



# RISK AND CAPITAL MANAGEMENT

## PILLAR 3 DISCLOSURES

*These disclosures have been prepared in accordance with the Public Disclosure Module (“PD”), Section PD-1.3: Disclosures in Annual Reports and PD-3.1.6 Semi-annual Disclosures, CBB Rule Book, Volume II for Islamic Banks. This document should be read in conjunction with the condensed consolidated interim financial information for the six months period ended 30 June 2017 and the qualitative disclosures in the annual report for the year ended 31 December 2016. Information already included in the condensed consolidated financial information are not repeated.*

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## **1 Executive summary**

The Central Bank of Bahrain's ("CBB") Basel 3 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2015. These disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports of the CBB Rule Book, Volume II for Islamic Banks and Section PD-3.1.6: Publication of reviewed (Unaudited) quarterly financial statements for locally incorporated banks. Section PD-1.3 reflect the requirements of Basel 2 - Pillar 3 and the Islamic Financial Services Board's ("IFSB") recommended disclosures for Islamic banks and PD 3.1.6 highlights the requirement to make quantitative disclosures described in PD-1.3 on their web site along with the half yearly financial statements.

GFH Financial Group ("GFH/ the Bank") was incorporated in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136. The Bank operates as an Islamic Wholesale Investment Bank under a license granted by the Central Bank of Bahrain ("CBB"). The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association. The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles.

This report contains a description of the Bank's risk and capital management practices and processes, including detailed information on the capital management process.

As at 30 June 2017 the Group's total capital ratio stood at a healthy 16.31%.

The Bank's Tier I and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel 3 / IFSB for Islamic financial institutions framework.

The Banks total risk weighted assets as at 30 June 2017 amounted to USD 7,711,645 thousand. Credit risk accounted for 97 percent, operational risk 2 percent, and market risk 1 percent of the total risk weighted assets respectively. Tier I and total regulatory capital were USD 1,234,075 thousand and USD 1,257,782 thousand respectively, as at 30 June 2017.

At 30 June 2017, Group's CET1 and T1 capital and total capital adequacy ratios were 15.91%, 15.91% and 16.31% respectively.

## **2 Group Structure**

The Bank along with its subsidiaries is together referred to as the "Group". The principal material subsidiaries and associates as at 30 June 2017 and their treatment for consolidated capital adequacy purposes are as follows:

Subsidiaries	Entity classification as per PCD Module for consolidated capital adequacy	Treatment by the Bank	
		Consolidated	Solo basis
Khaleeji Commercial Bank BSC ('KHCB')	Banking subsidiary	Full consolidation <sup>[i]</sup>	Full deduction from capital
GFH Sukuk Limited	Financial entity	Full consolidation	No impact as no direct investment by the Bank and the entity is a securitisation vehicle.
Morocco Gateway Investment Company	Commercial entity	Risk weighting of investment exposure	
GFH Capital Limited	Financial entity	Full consolidation	Full deduction from capital
KHCB Asset Company	Financial entity	Full consolidation	No impact as no direct investment by the Bank and the entity is a securitisation vehicle.
Harbour North 1 Real Estate SPC	Commercial entities	Risk weighting (look through approach) approved by the CBB on 27 May 2012.	
Harbour North 2a Real Estate SPC			
Harbour North 2b Real Estate SPC			
Harbour North 3 Real Estate SPC			
GFH Real Estate SPC			
Harbour Row 2 Real Estate SPC			
Harbour Row 3 Real Estate SPC			
Harbour Row 4 Real Estate SPC	Commercial entities	Risk weighting (look through approach) approved by the CBB on 27 May 2012.	
Delmon Lost Paradise Project Company 1 SPC			
Delmon Lost Paradise Project Company 2 SPC	Commercial entities	Risk weighting (look through approach) approved by the CBB on 27 May 2012.	
Al Areen Hotels SPC	Commercial entity	Risk weighting of investment exposure	
Al Areen Leisure and Tourism Company – The Lost Paradise of Dilmun SPC	Commercial entity	Risk weighting of investment exposure	
Tunis Bay Investment Company	Commercial entity	Risk weighting of investment exposure	
Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Projects")	Commercial entities	Risk weighting of investment exposure	

Associates *	Entity classification as per PCD Module for consolidated capital adequacy	Treatment by the Bank for Consolidated and Solo basis
Bahrain Aluminium Extrusion Company BSC (c)	Commercial entity	Risk weighting of investment exposure
Falcon Cement Company BSC (c)	Commercial entity	Risk weighting of investment exposure
Global Banking Corporation BSC (c) ('GBCorp')	Financial entity	Regulatory adjustment (deduction from capital) <sup>[iii]</sup>
Enshaa Development Real Estate BSC (c)	Commercial entity	Risk weighting of investment exposure
Capital Real Estate Projects BSC (c)	Commercial entity	Risk weighting of investment exposure
British School of Bahrain (Operating Company)	Commercial entity	Risk weighting of investment exposure

*\*Does not include associates that were fully impaired and do not form part of Capital adequacy ratio calculation*

The investments in subsidiaries and associates are subject to large exposure and connected counterparty limits and guidelines set by the CBB.

These guidelines are considered for transfer of funds or regulatory capital within the Group. The investment in subsidiaries should be generally deducted from the capital of the Bank.

In the opinion of the Bank, these are pass-through entities and hence the underlying investments are risk weighted.

KHCB, a banking subsidiary of the Bank, is a locally incorporated commercial bank and the specific quantitative and qualitative disclosures pertaining to all the risks of KHCB have been disclosed in the Risk Management Disclosures of KHCB as at 30 June 2017, which can be accessed through the following link [\[http://www.khcbonline.com/main/Investor-Relations/Financial-Reports/\]](http://www.khcbonline.com/main/Investor-Relations/Financial-Reports/).

