AL SALAM BANK-BAHRAIN B.S.C.

BASEL II - PILLAR III

DISCLOSURES

30 June 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 II accord in the Kingdom of Bahrain came into effect on 1 January 2008.

The Basel II accord is built on three pillars:

- **Pillar I** defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. The requirement of capital has to be covered by own regulatory funds.
- **Pillar II** addresses the Bank's internal processes for assessing overall capital adequacy in relation to risks ("ICAAP"). Pillar II also introduces the Supervisory Review and Evaluation Process ("SREP"), which assesses the internal capital adequacy.
- **Pillar III** complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy.

In November 2007 the CBB issued directives on the Pillar III disclosures under the Basel II framework applicable to licensed Islamic banks in Bahrain. These directives set out enhanced disclosure requirements required under Basel II framework. In accordance with the above requirement, the Al Salam Bank-Bahrain B.S.C. (the "Bank" or "ASBB") developed this document which gathers all the elements of the disclosure required under Pillar III and is organized as follows:

Firstly, it provides the profile of the risk weighted assets according to the "standard portfolio" as defined by the CBB.

Secondly, an overview of risk management practices and framework at the Bank is presented with specific emphasis on credit, market and operational risks and sets out the related monitoring processes and credit mitigation initiatives.

Finally, this document provides all other disclosures required under the Public Disclosure module of the CBB.

The disclosures in this document are in addition to the disclosures included in the interim condensed consolidated financial statements which are prepared in accordance with Financial Accounting Standards issued by Accounting and Auditing Organization for Islamic Financial Institutions.

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 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-2015	Dec-2014	Dec-2013	Dec-2012	Dec-2011	Dec-2010	Dec-2009
Total operating income	23,669	46,068	26,087	23,062	12,740	22,300	23,700
Net profit	9,034	15,821	12,372	10,308	497	7,316	13,962
Total assets	1,895,625	1,955,297	1,088,252	942,218	923,907	856,598	785,934
Total equity	330,984	328,803	246,097	208,065	200,625	201,860	201,778
Key Ratios	**Jun-2015**	**Dec-2014**	**Dec-2013**	**Dec-2012**	**Dec-2011**	**Dec-2010**	**Dec-2009**
Earnings per share (fils)	4.2	8.0	8.3	6.9	0.2	5.0	10.0
Return on average assets (%)*	0.9	1.0	1.2	1.1	0.1	0.9	2.1
Return on average equity (%)*	5.5	5.5	5.4	5.1	0.2	3.6	7.6
Cost to operating income (%)	56.8%	57.3	43.7	49.7	91.0	60.6	40.6
Dividend payout ratio (%)	-	67.7	60.5	72.6	-	-	51
Dividend yield ratio (%)	-	3.8	3.6	9.4	-	-	5.4

* Annualised

2 Financial Performance and Position (continued)

Table 2.2 Financial Summary

(BD '000s)

