims on corporate portfolio	33,568	7,666	18,923	33,170	**93,327**	79,217	49,521	-	-	**128,738**	**222,065**
Regulatory retail portfolio	357	2,253	7	340	**2,957**	10,873	8,228	152	81	**19,334**	**22,291**
Mortgages	4,335	10,976	9,621	11,652	**36,584**	100,348	90,136	26,468	7,669	**224,621**	**261,205**
Past due receivables over 90 days	21,448	195	27,388	13,620	**62,651**	66,349	7,962	460	430	**75,201**	**137,852**
Investments in Securities and Sukuk	333	-	-	-	**333**	14,377	-	-	3,074	**17,451**	**17,784**
Holding of Real Estate	1,364	-	-	2,355	**3,719**	215,092	-	-	350	**215,442**	**219,161**
Other assets and Specialized financing	7,654	7	911	146	**8,718**	16,379	17,541	54	274	**34,248**	**42,966**
Total	**387,885**	**30,490**	**68,422**	**97,971**	**584,768**	**629,004**	**368,851**	**27,134**	**26,995**	**1,051,984**	**1,636,752**

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	-	12,445	-	-	**12,445**	1,002	-	-	-	**1,002**	**13,447**
Claims on banks	8,569	4,614	1,433	20	**14,636**	221	-	-	-	**221**	**14,857**
Claims on corporate portfolio	5,198	5,177	6,569	15,754	**32,698**	4,745	13,479	111	8	**18,343**	**51,041**
Mortgages	88	94	138	309	**629**	320	-	-	-	**320**	**949**
Holding of Real Estate	-	209	-	1,467	**1,676**	4,498	2,091	-	-	**6,589**	**8,265**
Past due receivables over 90 days	371	-	-	-	**371**	-	-	-	-	**-**	**371**
Total	**14,226**	**22,539**	**8,140**	**17,550**	**62,455**	**10,786**	**15,570**	**111**	**8**	**26,475**	**88,930**

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 and operating lease commitments as detailed below:

Undrawn amount on Islamic financing contracts, operating lease commitments and other commitments 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.

* Funded credit exposure is based on the calculation used for capital adequacy purpose.

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	33,305	24,289
Irrevocable unutilised commitments	133,390	48,608
Forward foreign exchange contracts	13,942	13,942
Commitment relating to purchase of investment	4,182	2,091
RWA	**184,819**	**88,930**

* 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	193,700	-	**193,700**	-	-	**-**	**193,700**
Sovereign Sukuk	12,477	8,718	**21,195**	102,584	183,812	**286,396**	**307,591**
Murabaha and Wakala receivables from banks	135,890	-	**135,890**	-	-	**-**	**135,890**
Corporate Sukuk	13,900	13,211	**27,111**	18,838	-	**18,838**	**45,949**
Murabaha & Mudaraba financing	169,319	84,686	**254,005**	155,577	84,059	**239,636**	**493,641**
Ijarah Muntahia Bittamleek	6,267	5,111	**11,378**	66,216	78,213	**144,429**	**155,807**
Mushakara	428	398	**826**	7,673	1,560	**9,233**	**10,059**
Assets under conversion	6,688	506	**7,194**	10,683	9,983	**20,666**	**27,860**
Non-trading investments	-	-	**-**	129,640	350	**129,990**	**129,990**
Investment in real estate	-	-	**-**	71,879	-	**71,879**	**71,879**
Development properties	-	-	**-**	41,947	-	**41,947**	**41,947**
Investment in associates	-	-	**-**	7,549	3,057	**10,606**	**10,606**
Other assets	29,593	10	**29,603**	2,091	2,751	**4,842**	**34,445**
Goodwill	-	-	**-**	-	25,971	**25,971**	**25,971**
Total	**568,262**	**112,640**	**680,902**	**614,677**	**389,756**	**1,004,433**	**1,685,335**

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	21,227	33,839	7,683	28,831	**91,580**	14,614	26,956	222	16	**41,808**	**133,388**
Contingent liabilities	4,971	5,570	8,093	12,877	**31,511**	1,795	-	-	-	**1,795**	**33,306**
Forward foreign exchange contracts	8,567	4,611	765	-	**13,943**	-	-	-	-	**-**	**13,943**
Commitment relating to purchase of investment	-	-	-	-	**-**	4,182	-	-	-	**4,182**	**4,182**
Total	**34,765**	**44,020**	**16,541**	**41,708**	**137,034**	**20,591**	**26,956**	**222**	**16**	**47,785**	**184,819**

The above expected maturity analysis is based on consolidated statement of financial position classification.