There are no restrictions for transfer of capital other than those applicable to licensed financial entities and process of commercial companies' law of respective jurisdictions.

**Composition of Capital disclosure - As At 30 June 2017**

Statement of financial position under the regulatory scope of consolidation and reconciliation of published financial statements to regulatory reporting as at 30 June 2017.

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

USD'000

As at 30 June 2017	Balance sheet as in published financial statements	Consolidated PIRI data	Reference
<b>ASSETS</b>			
Cash and bank balance	162,074	158,202	
Placement with financial institutions	261,300	261,288	
Financing assets	987,226	987,226	
<i>Of which collective impairment provisions</i>	(11,989)	(11,989)	a
Investment securities	452,611	907,813	
<i>Of which equity investments in financial entities</i>	46,201	46,201	b
Assets acquired for leasing	265,377	265,377	
Investment properties	484,973	484,973	
Development properties	882,765	331,910	
Equity-accounted investees	116,662	116,662	
<i>Of which equity investments in financial entities</i>	22,627	22,627	c
Property, plant and equipment	120,089	23,457	
Other assets	200,478	193,531	
<b>Total assets</b>	<b>3,933,555</b>	<b>3,730,439</b>	
<b>LIABILITIES</b>			
Investors' fund	36,538	36,538	
Placements from financial institutions, other entities and individuals	833,208	833,208	
Customer current accounts	222,543	222,543	
Financing liabilities	204,340	173,960	
Other liabilities	232,562	98,976	
<b>Total liabilities</b>	<b>1,529,191</b>	<b>1,365,225</b>	
<b>Equity of investment account holders</b>	<b>882,297</b>	<b>882,297</b>	
<b>OWNERS' EQUITY</b>			
Share capital	657,794	657,794	d
Treasury shares	(340)	(340)	e
Capital adjustment account	282,130	282,130	f
Statutory reserve	95,475	95,475	g
Retained earnings	102,095	102,095	h
Share grant reserve	966	966	i
<b>Total equity attributable to shareholders of the Bank</b>	<b>1,138,120</b>	<b>1,138,120</b>	
Non-controlling interests	383,947	88,702	j
<b>Total owners' equity</b>	<b>1,522,067</b>	<b>1,226,822</b>	
<b>Total liabilities, equity of investment account holders and owners' equity</b>	<b>3,933,555</b>	<b>3,474,344</b>	

The table below shows the total assets and shareholders' equity of the Bank's subsidiaries as at 30 June 2017 which are unconsolidated for capital adequacy calculation purposes.

Entity name	Principal activities	Total Assets* USD'000	Total Shareholders' equity * USD'000
Morocco Gateway Investment Company	Real estate development	67,120	38,464
Al Areen Hotels SPC	Hospitality management	73,202	69,437
Al Areen Leisure and Tourism Company – The Lost Paradise of Dilmun SPC	Amusement and theme park	26,171	25,158
Energy City Navi Mumbai & Mumbai IT Technology Company	Real estate development	308,455	253,838
Tunis Bay Investment Company	Real estate development	177,642	175,745

*\*The numbers disclosed are before considering intercompany eliminations.*

**Composition of Capital Common Template (transition)**

	Component of regulatory capital reported by bank	Amounts subject to pre-2015 treatment	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
<b>Common Equity Tier 1 (CET1): instruments and reserves</b>			
Directly issued qualifying common share capital plus related stock surplus	657,794	-	d
Retained earnings	102,095	-	h
Accumulated other comprehensive income and losses (and other reserves)	378,571	-	f+g+i
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1)	88,702	-	j
<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>1,227,162</b>		
<b>Common Equity Tier 1 capital: regulatory adjustments</b>			
Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	340	-	e
<b>Total regulatory adjustments to Common equity Tier 1</b>	<b>340</b>		
<b>Common equity Tier 1 capital (CET 1)</b>	<b>1,226,822</b>		

	Component of regulatory capital reported by bank	Amounts subject to pre-2015 treatment	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
<b>Additional Tier 1 capital: instruments</b>			
Instrument issued by banking subsidiaries to third parties	7,253	-	k1
<b>Additional Tier 1 capital (AT1)</b>	<b>7,253</b>		
<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>1,234,075</b>		
<b>Tier 2 capital: instruments and provisions</b>			
Instruments issued by banking subsidiaries to third parties	11,718	-	k2
Provisions	11,989	-	A
<b>Tier 2 capital before regulatory adjustments</b>	<b>23,707</b>		
<b>Tier 2 capital: regulatory adjustments</b>			
Total regulatory adjustments to Tier 2 capital	-	-	
<b>Total Tier 2 capital (T2)</b>	<b>-</b>	<b>-</b>	
<b>Total capital (TC = T1+T2)</b>	<b>1,257,782</b>		
<b>Total risk weighted assets</b>	<b>7,711,645</b>		
<b>Capital ratios and buffers</b>			
<b>Common Equity Tier 1 (CET1) (as a percentage of risk weighted assets)</b>	<b>15.91%</b>		
<b>Tier 1 (T1) (as a percentage of risk weighted assets)</b>	<b>16.00%</b>		
<b>Total capital (as a percentage of risk weighted assets)</b>	<b>16.31%</b>		
<b>National minima including CCB (if different from Basel III)</b>			
CBB Common Equity Tier 1 minimum ratio	9.00%		
CBB Tier 1 minimum ratio	10.50%		
CBB total capital minimum ratio	12.50%		
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
Non-significant investments in the capital of other financial entities	46,201		b
Significant investment in common stock of financial entities	22,627		c
<b>Applicable caps on the inclusion of provisions in Tier 2</b>			
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	11,989		a