Consolidated Financial Position	Jun-2015	Dec-2014	Dec-2013	Dec-2012	Dec-2011	Dec-2010	Dec-2009
Cash and balances with banks and Central Bank of Bahrain	256,791	277,751	86,097	66,843	72,318	95,791	126,739
Central Bank of Bahrain Sukuk	146,613	94,678	102,937	117,612	125,027	68,632	32,908
Murabaha and Wakala receivables from banks	107,321	182,110	118,227	103,290	135,698	137,299	149,304
Corporate Sukuk	136,689	139,304	91,106	74,993	49,650	60,959	16,950
Murabaha financing	337,307	270,428	156,142	127,537	135,383	114,572	87,274
Mudaraba financing	204,943	189,601	114,084	99,572	57,706	19,309	-
Ijarah Muntahia Bittamleek	169,888	141,052	110,631	82,954	66,477	56,756	46,315
Musharaka	11,146	10,851	19,145	17,467	11,711	8,127	5,384
Assets under conversion	121,336	308,659	-	-	-	-	-
Non-trading investments	150,848	147,096	125,923	204,202	223,320	212,432	184,680
Investments in real estate	63,889	65,149	66,718	2,500	2,500	3,373	1,177
Development properties	58,924	59,262	65,891	-	-	-	-
Investment in associates	10,460	10,492	8,537	7,573	-	7,578	7,659
Other assets	39,054	32,893	22,814	36,908	43,028	69,911	125,207
Goodwill	25,971	25,971	-	-	-	-	-
Assets held-for-sale	54,445	-	-	-	-	-	-
Murabaha and Wakala payables to banks	136,844	121,266	106,796	90,852	104,573	101,300	89,398
Wakala payables to non-banks	1,034,582	1,034,052	584,365	521,929	515,147	456,447	317,370
Customers' current accounts	193,797	226,648	70,532	83,921	66,585	57,362	32,700
Term financing	19,899	21,337	23,637	-	-	-	-
Liabilities under conversion	5,971	149,621	-	-	-	-	-
Other liabilities	54,556	45,418	30,979	19,175	20,721	21,164	135,279
Liabilities relating to assets classified as held-for-sale	37,147	-	-	-	-	-	-
Equity of Investment Accountholders (EOIA)	81,845	28,152	25,846	18,276	16,256	18,465	9,409
Capital	**Jun-2015**	**Dec-2014**	**Dec-2013**	**Dec-2012**	**Dec-2011**	**Dec-2010**	**Dec-2009**
Capital adequacy (%)	17.0	18.7	21.4	20.9	24.9	24.7	28.6
Equity/total assets (%)	17.5	16.8	22.6	22.1	21.7	23.6	25.7
Total deposits/equity (times)	4.0x	4.3x	2.8x	3.0x	3.0x	2.6x	2.3x
Liquidity and Other Ratios	**Jun-2015**	**Dec-2014**	**Dec-2013**	**Dec-2012**	**Dec-2011**	**Dec-2010**	**Dec-2009**
Islamic financing contracts/total assets (%)	38.2	31.3	36.0	34.8	29.4	23.2	40.9
Investments/total assets (%)	26.2	25.4	34.3	31.2	30.4	33.9	30.1
Liquid assets/total assets (%)	27.7	29.1	28.2	30.5	36.0	35.3	40.2
Islamic financing contracts/customer deposits (%)	55.2	47.5	57.5	52.5	45.4	37.3	70.0
Number of employees	380	457	191	202	215	223	231

3 Capital Structure

The Group's total capital comprises of CET 1 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 2015, comprising of 2,140,931 thousand shares of BD 0.100 each. (PD 1.3.11)

The Group's total capital of BD 299,135 thousands comprises CET 1, AT 1 and Tier 2 capital as detailed below: **(PD 1.3.11)**

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	26,154		
Current interim cumulative net income / losses	8,945		
Unrealized gains and losses on available for sale financial instruments	1,040		
All other reserves	(2,225)		
Unrealized gains and losses arising from fair valuing equities	20,343		
Total CET1 capital prior to regulatory adjustments	**293,040**		
Less:			
Goodwill	(25,971)		
Total Common Equity Tier 1 capital after the regulatory adjustments above	**267,069**		
Asset revaluation reserve - Property, plant, and equipment			22,724
General financing loss provisions			9,342
Total Available AT1 & T2 Capital	**267,069**		**32,066**
Total Tier 1		**267,069**	
Total Capital **(PD 1.3.20 a)**			**299,135**

Table 3.2 (BD '000s)

Risk Weighted Assets (RWA)	Amount
Credit risk	1,669,171
Operational risk	99,967
Market risk	2,894
Total Risk Weighted Assets (b)	**1,772,032**
Capital Adequacy Ratio for the Group (a/b) **(PD 1.3.20 a)**	
CET 1 ratio **(PD 1.3.20 a)**	**15.1%**
AT 1 ratio **(PD 1.3.20 a)**	**15.1%**
Total ratio **(PD 1.3.20 a)**	**16.9%**
Minimum 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)	16.37%	17.27%