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

5.1 Credit Risk (continued)

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	Over 5 years	Total Over 12 months	Total
Murabaha and Wakala payables to banks	125,933	-	**125,933**	-	-	**-**	**125,933**
Wakala payables to non-banks	558,486	153,274	**711,760**	53,252	100	**53,352**	**765,112**
Current accounts	284,698	-	**284,698**	-	-	**-**	**284,698**
Term financing	19,252	37,700	**56,952**	16,965	-	**16,965**	**73,917**
Liabilities under conversion	-	-	**-**	741	-	**741**	**741**
Other liabilities	17,226	1,226	**18,452**	28,548	-	**28,548**	**47,000**
Equity of Investment Accountholders	69,965	-	**69,965**	-	-	**-**	**69,965**
Total	**1,075,560**	**192,200**	**1,267,760**	**99,506**	**100**	**99,606**	**1,367,366**

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	Capital Requirement	Period End Capital Charge	Capital Charge –Minimum*	Capital Charge –Maximum*
Price risk	14,129	1,766	1,130	1,130	1,202
Foreign exchange risk	2,567	321	205	62	205
Total market risk	**16,696**	**2,087**	**1,335**	**1,192**	**1,407**

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 quarterly basis during the period ended 30 June 2016.

Table 5.18 (a) The Group has an investment in a foreign subsidiary denominated in Australian Dollars (AUD) amounting to AUD 24,096 thousands (31 December 2015: 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:

At 30 June 2016 **(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%**	**7,624**	**2,134**	**213**

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.

In accordance with the basic indicator approach methodology of Basel III, the total minimum capital charge in respect of operational risk was BD 10,605 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)**

	June 2016
Average gross income	45,248
Risk weighted exposures	84,841
Minimum capital charge	10,605

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 Period ended 30 June 2016 amounted to BD 129 thousands (31 December 2015: BD 189 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 Profile of Risk-Weighted Assets and Capital Charge (continued)

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 tables provides the asset and liability re-pricing profile on the contractual repricing or maturity dates, whichever is earlier for the period ended 30 June 2016.

Table 5.20 (a)

ASSETS	**Total**	**Upto 1 month**	**>1 to 3 months**	**>3 to 6 months**	**>6 to 12 months**	**>1 to 2 years**	**>2 years**	**Profit insensitive**
Cash and balances with banks and the CBB	193,700		-	-	-	-		193,700
CBB Sukuk	307,591	2,000	5,000	-	3,244	28,354	268,993	-
Murabaha & Wakala receivables from banks	135,890	135,890	-	-	-	-	-	-
Corporate Sukuk	45,949	5,511	1,192	7,197	12,534	6,471	13,044	-
Murabaha financing	259,230	31,068	8,447	48,013	38,295	28,558	104,849	-
Mudaraba financing	234,411	19,097	24,634	21,467	42,358	10,084	116,771	-
Ijarah Muntahia Bittamleek	155,807	1,941	118	162	386	5,126	148,074	-
Musharaka financing	10,059	19	9	-	6	182	9,843	-
Assets under conversion	27,860	-	112	1,836	506	5,730	19,676	-
Non-trading investments	129,990	-	-	-	-	-	129,990	-
Investments Properties	71,879	-	-	-	-	-	71,879	
Development properties	41,947	-	-	-	-	-	41,947	
Investment in associates	10,606	-	-	-	-	-	10,606	
Other assets	34,445	23,464	1,127	1,077	10	5,545	3,222	
Goodwill	25,971	-	-	-	-	-	25,971	-
Total Assets (A)	**1,685,335**	**218,990**	**40,639**	**79,752**	**97,339**	**90,050**	**964,865**	**193,700**
LIABILITIES	**Total**	**Upto 1 month**	**>1 to 3 months**	**>3 to 6 months**	**>6 to 12 months**	**>1 to 2 years**	**>2 years**	**Rate insensitive**
Murabaha and Wakala payables to banks	125,933	104,436	12,565	8,932	-	-	-	
Wakala payables to non-banks	765,112	146,219	195,193	217,075	153,274	15,728	37,623	
Customers' current accounts	284,698		-	-	-	-	-	284,698
Term financing	73,917	-	-	-	37,700	-	36,217	
Liabilities under conversion	741	-	-	-	-	741	-	
Other liabilities	47,000	28,561	2,044	1,334	1,226	13,766	69	
Equity of investment accountholders	69,965		-	-	-	-	-	69,965
Total Liabilities	1,367,366	279,216	209,802	227,341	192,200	30,235	73,909	354,663
Share holder funds	317,969	-	-	-	-	-	-	317,969
Total Liabilities & Shareholder Funds	1,685,335	279,216	209,802	227,341	192,200	30,235	73,909	672,632
Off-Balance Sheet Liabilities	184,819	18,965	19,184	37,931	33,449	53,189	-	22,101
Total liabilities with Off-Balance Sheet Items (B)	**1,552,185**	**298,181**	**228,986**	**265,272**	**225,649**	**83,424**	**73,909**	**376,764**
Gap (A - B)		(79,191)	(188,347)	(185,520)	(128,310)	6,626	890,956	(183,064)
Cumulative Gap		**(79,191)**	**(267,538)**	**(453,058)**	**(581,368)**	**(574,742)**	**316,214**	**133,150**

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 period ended 30 June 2016.