Disclosure template for main features of regulatory capital instruments		
1	Issuer	GFH Financial Group BSC (c)
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GFH ( <i>DFM</i> ) GFH ( <i>BHSE</i> ) 813 ( <i>KSE</i> )
3	Governing law(s) of the instrument Regulatory treatment	All applicable laws and regulations in the Kingdom of Bahrain.
4	Transitional CBB rules	NA
5	Post-transitional CBB rules	NA
6	Eligible at solo/group/group & solo	Yes
7	Instrument type (types to be specified by each jurisdiction)	Common shares
8	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	USD 658 million
9	Par value of instrument	USD 0.265
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1999
12	Perpetual or dated	NA
13	Original maturity date	NA
14	Issuer call subject to prior supervisory approval	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable Coupons / dividends	NA
17	Dividends	Dividends as decided by the shareholders
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	NA
22	Noncumulative or cumulative	NA
23	Convertible or non-convertible	NA
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	NA
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA

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### **3 Capital structure and capital adequacy ratio**

The Bank's regulator CBB sets and monitors capital requirements for the Bank as a whole (i.e. at a consolidated level). The banks are required to maintain minimum capital adequacy ratio of 12.5% on a consolidated basis [ i.e. CET1 – 6.5%, AT1-1.5%, Tier 2 – 2% and CCB – 2.5%] and a capital adequacy ratio of 8% on a solo basis [ i.e. CET1 – 4.5%, AT1 – 1.5% and Tier 2 – 2%].

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Bank has adopted the standardised approach to credit and market risk and basic indicator approach for operational risk management under the revised framework.

The Bank's regulatory capital position at 30 June 2017 was as follows:

<i>USD 000's</i>	
<b>Eligible Capital</b>	<b>30 June 2017</b>
<b>Common Equity Tier 1 (CET 1)</b>	
Issue and fully paid ordinary shares	657,794
Statutory reserve	95,475
Retained earnings	39,956
Current interim cumulative net profit	62,139
Accumulated other comprehensive income and losses (and other reserves)	283,096
<b>Total CET1 capital before minority interest</b>	<b>1,138,460</b>
Total minority interest in banking subsidiaries given recognition in CET1 capital	88,702
<b>Total CET 1 capital prior to regulatory adjustments</b>	<b>1,227,162</b>
Less: Investment in own shares	(340)
<b>Total Common Equity Tier 1 capital after to the regulatory adjustments</b>	<b>1,226,822</b>
<b>Other capital (AT1 &amp; T2)</b>	
Instruments issued by banking subsidiaries to third parties	
- AT1	7,253
<b>Total Tier 1 Capital</b>	<b>1,234,075</b>
Instruments issued by banking subsidiaries to third parties	
- T2	11,718
- General financing loss provisions	11,989
<b>Total Capital</b>	<b>1,257,782</b>

USD 000's

<b>Risk weighted exposures</b>	<b>30 June 2017</b>
Credit risk:	
- Self-financed assets	7,295,321
- Assets financed by EIAH (30%)	190,103
Market risk	51,856
Operational risk	174,365
<b>Total capital base</b>	<b>7,711,645</b>

<b>CET1</b>	<b>15.91%</b>
<b>T1</b>	<b>16.00%</b>
<b>Total Capital Adequacy ratio (Total Capital)</b>	<b>16.31%</b>

The Bank's paid up capital consists only of one class of shares with voting rights.

## 4 Credit risk

### 4.1 Capital requirements for credit risk

To assess its capital adequacy requirements for credit risk in accordance with the CBB requirements, the Bank adopts the standardized approach. According to the standardized approach, on and off balance sheet credit exposures are assigned to various defined categories based on the type of counterparty or underlying exposure. The main relevant categories are claims on banks, claims on investment firms, past due facilities, investment in equities, holdings of real estate, claims on corporate portfolio and other assets. Risk Weighted Assets (RWAs) are calculated based on prescribed risk weights by CBB relevant to the standard categories and counterparty's external credit ratings, where available.

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*Rating of exposures and risk weighting*

As the Bank is not engaged in granting credit facilities in its normal course of business, it does not use a detailed internal credit “grading” model. The use of external rating agencies is limited to assigning of risk weights for placements with financial institutions. The Bank uses ratings by Standard & Poors, Fitch and Capital Intelligence to derive risk weights for the purpose of capital adequacy computations. However, preferential risk weight of 20% is used which is applicable to short term claims on locally incorporated banks where the original maturity of these claims are three months or less and these claims are in Bahraini Dinar or US Dollar. The other exposures are primarily classified as ‘unrated exposure’ for the purposes of capital adequacy computations.

As per CBB guidelines, 100% of the RWA’s financed by owners’ equity (i.e. self financed) are included for the purpose of capital adequacy computations whereas only 30% of the RWA’s financed by equity of investment account holders [EIAH] are required to be included.

Following is the analysis for credit risk as computed for regulatory capital adequacy purposes:

USD 000's

<b>Asset categories for credit risk</b>	<b>Gross credit exposures</b>	<b>Credit risk mitigant</b>	<b>Net credit exposures</b>	<b>Average risk weights</b>	<b>Total credit risk weighted exposure</b>
<b>Self financed assets</b>					
Cash items	19,648	-	19,648	0%	-
Total claims on sovereigns	31,141	-	31,141	0%	-
Standard Risk Weights for Claims on Banks	30,511	-	30,511	20%-50%	6,154
Preferential Risk Weight for Claims on Locally Incorporated Banks	60,420	-	60,420	20%	12,084
Short-term Claims on Banks	1,620	-	1,620	20% - 50%	327
Claims on Corporates including Takaful Companies and Category 3 Investment Firms (Unsecured portion after Credit Risk Mitigant)	902,342	298,050	604,292	100%	604,292
Past Due Facilities	117,086	10,326	106,760	100% - 150%	149,312
Equity Investment	144,852	-	144,852	150% - 250%	227,417
Other exposure with excess of large exposure limits	502,795	-	502,795	800%	4,022,360
Holdings of Real Estate	863,608	-	863,608	100% - 400%	2,264,721
Others Assets	8,654	-	8,654	100%	8,654
<b>Total self-financed assets (A)</b>	<b>2,682,677</b>	<b>308,376</b>	<b>2,374,301</b>	<b>307%</b>	<b>7,295,321</b>