* 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 period ended 30 June 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 II 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

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

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 (RWA)	RWA for CAR	Minimum Capital Charge
Cash	7,382	7,312	7,382	-	-	-	-	-	-	-
Claims on sovereigns	609,306	560,955	596,855	12,451	-	-	-	1,929	1,929	232
Claims on banks	235,180	329,390	233,566	1,614	1,813	-	2,344	98,011	92,767	11,583
Claims on corporate portfolio	358,671	407,929	305,791	52,879	13,914	-	25,788	462,459	462,459	79,141
Claims on regulatory retail portfolio	28,795	33,693	28,795	-	-	-	-	21,596	21,596	2,592
Mortgages	268,019	254,662	257,630	10,389	-	-	25,158	210,564	210,564	25,268
Past due receivables over 90 days	102,803	80,487	102,803	-	124	-	6,334	135,141	135,141	16,217
Investments in Securities and Sukuk	40,538	49,959	40,538	-	-	-	-	64,885	64,885	7,786
Holding of Real Estate	212,597	192,480	206,460	6,138	-	-	-	587,604	587,604	70,513
Other assets and Specialized financing	98,273	93,880	98,273	-	5,535	-	5,535	92,224	92,226	11,927
Total	**1,961,564**	**2,010,747**	**1,878,093**	**83,471**	**21,386**	**-**	**65,159**	**1,674,413**	**1,669,171**	**225,259**

* 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 2015 is BD 177,437 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	Risk-Weighted Assets (RWA)	RWA for CAR	Minimum Capital Charge
Central Bank of Bahrain Sukuk	148,467	129,984	148,467	-	-	-	-	-	-	-
Murabaha and Wakala receivables from banks	107,343	161,221	107,343	-	-	-	-	41,078	35,834	4,300
Corporate sukuk	139,112	134,074	139,112	-	-	-	-	58,237	58,237	6,988
Murabaha financing	354,169	337,959	346,218	7,951	7,800	-	19,218	343,344	343,344	41,201
Mudaraba financing	223,995	198,217	206,717	17,278	9,747	-	10,734	142,436	142,436	17,092
Ijarah Muntahia Bittamleek	171,443	173,396	171,348	95	970	-	32,338	122,818	122,818	14,738
Musharaka	11,967	11,308	11,207	760	-	-	-	13,457	13,457	1,615
Total	**1,156,496**	**1,146,159**	**1,130,412**	**26,084**	**18,517**	**-**	**62,290**	**721,370**	**716,126**	**85,934**

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 2015, the Group's exposures in excess of 15% of the obligor limits to individual counterparties, and excluding Central Bank exposures were BD 22,457 thousands. The obligor limits referred to herein reflect total capital as per CBB rules and regulations. (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	36,616	21,136	-	-	**57,752**
Counterparty B	54,445	-	-	-	**54,445**
Counterparty C	42,244	2,628			**44,872**
Total	**133,305**	**23,764**	**-**	**-**	**157,069**

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 2015, the collaterals eligible for CRM (after applying regulatory haircuts) amounted to BD 65,159 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 II 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 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	230,765	61	10,367	1,587	14,010	1	**256,791**
Central Bank of Bahrain Sukuk	146,613	-	-	-	-	-	**146,613**
Murabaha and Wakala receivables from banks	32,086	-	-	-	-	-	**32,086**
Corporate Sukuk	111,603	-	12,787	3,381	-	2,308	**130,079**
Murabaha financing	259,391	-	34,889	30,162	-	12,865	**337,307**
Mudaraba financing	192,502	-	-	12,441	-	-	**204,943**
Ijarah Muntahia Bittamleek	152,973	-	-	16,915	-	-	**169,888**
Musharaka	11,146	-	-	-	-	-	**11,146**
Assets under conversion	118,758	-	241	1	-	2,336	**121,336**
Non-trading investments	127,401	-	-	23,447	-	-	**150,848**
Investments in real estate	44,455	-	-	19,434	-	-	**63,889**
Development properties	56,570	-	2,354	-	-	-	**58,924**
Investment in associates	-	7,914	-	-	-	2,546	**10,460**
Other assets	37,281	1	985	785	-	2	**39,054**
Goodwill	25,971	-	-	-	-	-	**25,971**
Assets held-for-sale	54,445	-	-	-	-	-	**54,445**
Total funded exposures	**1,601,960**	**7,976**	**61,623**	**108,153**	**14,010**	**20,058**	**1,813,780**
Contingent Liabilities & Commitments	173,778	-	1,003	2,656	-	-	**177,437**
Total unfunded exposures	**173,778**	**-**	**1,003**	**2,656**	**-**	**-**	**177,437**
Total exposures	**1,775,738**	**7,976**	**62,626**	**110,809**	**14,010**	**20,058**	**1,991,217**