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

Profit rate risk in the Banking Book		
200bp Profit Rate Shocks		
Rate shock	**Currency**	**Effect on net profit at 30 June 2016**
Upward rate shocks:	BHD	(14,273)
Downward rate shocks:	BHD	14,273

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 place; involvement of competent professionals; adequate internal control environment and independent internal audit department.

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)

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	###### ##
Unquoted Equities	####### #
Profit earned for EOIA before smoothing	107
Net realized gain during the period	##### ###
Net unrealized gain during the period	##### ###

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 considering the Board's risk appetite and the Board's approved liquidity, market risk and capital management policies. In line with the Board's approved policies, the investment strategy is conservative in the sense that it avoids investments with high volatility returns.

5.6 Displaced Commercial Risk

(PD 1.3.41) (PD 1.3.21 f) (PD 1.3.32 a, i)

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 regular monitoring of liquidity gaps, deposit rates and concentrations in terms of the funding requirements by the Asset Liability Committee (ALCO). The ALCO reviews and monitors peer review analysis which includes average deposit rates paid by its peers in order to realign the deposit rates with the current market.

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.

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 after deducting a mandatory reserve. 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)**

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)**

6 Equity of Investment Accountholders (continued)

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 period end 30 June 2016 and years ended 31 December 2015,2014, 2013, 2012, 2011, 2010 and 2009 are as follows: (PD 1.3.33 e, l, m, n)

Table 6.1

	Jun 2016	Dec 2015	Dec 2014	Dec 2013	Dec 2012
Shareholders	59	809	215	148	166
EOIA (before smoothing)	107	1,471	391	279	302
Profit earned for EOIA before smoothing	107	1,471	391	279	302
Profit paid for EOIA after smoothing	59	133	215	148	166
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)	0.17%	0.21%	0.76%	0.60%	0.70%
PER Amount	-	-	-	-	-
PER %	-	-	-	-	-
IRR Amount	7	7	7	7	7
IRR %	-	-	-	-	-
Reconciliation					
Mudaraba Profit Earned	107	1,471	391	279	302
Mudarib fees	(48)	(662)	(176)	(131)	(135)
Profit credited to EOIA accounts	**59**	**809**	**215**	**148**	**167**
IRR movements	-	-	-	-	-
Profit on EOIA	**59**	**809**	**215**	**148**	**167**
Mudarib fee as a percentage of total investment profit	45%	45%	45%	47%	45%
EOIA Balance	69,965	62,351	28,152	25,846	18,276
RWA as per PIRI Report	13,993	6,506	4,387	4,394	3,655

Table 6.2

Date of statement of financial position	**Profit Earned and Paid to EOIA**	**Rate of**
30 June 2016	**107 profit earned and 59 profit paid**	**0.17%**
31 December 2015	**1471 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%**
31 December 2009	**338 profit earned and 155 profit paid**	**1.25%**
Return on average EOIA assets (ROAA)	**June 2016: 0.33%**	
	December 2015: 1.18%	
	December 2014: 1.28%	
	December 2013: 1.11%	
	December 2012: 1.18%	
	December 2011: 1.53%	
	December 2010: 2.25%	
	December 2009: 1.90%	
Return on average equity (Total Owner's Equity) (ROAE)	**June 2016: 0.07%**	
	December 2015: 0.25%	
	December 2014: 0.13%	
	December 2013: 0.13%	
	December 2012: 0.15%	
	December 2011: 0.14%	
	December 2010: 0.20%	
	December 2009: 0.18%	

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 Exposures**	**Funded by EOIA**	**Funded by Self & Call Accounts**	**% of EOIA to Total**
Financial Institutions	69,965	69,965	-	100%
Total	**69,965**	**69,965**	**-**	

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 30 June 2016	69,965	65,925	-	-	-	-
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

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 11 titled related party transactions in the consolidated financial statements for the period ended 30 June 2016. (PD 1.3.10 e) (PD 1.3.23 d)

7.3 Restructured Facilities

As at 30 June 2016, the balance of most of the renegotiated financing facilities to individuals and corporate was BD 52,411 thousands (31 December 2015: 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 period ended 30 June 2016. (PD 1.3.23 k)

7.5 Legal Risk and Claims

As at 30 June 2016, legal suits amounting to BD 4,936 thousands (31 December 2015: 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 consolidated financial statements as the Group has also filed counter cases against these parties. (PD 1.3.30 c)

7.6 Penalties imposed on Customer

Penalties imposed on customers during the period were BD 50 thousands. This amount represents penalty fees received from customers for making late payments. Such amounts are disposed of to charitable causes.