Following is the analysis for credit risk as computed for regulatory capital adequacy purposes: (continued)

USD 000's

Asset categories for credit risk	Gross credit exposures	Credit risk mitigant	Net credit exposures	Average risk weights	Total credit risk weighted exposure
<b>Financed by EIAH</b>					
Total claims on sovereigns	218,597	-	218,597	0%	-
Total Claims on PSEs	44,098	-	44,098	20%-50%	36,228
Standard Risk Weights for Claims on Banks	149,900	-	149,900	20% - 50%	89,786
Preferential Risk Weight for Claims on Locally Incorporated Banks	74,257	-	74,257	20%	14,851
Claims on Corporates including Takaful Companies and Category 3 Investment Firms (Unsecured portion after Credit Risk Mitigant)	520,387	33,862	486,525	50% - 100%	484,995
Equity Investment	7,817	-	7,817	100%	7,817
<b>Total financed by EIAH (B)</b>	<b>1,015,056</b>	<b>33,862</b>	<b>981,194</b>	<b>65%</b>	<b>633,677</b>
<b>Considered for credit risk (C) = (B x 30%)</b>				<b>30%</b>	<b>190,103</b>
<b>Total regulatory capital required (C x 12.5%)</b>				<b>12.5%</b>	<b>23,762</b>
<b>TOTAL CREDIT EXPOSURES</b>	<b>3,697,733</b>	<b>342,238</b>	<b>3,355,495</b>		
<b>TOTAL RISK WEIGHTED EXPOSURE</b>					<b>7,485,424</b>
<b>TOTAL REGULATORY CAPITAL REQUIRED</b>				<b>12.5%</b>	<b>953,678</b>

## 4.2 Quantitative information on credit risk

### 4.2.1 Gross and average credit exposure

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations of the Bank classified as per disclosure in the condensed consolidated interim financial information:

USD 000's

	Average <sup>[1]</sup> Exposure	Gross Exposure		
		Self – Financed	Financed by EIAH	Total
Bank balances	144,253	70,193	91,881	162,074
Placements with financial institutions	222,438	115,812	145,488	261,300
Financing assets	981,384	556,274	430,952	987,226
Investment securities	506,706	239,789	212,822	452,611
Assets acquired-for-leasing	255,040	265,377	-	265,377
Investment properties	485,365	484,973	-	484,973
Development properties	581,869	882,765	-	882,765
Equity-accounted investees	115,035	116,662	-	116,662
Property, plant and equipment	131,560	120,089	-	120,089
Other assets	163,251	200,478	-	200,478
<b>Total funded Credit Exposure</b>	<b>3,586,901</b>	<b>3,052,412</b>	<b>881,143</b>	<b>3,933,555</b>
Financial guarantees	85,853	85,711	-	85,711
Commitments	30,696	30,696	-	30,696
Undrawn commitments to extend finance	124,292	112,135	-	112,135
<b>Total unfunded Credit Exposure</b>	<b>240,841</b>	<b>228,542</b>	<b>-</b>	<b>228,542</b>

[1] Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis for six months period ended 30 June 2017. Assets funded by EIAH are geographically classified in GCC countries, and are placed with Banks and financial institutions having maturity profile of up to 3 months.



#### 4.2.2 Credit exposure by geography

The classification of credit exposure by geography, based on the location of the counterparty, was as follows:

USD 000's

	GCC countries	MENA	Asia	UK	Europe (excluding UK)	USA	Australia	Total
<b>Assets</b>								
Bank balances	118,697	10	61	185	22,772	20,349	-	162,074
Placements with financial institutions	261,288	12	-	-	-	-	-	261,300
Financing receivables	928,066	-	-	9,678	49,482	-	-	987,226
Investment securities	372,676	103	67,353	-	-	2,750	9,729	452,611
Assets acquired for leasing	265,377	-	-	-	-	-	-	265,377
Investment properties	407,974	77,000	-	-	-	-	-	484,973
Development properties	130,119	387,470	365,176	-	-	-	-	882,765
Equity-accounted investees	116,662	-	-	-	-	-	-	116,662
Property, plant and equipment	118,096	1,993	-	-	-	-	-	120,089
Other assets	131,893	11,789	46,289	(59)	30	10,537	-	200,478
<b>Total</b>	<b>2,850,847</b>	<b>478,376</b>	<b>478,879</b>	<b>9,804</b>	<b>72,284</b>	<b>33,636</b>	<b>9,729</b>	<b>3,933,555</b>
<b>Off-Balance sheet</b>								
Restricted investment accounts	26,066	52	-	-	-	-	2,634	28,752
Commitments	30,696	-	-	-	-	-	-	30,696
Financial guarantees	85,711	-	-	-	-	-	-	85,711
Undrawn financing facilities	110,955	-	-	-	1,180	-	-	112,135

#### 4.2.3 Credit exposure by sector

The classification of credit exposure by industry was as follows:

USD 000's

	Trading and manufacturing	Banks and financial institutions	Development Infrastructure	Others	Total
<b>Assets</b>					
Bank balances	-	161,595	-	479	162,074
Placements with financial institutions	-	261,288	12	-	261,300
Financing receivables	-	31,071	235,498	720,657	987,226
Investment securities	-	50,392	147,566	254,653	452,611
Assets acquired for leasing	-	-	265,183	194	265,377
Investment properties	-	-	484,973	-	484,973
Development properties	-	-	882,765	-	882,765
Equity-accounted investees	42,197	22,925	17,965	33,575	116,662
Property, plant and equipment	-	-	17,878	102,211	120,089
Other assets	-	10,929	104,584	84,965	200,478
<b>Total</b>	<b>42,197</b>	<b>538,200</b>	<b>2,156,424</b>	<b>1,196,734</b>	<b>3,933,555</b>
<b>Off-Balance sheet items</b>					
Restricted investment accounts	-	93	52	28,607	28,752
Commitments	10,696	-	20,000	-	30,696
Financial guarantees	-	1,642	47,873	36,196	85,711
Undrawn financing facilities	-	-	22,989	89,146	112,135