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**
Cash and balances with banks and Central Bank of Bahrain	-	-	-	-	-	-	**-**
Central Bank of Bahrain Sukuk	-	-	-	-	-	-	**-**
Murabaha and Wakala receivables from banks	72,071	-	235	72	8	2,849	**75,235**
Corporate Sukuk	6,610	-	-	-	-	-	**6,610**
Murabaha financing	-	-	-	-	-	-	**-**
Mudaraba financing	-	-	-	-	-	-	**-**
Ijarah Muntahia Bittamleek	-	-	-	-	-	-	**-**
Musharaka	-	-	-	-	-	-	**-**
Assets under conversion	-	-	-	-	-	-	**-**
Non-trading investments	-	-	-	-	-	-	**-**
Investments in real estate	-	-	-	-	-	-	**-**
Development properties	-	-	-	-	-	-	**-**
Investment in associates	-	-	-	-	-	-	**-**
Other assets	-	-	-	-	-	-	**-**
Goodwill	-	-	-	-	-	-	**-**
Total funded exposures	**78,681**	**-**	**235**	**72**	**8**	**2,849**	**81,845**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**78,681**	**-**	**235**	**72**	**8**	**2,849**	**81,845**

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 2015. 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 2015, a specific provision of BD 5,579 thousands (31 December 2014: BD 5,073 thousands) has been taken against past due financing contracts. During the period, additional specific provisions were made amounting to BD 34 thousands and recoveries were made amounting to BD 233 thousands. Also as of 30 June 2015, a collective impairment provision of BD 6,857 thousands (31 December 2014: BD 4,709 thousands) has been maintained against financing contracts. During the period, additional collective impairment provision was created amounting to BD 2,148 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**	**Specific Provision on Impaired Investments**
GCC Countries	1,775,738	127,268	5,579	6,857	97,855	2,647
Arab World	7,976	-	-	-	-	-
Europe	62,626	-	-	-	-	-
Asia Pacific	110,809	-	-	-	-	1,782
North America	14,010	-	-	-	-	-
Others	20,058	-	-	-	-	-
Total	**1,991,217**	**127,268**	**5,579**	**6,857**	**97,855**	**4,429**

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	78,681	-	-	-	-	-
Arab World	-	-	-	-	-	-
Europe	235	-	-	-	-	-
Asia Pacific	72	-	-	-	-	-
North America	8	-	-	-	-	-
Others	2,849	-	-	-	-	-
Total	**81,845**	**-**	**-**	**-**	**-**	**-**