#### 4.2.4 Exposure by maturity

The maturity profile of exposures based on maturity was as follows:

USD 000's

	Up to 3 months	3 to 6 months	6 months- 1 year	1 to 3 years	Over 3 years	Maturity not stated	Total
<b>Assets</b>							
Bank balances	162,010	-	-	-	-	64	162,074
Placements with financial institutions	258,565	2,735	-	-	-	-	261,300
Financing Receivables	76,955	35,870	101,429	247,019	525,953	-	987,226
Investment securities	246,897	-	5,288	160,306	40,120	-	452,611
Assets acquired for leasing	459	-	48	3,066	261,804	-	265,377
Investment properties	-	-	-	427,278	57,695	-	484,973
Development properties	-	-	-	232,196	650,569	-	882,765
Equity-accounted investees	-	-	2,470	104,402	9,790	-	116,662
Property, plant and equipment	-	-	-	-	120,089	-	120,089
Other assets	58,740	22,122	4,038	115,578	-	-	200,478
<b>Total assets</b>	<b>803,426</b>	<b>60,727</b>	<b>113,273</b>	<b>1,289,840</b>	<b>1,666,225</b>	<b>64</b>	<b>3,933,555</b>
<b>Off-Balance sheet items</b>							
Restricted investment accounts	8,798	52	13,250	6,652	-	-	28,752
Commitments	10,696	-	-	20,000	-	-	30,696
Financial guarantees	25,000	-	60,711	-	-	-	85,711
Undrawn financing facilities	40,035	16,452	38,301	14,512	2,834	-	112,135

The table above shows the maturity profile of the Group's assets and unrecognized commitments on the basis of their contractual maturity, here available. For other items, (including past due receivables), the maturity profile is on the basis of their expected realization.

#### 4.2.5 Exposures in excess of regulatory limits

The CBB has set single exposure limit of 15% of the Bank's total capital base on exposures to individual and a combined exposure limit of 25% of total capital base of closely connected counterparties. The excess amount of any exposure above the mentioned thresholds must be risk weighted at 800%, unless it is an exempt exposure in accordance with the requirements of CBB rulebook.

The single exposure in excess of 15% of capital base as at 30 June 2017 for closely connected counterparty are as follows:

Counterparty	Excess amount of 15% single exposure limit (USD'000)
Counterparty A	55,648
Counterparty B	27,539

#### 4.2.6 Impaired facilities and past due exposures

As the Bank is not engaged in granting credit facilities in its normal course of business, it does not use a detailed internal credit "grading" model. The current risk assessment process classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. The Bank does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. The collective assessment of impairment in the disclosure is from KHCB. Credit and investment exposures are subject to regular reviews by the Investment units and Risk Management Department. Quarterly updates on the investments / facilities are prepared by the investment unit reviewed by the management and sent to the Board for review.

All impaired and past due credit exposures at 30 June 2017 mainly relate to the development infrastructure sector.

*Movement in impairment provisions during the period:*

USD 000's

	<b>Financing receivables</b>	<b>Financing to projects</b>	<b>Receivable from investment banking services</b>	<b>Other receivables</b>
<b>30 June 2017</b>				
At 1 January	70,150	141,588	153,630	96,025
Charge for the period	6,390	-	-	-
Write back during the period	(1,433)	-	-	(9,100)
Write off during the period	-	-	(144,666)	(24,651)
<b>At 30 June</b>	<b>75,107</b>	<b>141,588</b>	<b>8,964</b>	<b>62,274</b>

*Analysis of past due and impaired and past due but not impaired receivables:*

USD 000's

<b>As at 30 June 2017</b>	<b>Past due but not impaired amounts *</b>	<b>Gross impaired amounts</b>
Up to 3 months	166,460	-
Over 3 months to 1 year	-	136,898
1 to 3 years	20,729	37,853
Over 3 years	3,699	200,774
<b>Total</b>	<b>190,888</b>	<b>375,525</b>

\* The Bank believes that the past due exposures are not further impaired on the basis of the assessment of the level of future expected cash flows from the counterparty and / or the stage of collection of amounts owed to the Bank.

*Geographical concentration of impaired and past due receivables:*

USD 000's

As at 30 June 2017	Gross impaired amounts	Specific impairment allowance	Net exposure				Collective impairment
			Net impaired	Past due but not impaired	Neither past due nor impaired	Total	
GCC	294,761	216,855	77,906	167,040	821,290	1,066,236	11,488
Countries							
Other	3,457	3,448	9	-	1,283	1,292	-
MENA							
Other Asia	-	-	-	3,699	21,233	24,932	-
Europe	63,061	63,061	-	20,149	29,374	49,523	501
UK	14,246	4,569	9,677	-	703	10,380	-
USA	-	-	-	-	16,061	16,061	-
<b>Total</b>	<b>375,525</b>	<b>287,933</b>	<b>87,592</b>	<b>190,888</b>	<b>889,944</b>	<b>1,168,424</b>	<b>11,989</b>

*Industry/sector wise breakdown of impaired and past due receivables:*

USD 000's

As at 30 June 2016	Gross impaired amounts	Specific impairment allowance	Net exposure				Collective impairment
			Net impaired	Past due but not impaired	Neither past due nor impaired	Total	
Development							
Infrastructure	279,332	248,256	31,076	105,015	368,396	504,488	4,881
Banks and financial institution	-	-	-	17,175	29,464	46,639	315
Others	96,193	39,677	56,516	68,698	492,084	617,298	6,793
<b>Total</b>	<b>375,525</b>	<b>287,933</b>	<b>87,592</b>	<b>190,888</b>	<b>889,944</b>	<b>1,168,424</b>	<b>11,989</b>

#### 4.2.6.1 Credit risk mitigation

The credit risk exposures faced by the Bank are primarily in respect of its own short term liquidity related to placements with other financial institutions, and in respect of investment related funding made to its project vehicles. The funding made to the project vehicles are based on the assessment of the underlying value of the assets and the expected streams of cash flows. Since these exposures arise in the ordinary course of the Bank's investment banking activities and are with the project vehicles promoted by the Bank, they are generally transacted without any collateral or other credit risk mitigates.