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	-	79,300	306	-	-	175,036	2,149	**256,791**
Central Bank of Bahrain Sukuk	-	22,022	-	-	-	124,591	-	**146,613**
Murabaha and Wakala receivables from banks	-	32,086	-	-	-	-	-	**32,086**
Corporate Sukuk	5,090	43,856	7,616	-	-	72,123	1,394	**130,079**
Murabaha financing	73,968	82,677	60,242	-	87,495	18,223	14,702	**337,307**
Mudaraba financing	23,336	4,146	60,120	-	12,740	74,261	30,340	**204,943**
Ijarah Muntahia Bittamleek	16,376	1,332	58,699	18,520	58,730	753	15,478	**169,888**
Musharaka	-	-	4,304	-	6,280	-	562	**11,146**
Assets under conversion	3,160	75,700	18,682	1,626	9,616	8,133	4,419	**121,336**
Non-trading investments	-	2,113	105,297	2,111	-	2,750	38,577	**150,848**
Investments in real estate	-	-	63,889	-	-	-	-	**63,889**
Development properties	-	-	58,924	-	-	-	-	**58,924**
Investment in associates	-	10,460	-	-	-	-	-	**10,460**
Other assets	790	12,436	10,856	117	3,331	3,362	8,162	**39,054**
Goodwill	**-**	25,971	**-**	**-**	**-**	**-**	**-**	**25,971**
Invetments held-for-sale	-	-	-	54,445	-	-	-	**54,445**
Total funded exposures	**122,720**	**392,099**	**448,935**	**76,819**	**178,192**	**479,232**	**115,783**	**1,813,780**
Contingent Liabilities & Commitments	51,319	4,738	65,702	-	3,074	24,902	27,702	**177,437**
Total unfunded exposures	**51,319**	**4,738**	**65,702**	**-**	**3,074**	**24,902**	**27,702**	**177,437**
Total exposures	**174,039**	**396,837**	**514,637**	**76,819**	**181,266**	**504,134**	**143,485**	**1,991,217**

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**
Cash and balances with banks and Central Bank of Bahrain	-	-	-	-	-	-	-	**-**
Central Bank of Bahrain Sukuk	-	-	-	-	-	-	-	**-**
Murabaha and Wakala receivables from banks	1,071	40,947	1,048	-	28,253	-	3,916	**75,235**
Corporate Sukuk	-	6,610	-	-	-	-	-	**6,610**
Murabaha financing	-	-	-	-	-	-	-	**-**
Mudaraba financing	-	-	-	-	-	-	-	**-**
Ijarah Muntahia Bittamleek	-	-	-	-	-	-	-	**-**
Musharaka	-	-	-	-	-	-	-	**-**
Assets under conversion	-	-	-	-	-	-	-	**-**
Non-trading investments	-	-	-	-	-	-	-	**-**
Investment properties	-	-	-	-	-	-	-	**-**
Development properties	-	-	-	-	-	-	-	**-**
Investment in associates	-	-	-	-	-	-	-	**-**
Other assets	-	-	-	-	-	-	-	**-**
Assets held-for-sale	-	-	-	-	-	-	-	**-**
Goodwill	-	-	-	-	-	-	-	**-**
Total funded exposures	**1,071**	**47,557**	**1,048**	**-**	**28,253**	**-**	**3,916**	**81,845**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-	**-**
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**1,071**	**47,557**	**1,048**	**-**	**28,253**	**-**	**3,916**	**81,845**

* 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**	**Carrying Value of Impaired Investments**	**Specific Provision against Financing Contracts**	**Specific Provision on Impaired Investments**
Trading and manufacturing	174,039	122,720	51,319	63,452	2,750	190	2,418
Banks and financial institutions	396,837	392,099	4,738	717	694	3,767	187
Real estate	514,637	448,935	65,702	20,755	4,496	214	1,782
Aviation	76,819	76,819	-	1,606	-	-	-
Individuals	181,266	178,192	3,074	31,813	-	125	-
Government	504,134	479,232	24,902	-	-	-	-
Others	143,485	115,783	27,702	8,924	-	1,283	42
Total	**1,991,217**	**1,813,780**	**177,437**	**127,267**	**7,940**	**5,579**	**4,429**

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**
Trading and manufacturing	1,071	1,071	-	-	-	-	-
Banks and financial institutions	47,557	47,557	-	-	-	-	-
Real estate	1,048	1,048	-	-	-	-	-
Aviation	-	-	-	-	-	-	-
Individuals	28,253	28,253	-	-	-	-	-
Government	-	-	-	-	-	-	-
Others	3,916	3,916	-	-	-	-	-
Total	**81,845**	**81,845**	**-**	**-**	**-**	**-**	**-**