#### 4.2.7 Related party and intra-group transactions

Related counterparties are those entities which are connected to the Bank through significant shareholding or control or both. The Bank has entered into business transactions with such counterparties in the normal course of its business. For the purpose of identification of related parties the Bank follows the guidelines issued by Central Bank of Bahrain and definitions as per FAS issued by AAOIFI. Detailed break up of related parties transactions and exposures as at and for the six months period ended 30 June 2017 are as follows:

USD 000's

	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose entities	Total
<b>30 June 2017</b>					
<b>Assets</b>					
Financing assets	-	2,565	15,146	13,816	31,527
Equity-accounted investees	104,398	-	-	-	104,398
Investment securities	345	-	6,058	85,274	91,677
Other assets	12,573	-	9,840	19,980	42,393
<b>Liabilities</b>					
Investors' funds	150	-	-	14,444	14,594
Customer current accounts	162	-	6,706	3,605	10,473
Financing liabilities	-	-	35,433	-	35,433
Other liabilities	-	-	20,354	849	21,203
Equity of investment holders	1,753	451	37,316	2,440	41,960

USD 000's

30 June 2017	Associates	Key management personnel	Significant shareholders / entities in which directors are interested	Assets under management including special purpose entities	Total
<b>Income</b>					
Income from investment banking services	-	-	1,268	10,888	12,156
Fee and commission income	-	-	-	699	699
Income from financing assets	-	43	387	-	430
Share of profit of equity-accounted investees	4,013	-	-	-	4,013
Income from investment securities, net	1,588	-	-	422	2,010
<b>Expenses</b>					
Return to investment account holders	(21)	(5)	(207)	(27)	(260)
Finance expense	-	-	(1,275)	-	(1,275)
Staff cost	-	(8,312)	-	-	(8,312)
Other expenses	-	-	-	(202)	(202)

#### 4.2.8 Exposure to highly leveraged and other high risk counterparties

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

#### 4.2.9 Renegotiated facilities

As at 30 June 2017, other assets which are neither past due nor impaired include certain short-term financing to projects which were renegotiated. In certain cases, on a need basis, the Bank supports its project vehicles by providing short-term liquidity facilities. These facilities are provided based on assessment of cash flow requirements of the projects and the projects ability to repay the financing amounts based on its operating cash flows. The assessment is independently reviewed by the management of the Bank. Although no specific collateral is provided, such exposures are usually adequately covered by the value of the underlying project asset cash flows. The terms of the renegotiation primarily include extension of the repayment period. The facilities are provided for as viewed necessary based on periodic impairment assessments.





**4.2.10 Equity investments held in banking book**

The Bank does not have a trading book and hence all of its equity investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include unquoted equity securities, significant investments in commercial entities and associate investments in financial entities.

The RMD provides an independent review of all transactions. A fair evaluation and impairment assessment of investments takes place every quarter with inputs from the Investment department and RMD. Investment updates are periodically reviewed by the Board of Directors. Regular audits of business units and processes are undertaken by Internal Audit.

The Group's equity investments are predominantly in its own projects, which include venture capital, private equity and development infrastructure investment products. The intent of such investments is a later stage exit along with the investors principally by means of sell outs at the project level or through initial public offerings. The Bank also has a strategic financial institutions investment portfolio which is aligned with the long term investment objectives of the Bank.

<b>Information on equity investments (including significant commercial entities)</b>	USD 000's
Privately held	616,936
Quoted in an active market	103
Managed funds	-
Realised gain/ (loss) during the period	1,588
Unrealised gain recognized in the balance sheet not through income statement	-

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

USD 000's

	Gross exposure*	Risk weight	Risk weighted exposure	Capital charge @12.50 %
Listed equity investments	-	100%	-	-
Unlisted equity investments	134,714	150%	202,071	25,259
Significant investment in the common shares of financial entities >10%	10,138	250%	25,345	3,168
Significant investment in the common shares of commercial entities	-	100%	-	-
Other exposure with excess amount over 15%	502,795	800%	4,022,360	502,795
Investment in listed unrated funds	-	100%	-	-
Premises occupied by the Bank	17,878	100%	17,878	2,235
All other holdings of real estate	567,989	200%	1,135,979	141,997
Investments in listed real estate companies	103	300%	309	39
Investment in unlisted real estate companies	277,639	400%	1,110,555	138,819
<b>Total</b>	<b>1,511,256</b>		<b>6,514,497</b>	<b>814,312</b>

\*Includes amounts of risk weighted assets arising from full consolidation of certain investments.

## 5 Market risk

To assess its capital adequacy requirements for market risk in accordance with the CBB capital adequacy module for Islamic Banks, the Bank adopts the standardised approach. Foreign exchange risk charge is computed based on 8% of overall net open foreign currency position of the Bank.

USD 000's

	30 June 2017	Maximum during the period	Minimum during the period
Foreign exchange risk – A	4,148	5,086	4,148
Risk weighted assets – B (A*12.5)	51,850	63,575	51,850
Capital requirement – (B*12.5%)	6,481	7,947	6,481

## 6 Operational risk

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the approach agreed with the CBB. The bank's average gross income for the last three financial years is multiplied by a fixed coefficient alpha of 15% set by CBB and a multiple of 12.5x is used to arrive at the risk weighted assets that are subject to capital charge.