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	7,382	-	7,382
Claims on sovereigns	609,306	182,685	426,621
Claims on banks	235,180	141,033	94,147
Claims on corporate portfolio	358,671	15,650	343,021
Regulatory retail portfolio	28,795	-	28,795
Mortgages	268,019	-	268,019
Past due receivables over 90 days	102,803	-	102,803
Investments in Securities and Sukuk	40,538	-	40,538
Holding of Real Estate	212,597	-	212,597
Other assets and Specialized financing	98,273	5,142	93,131
Total	**1,961,564**	**344,510**	**1,617,054**

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);
- deduction of 55% haircut on unrealised gain relating to investments; and
- deduction of excess amount over maximum permitted large exposure limit.

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	7,382	-	-	-	**7,382**	-	-	-	-	**-**	**7,382**
Claims on sovereigns	214,071	27,889	17,859	62,226	**322,045**	112,241	147,461	-	15,108	**274,810**	**596,855**
Claims on banks	152,290	11,291	32,907	4,365	**200,853**	30,020	2,693	-	-	**32,713**	**233,566**
Claims on corporate portfolio	36,476	8,429	6,832	22,780	**74,517**	173,229	57,076	969	-	**231,274**	**305,791**
Regulatory retail portfolio	377	2	2	141	**522**	22,321	5,926	26	-	**28,273**	**28,795**
Mortgages	16,015	4,965	5,299	11,346	**37,625**	73,126	106,578	35,323	4,978	**220,005**	**257,630**
Past due receivables over 90 days	13,649	(27)	496	891	**15,009**	82,914	3,094	822	964	**87,794**	**102,803**
Investments in Securities and Sukuk	745	-	-	-	**745**	34,904	-	-	4,889	**39,793**	**40,538**
Holding of Real Estate	2,609	-	-	570	**3,179**	202,931	-	-	350	**203,281**	**206,460**
Other assets and Specialized financing	18,748	583	668	44	**20,043**	35,530	42,172	159	369	**78,230**	**98,273**
Total	**462,362**	**53,132**	**64,063**	**102,363**	**681,920**	**767,216**	**365,000**	**37,299**	**26,658**	**1,196,173**	**1,878,093**

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	7,471	-	4,980	-	**12,451**	-	-	-	-	**-**	**12,451**
Claims on banks	757	254	473	64	**1,548**	66	-	-	-	**66**	**1,614**
Claims on corporate portfolio	21,420	11,454	7,349	6,085	**46,308**	5,738	731	69	33	**6,571**	**52,879**
Mortgages	4,514	1,350	1,601	2,265	**9,730**	659	-	-	-	**659**	**10,389**
Holding of Real Estate	-	-	-	-	**-**	6,138	-	-	-	**6,138**	**6,138**
Total	**34,162**	**13,058**	**14,403**	**8,414**	**70,037**	**12,601**	**731**	**69**	**33**	**13,434**	**83,471**

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.

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	38,564	19,282
Irrevocable unutilised commitments	129,620	25,924
Commitment relating to purchase of investment	4,182	-
Forward foreign exchange contracts	727	727
Operating lease commitments	4,313	-
Capital expenditure commitments	31	-
RWA	**177,437**	**45,933**

* Credit exposure is after applying CCF.

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

(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 and balances with banks and Central Bank of	256,791	-	-	-	**256,791**	-	-	-	-	**-**	**256,791**
Central Bank of Bahrain Sukuk	7,168	4,699	6,365	47,324	**65,556**	50,263	30,794	-	-	**81,057**	**146,613**
Murabaha and Wakala receivables from banks	102,208	5,113	-	-	**107,321**	-	-	-	-	**-**	**107,321**
Corporate Sukuk	-	-	18,619	4,773	**23,392**	55,387	43,053	-	14,857	**113,297**	**136,689**
Murabaha financing	51,319	18,460	32,991	24,821	**127,591**	141,338	59,334	7,450	1,594	**209,716**	**337,307**
Mudaraba financing	28,483	7,072	10,504	30,056	**76,115**	80,809	48,019	-	-	**128,828**	**204,943**
Ijarah Muntahia Bittamleek	23,652	2,284	2,325	5,191	**33,452**	71,257	46,007	15,101	4,071	**136,436**	**169,888**
Mushakara	215	282	1,005	1,525	**3,027**	5,413	1,795	801	110	**8,119**	**11,146**
Assets under conversion	7,559	9,416	2,398	727	**20,100**	28,798	62,808	4,598	5,032	**101,236**	**121,336**
Non-trading investments	-	-	-	-	**-**	148,872	1,976	-	-	**150,848**	**150,848**
Investment in real estate	-	-	-	-	**-**	63,889	-	-	-	**63,889**	**63,889**
Development properties	-	-	-	-	**-**	58,924	-	-	-	**58,924**	**58,924**
Investment in associates	-	-	-	-	**-**	7,915	-	-	2,545	**10,460**	**10,460**
Other assets	28,015	1,070	1,612	-	**30,697**	3,808	-	-	4,549	**8,357**	**39,054**
Goodwill	25,971	-	-	-	**25,971**	-	-	-	-	**-**	**25,971**
Assets held-for-sale	-	-	-	-	**-**	-	54,445	-	-	**54,445**	**54,445**
Total	**531,381**	**48,396**	**75,819**	**114,417**	**770,013**	**716,673**	**348,231**	**27,950**	**32,758**	**1,125,612**	**1,895,625**

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	52,288	16,992	19,577	30,318	**119,175**	8,779	1,462	138	66	**10,445**	**129,620**
Capital expenditure towards commitments	-	-	-	31	**31**	-	-	-	-	**-**	**31**
Contingent liabilities	11,998	7,483	8,113	6,366	**33,960**	4,604	-	-	-	**4,604**	**38,564**
Forward foreign exchange contracts	727	-	-	-	**727**	-	-	-	-	**-**	**727**
Operating lease commitments	101	202	272	940	**1,515**	2,522	276	-	-	**2,798**	**4,313**
Commitment relating to purchase of investment	4,182	-	-	-	**4,182**	-	-	-	-	**-**	**4,182**
Total	**69,296**	**24,677**	**27,962**	**37,655**	**159,590**	**15,905**	**1,738**	**138**	**66**	**17,847**	**177,437**

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)

	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
Murabaha and Wakala payables to banks	111,022	18,809	7,013	-	**136,844**	-	-	-	-	**-**	**136,844**
Wakala payables to non-banks	255,477	275,893	230,289	219,430	**981,089**	53,393	100	-	-	**53,493**	**1,034,582**
Customers' current accounts	193,797	-	-	-	**193,797**	-	-	-	-	**-**	**193,797**
Term financing	-	-	-	-	**-**	19,899	-	-	-	**19,899**	**19,899**
Liabilities under conversion	43	17	700	-	**760**	5,211	-	-	-	**5,211**	**5,971**
Liabilities relating to assets held-for-sale	-	-	-	37,147	**37,147**	-	-	-	-	**-**	**37,147**
Other liabilities	51,999	1,011	817	729	**54,556**	-	-	-	-	**-**	**54,556**
Equity of Investment Accountholders	37,781	13,219	-	8,813	**59,813**	22,032	-	-	-	**22,032**	**81,845**
Total	**650,119**	**308,949**	**238,819**	**266,119**	**1,464,006**	**100,535**	**100**	**-**	**-**	**100,635**	**1,564,641**

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	Period End Capital Charge	Capital Charge –Minimum*	Capital Charge –Maximum*
Equity position risk	-	-	-	-
Sukuk risk	-	-	-	-
Foreign exchange risk	2,894	232	232	656
Options risk	-	-	-	-
Commodity risk	-	-	-	-
Total market risk	**2,894**	**232**	**232**	**656**

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 period ended 30 June 2015.