USD 000's

	Average gross income	Risk weighted assets	Capital charge at 12%
Operational risk	92,955	174,365	20,924

### *Litigations, claims and contingencies*

The Group has certain claims and litigations filed against it in connection with projects promoted by the Bank in the past and with certain transactions. Based on the advice of the Bank's external legal counsel, the management is of the opinion that the Bank has strong grounds to successfully defend itself against these claims. Appropriate provision have been made in the books of accounts. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

## 7 Other types of risk

### 7.1 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations on account of a maturity mismatch between assets and liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Whilst this is the policy, the Group's current position is under severe stress with contractual liabilities exceeding liquid assets. Focus has therefore been on extending the maturity of liabilities and raising capital in the form of debt or equity.

The following are the key liquidity ratios which reflect the liquidity position of the Bank.

Liquidity ratios	30 June 2017	Maximum	Minimum
Liquid assets : Total assets	10.76%	10.76%	9.57%
Liquid assets : Total deposits	38.76%	38.76%	37.90%
Short term assets : Short term liabilities*	98.78%	98.78%	55.78%
Illiquid assets : Total assets	89.24%	90.43%	89.24%

\* Based on maturity profile of assets and liabilities of one year or less of the Group.

The maturity profile of the Group's financial liabilities based on contractual cash flows are as follows:

USD 000's

	Up to 3 months	3 to 6 months	6 months- 1 year	1 to 3 years	Over 3 years	Total
Investors' funds	4,935	-	31,603	-	-	36,538
Placements from financial and other institutions	338,835	40,627	267,850	183,715	2,181	833,208
Customer current accounts	137,150	32,345	19,714	11,549	21,785	222,543
Financing liabilities	35,631	10,381	21,586	100,319	36,423	204,340
Other liabilities	28,175	14,308	6,342	183,737	-	232,562
<b>Total liabilities</b>	<b>544,726</b>	<b>97,661</b>	<b>347,095</b>	<b>479,320</b>	<b>60,389</b>	<b>1,529,191</b>
<b>Equity of investment account holders</b>	<b>316,202</b>	<b>95,202</b>	<b>129,790</b>	<b>75,082</b>	<b>266,021</b>	<b>882,297</b>

## 7.2 Management of profit rate risk in the banking book

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of funding. Majority of the Bank's profit based asset and liabilities are short-term in nature, except for certain long term liabilities which have been utilised to fund the Bank's strategic investments in its associates. The following disclosures are of the Group.

US\$ 000's

	Up to 3 months	3 to 6 months	6 months - 1 year	1 to 3 years	Over 3 years	Total
<b>30 June 2017</b>						
<b>Assets</b>						
Placement with financial institutions	258,565	2,735	-	-	-	261,300
Financing assets	76,955	35,870	101,430	247,019	525,952	987,226
Asset acquired for leasing (including lease rental)	456	-	48	3,066	261,807	265,377
Investment securities	246,897	-	-	-	-	246,897
<b>Total assets</b>	<b>582,876</b>	<b>38,605</b>	<b>101,477</b>	<b>250,085</b>	<b>787,757</b>	<b>1,760,800</b>
<b>Liabilities</b>						
Investors' funds	4,935	-	31,603	-	-	36,538
Placements from financial and other institutions	338,835	40,627	267,850	183,715	2,181	833,208
Customer current accounts	137,150	32,345	19,714	11,549	21,785	222,543
Financing liabilities	35,631	10,381	21,586	100,319	36,423	204,340
<b>Total liabilities</b>	<b>516,546</b>	<b>83,353</b>	<b>340,754</b>	<b>295,583</b>	<b>60,394</b>	<b>1,296,629</b>
<b>Equity of investment account holders</b>	316,202	95,202	129,790	75,082	266,021	882,297
<b>Profit rate sensitivity gap</b>	<b>(249,877)</b>	<b>(139,950)</b>	<b>(369,066)</b>	<b>(120,580)</b>	<b>461,347</b>	<b>(418,126)</b>

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market profit rates for a 200bps increase / (decrease) is as below: (assuming no asymmetrical movement in yield curves and a constant balance sheet position)

US\$ 000's

200 bps parallel increase / (decrease)	2016
At 30 June 2017	± 8,362
Average for the period	± 6,010
Maximum for the period	± 8,362
Minimum for the period	± 3,658

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### **7.3 Concentration risk**

This risk arises from exposure to a common set of factors that can produce losses large enough to threaten the Bank's health or ability to maintain its core business.

Concentration risk can arise from exposure to specific classes of assets, sector, country, revenue streams, counterparty, a group of counterparties, etc. Concentration risk is mitigated by limits, diversification by assets, geography counterparty quality etc. The geographical and sector concentration of credit exposures has been disclosed in paragraphs 4.2.2 and 4.2.3.

### **7.4 Counterparty credit risk**

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. In addition to the identified credit risk exposures the Bank's counterparty credit risk from markets as such is limited to the fair value of contracts of foreign exchange risk management instruments the overall exposure to which is usually not significant. For other credit market transactions (primarily inter-bank placements), the Bank has established a limit structure based on the credit quality (assessed based on external rating) of each counter party bank to avoid concentration of risks for counterparty, sector and geography.

The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank. As at 30 June 2017, the Bank did not have any open positions on foreign exchange contracts.

### **7.5 Reputational risk (non-performance risk)**

Reputation risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base, lead to costly litigation that could have an adverse impact on liquidity or capital of the Bank. Being an Islamic Investment Bank, reputation is an important asset and among the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments and poor communication to investors. A well developed and coherently implemented communication strategy helps the Bank to mitigate reputational risks.

### **7.6 Displaced commercial risk**

Displaced Commercial Risk (DCR) refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates. The Bank's DCR primarily arises from the funds accepted in the form of Investment Account Holders (IAH) which is currently not very significant in terms of its size and in comparison to the overall activities of the Bank. The returns to investors on the funds are based on returns earned from short-term placements and hence the Bank is not exposed to a significant repricing risk or maturity mismatch risk in relation to these accounts. In relation to the DCR that may arise from its investment banking and restricted investment account products, the risk is considered limited as the Bank does not have any obligation to provide fixed or determinable returns to its investors. The Bank constantly monitors all potential risks that may arise from all such activities as part of its reputational risk management.

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## **7.7 Other risks**

Other risks include strategic, fiduciary risks, regulation risks etc. which are inherent in all business activities and are not easily measurable or quantifiable. However, the Bank has proper policies and procedure to mitigate and monitor these risks. The Bank's Board is overall responsible for approving and reviewing the risk strategies and significant amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank. The Bank as a matter of policy regularly reviews and monitors financial and marketing strategies, business performance, new legal and regulatory developments and its potential impact on the Bank's business activities and practices.

## **8 Product disclosures**

### **8.1 Equity of Investment Account Holders (EIAH)**

The Bank does not have significant amount under EIAH and does not use EIAH as a main source of its funding. The Bank does not, as a focused product proposition, offer EIAH products to its clients. The current EIAH deposits have been accepted on a case-by-case basis considering the Bank's relationship with its customers. The EIAH holder authorises the Bank to invest the funds in any investments approved by the Bank's Sharia'a Board without any preconditions. All EIAH accounts are on profit sharing basis, but the Bank does not guarantee any particular level of return. In accordance with the principles of Sharia'a, the entire investment risk is on the investor. Any loss arising from the investment will be borne by the customer except in the case of the Bank's negligence. The Bank charges a Mudarib fee as its share of profit. Early withdrawal is at the discretion of the Bank and is subject to the customer giving reasonable notice for such withdrawal and agreeing to forfeit a share of the profit earned on such account.

Currently, the Bank comingles the EIAH funds with its funds for investments only into interbank placements and hence is not subject to any significant profit re-pricing or maturity mismatch risks. The Bank has an element of displaced commercial risk on EIAH which is mitigated by setting up and maintaining an appropriate level of Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) to smoothen return to EIAH holders.

Profit Equalisation reserve (PER) is created by allocations from gross income of the Mudarabah before adjusting the Mudarib (Bank) share. Investment Risk Reserves (IRR) comprises amounts appropriated out of the income of investment account holders after deduction of the Mudarib share of income. Administrative expenses incurred for management of the funds are borne directly by the Bank and are not charged separately to investment accounts. All terms of the EIAH are agreed upfront with the customers and form part of the agreement with the customer. Till date, the Bank has not made any withdrawals on PER or IRR. Any movements on these accounts are therefore only on account of additional reserves added. The historical returns data on EIAH of the Bank is as follows:

	<i>USD 000's</i>	
	<b>30 June 2017</b>	<b>31 December 2016</b>
Total EIAH as at 30 June / 31 December	1,157	1,152
Average EIAH balance	1,143	1,280
Average rate of return earned (%)	0.44%	0.88%
Total profits on EIAH assets earned	6	12
Distributed to investor	5	11
Allocated to IRR	0.1	0.2
Allocated to PER	0.2	0.4
Bank's share of profits	0.3	0.6
Average declared rate of return (%)	0.44%	0.88%

*The information disclosed above pertains to EIAH directly promoted by the Bank..*

## **8.2 Restricted investment accounts**

The Bank offers Restricted Investment Accounts (“RIAs”) to both financial institutions and high net worth individuals in the GCC. All RIA product offering documents (“Offering Document”) are drafted and issued with input from the Bank’s Investment Banking, Shari’a, Financial Control, Legal and Risk Management Departments to ensure that the Investors have sufficient information to make an informed decision after considering all relevant risk factors. The Bank has guidelines for the development, management and risk mitigation of its’ RIA investments and for establishment of sound management and internal control systems to ensure that the interests of the investment account holders are protected at all times. Wherever it is necessary for the Bank establishes Special Purpose Vehicles (SPVs) for management of the investment. The Bank has a Board approved SPV Governance framework in place to equip the Board in ensuring that the management of such SPVs are conducted in a professional and transparent manner.

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The Bank considers the following in discharge of its fiduciary responsibilities:

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Shari’a principles and the CBB regulations;
- Appropriately highlighting to the Investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the Investor before accepting the investment funds;
- Completing all necessary legal and financial due diligence on investments undertaken on behalf of the Investors with the same level of rigor as the Bank requires for its’ own investments;
- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;



- Preparing and disseminating periodical investment updates to Investors on a regular basis during the tenor of the investment;
- Distributing the capital and profits to the Investor in accordance with the terms of the offering document; and
- In all matters related to the RIA, RIA SPV(s) and the investment, act with the same level of care, good faith and diligence as the Bank would apply in managing its own investments.

Within the Bank, the abovementioned responsibilities and functions are provided, managed and monitored by qualified and experienced professionals from the Investment Banking, Shari'a, Financial Control, Legal, Investment Administration and the Risk Management Departments.

The restricted investment accounts primarily represents the investments in the projects promoted by the Bank and managed on a portfolio basis on behalf of investors.

## **9 Financial performance and position**

Following are basic quantitative indicators of the financial performance:

	2017 (6 months)	2016 (12 months)	2015 (12 months)	2014 (12 months)	2013 (12 months)
Return on average equity	4.80%	29.06%	1.80%	4.79%	-4.00%
Return on average assets	1.73%	7.83%	0.44%	1.49%	-1.99%
Cost-to-Income-Ratio*	45.30%	21.56%	68.14%	58.70%	-651.92%

\* Cost has been considered excluding impairment allowances.