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 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:

At 30 June 2015 **(BD '000s)**

Currency	Particular	Change	Net exposure in AUD	Net exposure in BD	Impact on Equity
Australian dollar	Net long Position	**10%**	**6,096**	**1,765**	**176**

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)**

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 II 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 2015
Gross income	38,093
Number of years with positive gross income	3
Average	29,696

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 2015 amounted to BD 51 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 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 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 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 30 June 2015	Effect on net profit at 31 December
Upward rate shocks:	USD	4,692	2,840
	BHD	5,971	4,160
Downward rate shocks:	USD	(4,692)	(2,840)
	BHD	(5,971)	(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 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.

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.

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	30,142
Unquoted Equities	120,706
Profit earned for EOIA before smoothing	248
Net realized gain during the period	1,508
Net unrealized gain during the period	824

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)

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 after deducting a mandatory reserve. There were no movements during the period 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 ended 30 June 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 (BD '000s)

	Jun 2015	Dec 2014	Dec 2013	Dec 2012	Dec 2011	Dec 2010	Dec 2009
Shareholders	248	215	148	166	153	216	155
EOIA (before smoothing)	451	391	279	302	278	393	282
Total Profit	**699**	**606**	**427**	**468**	**431**	**609**	**437**
Profit earned for EOIA before smoothing	451	391	279	302	278	393	282
Profit paid for EOIA after smoothing	248	215	148	166	153	216	155
Balance of:							
PER	N/A	N/A	N/A	N/A	N/A	N/A	N/A
IRR	7	7	7	7	7	7	7
Annual Rate of Return Benchmark	3%	3%	3%	3%	3%	3%	3%
Annual Rate of Return (EOIA)	0.61%	0.76%	0.60%	0.70%	1.00%	1.00%	1.25%
PER Amount	-	-	-	-	-	-	-
PER %	-	-	-	-	-	-	-
IRR Amount	7	7	7	7	7	7	7
IRR %	-	-	-	-	-	-	-
Reconciliation							
Mudaraba Profit Earned	451	391	279	302	278	393	282
Mudarib fees	(203)	(176)	(131)	(135)	(125)	(177)	(152)
Profit credited to EOIA accounts	**248**	**215**	**148**	**167**	**153**	**216**	**130**
IRR movements	-	-	-	-	-	-	-
Profit on EOIA	**248**	**215**	**148**	**167**	**153**	**216**	**130**
EOIA Balance	81,845	28,152	25,846	18,276	16,256	18,465	9,409
RWA as per PIRI Report	4,911	4,387	4,394	3,655	3,251	4,285	2,440

Table 6.2

Date of statement of financial position	Profit Earned and Paid to EOIA	Rate of
30 June 2015	**451 profit earned and 248 profit paid**	**0.61%**
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 2015: 1.78%**	
	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 2015: 0.28%**	
	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	Funded by	Funded by	% of EOIA to
Sovereign	-	-	-	
Financial Institutions	75,235	75,235	-	100%
Multinational Development Bank	-	-	-	-
Investment Firms	-	-	-	-
Corporate	6,610	6,610	-	100%
Retail	-	-	-	-
Total	**81,845**	**81,845**	**-**	**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 30 June 2015	75,235	32,086	6,610	130,079		542,250
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
Asset Allocation as on 31 December 2009	9,409	139,894	-	-	-	87,273

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 10 titled related party transactions in the interim condensed consolidated financial statements for the period ended 30 June 2015. (PD 1.3.10 e)

7.3 Restructured Facilities

As at 30 June 2015, the balance of most of the renegotiated financing facilities to individuals and corporate was BD 17,006 thousands (31 December 2014: BD 53,187 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 2015. (PD 1.3.23 k)

7.5 Legal Risk and Claims

As at 30 June 2015, legal suits amounting to BD 7,059 thousands (31 December 2014: BD 2,586 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 interim condensed consolidated financial statements as the Group has also filed counter cases against these parties. (PD 1.3.30 c)