Al Baraka Islamic Bank B.S.C. (c)

Basel III, Pillar III Disclosures

31 December 2015

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1 INTRODUCTION

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Commercial Registration of the Bank was renewed on 7 January 2008 to change the status from exempt closed joint stock company to closed joint stock company. The Bank operates under a Retail Bank's licence number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has six commercial branches in the Kingdom of Bahrain.

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, Ijara financing and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Building 238, Road 1704, Block 317, Manama, Kingdom of Bahrain.

For details on the Group's subsidiary as of 31 December 2015, refer note 2 of the consolidated financial statements of the Group.

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain (“CBB”) requirements outlined in its Public Disclosure Module (“PD”), Section PD-3: Public Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks.

2 CAPITAL ADEQUACY

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the standardised approach for its credit risk, basic indicator approach for its operational risk and standardised measurement approach for its market risk. The CBB capital adequacy requirement is minimum accepted level for capital adequacy. The credit committee of the Group identify and approve assets suitable for funding by equity of Investment Accountholders ("IAH").

For the purpose of computing the Capital Adequacy Ratio (“CAR”) and preparation of the PIRI form, the Group's financial subsidiary (Al Baraka Bank (Pakistan) Limited) and significant investment Itqan Capital Company are consolidated, as per the requirement of the CA Module, effectively from 01 January 2015 based on the approval obtained from the CBB. As a result of consolidation of Itqan Capital for regulatory purposes, the amounts in certain tables within the quantitative disclosures might not match the amounts reported in the audited consolidated financial statements of the Group. Therefore, they might not be comparable with the audited financial statements in certain cases and accordingly the comparative information within the disclosures represent unconsolidated balances with respect to Bank’s investment in Itqan Capital and might not be comparable with the disclosures of the current year ended 31 December 2015.

Table – 1. Capital structure

The following table summarises the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation in accordance with Basel III requirements as of:

	31 December 2015		
	CET 1	***AT1***	***Tier 2***
	US $ '000	***US $ '000***	***US $ '000***
Common Equity Tier 1 (CET1)			
Issued and fully paid ordinary shares	122,458	-	-
General reserves	8,687	-	-
Legal / Statutory reserves	22,478	-	-
Retained earnings	884		
Current interim cumulative net income / losses	2,037	-	-
Unrealized gains and losses on available for sale		-	-
financial instruments	(416)	-	-
Gains and losses resulting from converting foreign currency		-	-
subsidiaries to the parent currency	(11,789)	-	-
Other reserves	(173)	-	-
Total CET1 capital before minority interest	144,166	-	-
Minority interest in banking subsidiaries	19,370	-	-
Total CET1 capital prior to regulatory adjustments	163,536	-	-
Less:			
Goodwill	34,741	-	-
Intangible assets	505	-	-
Deferred tax assets	6,716	-	-
Total CET 1 capital after the regulatory adjustments above (CET 1a)	**121,574**	**-**	**-**

2 CAPITAL ADEQUACY (continued)

Table – 1. Capital structure (continued)

	31 December 2015		
	CET 1	***AT1***	***Tier 2***
	US $ '000	***US $ '000***	***US $ '000***
Other Capital (AT1 & T 2)			
Instruments issued by parent company	-	-	6,000
Instruments issued by subsidiaries	-	48	14,319
Assets revaluation reserve - property, plant, and equipment	-	-	1,193
General loan loss provisions	-	-	2,130
Total Available AT1 & T2 Capital		**48**	**23,642**
Total CET 1 Capital	**121,574**		
Total T1 Capital		**121,622**	
Total Capital			**145,264**

The following table summarises the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation in accordance with Basel II requirements as of:

	31 December 2014	
	Tier 1	*Tier 2*
	US $ '000	*US $ '000*
Components of capital		
Issued and fully paid ordinary shares	122,458	-
General reserves	8,687	-
Legal / statutory reserves	21,980	-
Others	(9,766)	-
Retained profit brought forward	8,453	-
Minority interest in consolidated subsidiaries	18,111	-
Less:		
Goodwill	18,407	-
Unrealised gross losses arising from fair valuing equity securities	45	-
Current interim cumulative net losses		
Tier 1 Capital before PCD deductions	151,471	
Profit equalization reserve		574
Investment risk reserve		2,338
Subordinated term debt		20,508
Collective impairment loss provision		1,488
Tier 2 Capital before PCD deductions		24,909
Total available capital		176,380
Deductions		
Unconsolidated majority-owned or -controlled banking, securities or other financial entities	(27,171)	(27,171)
Excess amount over maximum permitted large exposure limit	(1,269)	(1,269)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	(3,531)	-
Total Deductions	(31,970)	(28,440)
Tier 1 and Tier 2 eligible capital	119,500	-
Total eligible capital		119,500

2 CAPITAL ADEQUACY (continued)

Table – 2. Capital requirement by type of islamic financing contracts

The following table summarises the capital requirements by type of islamic financing contracts:

	31 December 2015 Capital requirements US $ '000	*31 December 2014 Capital requirements US $ '000*
Type of islamic financing contracts		
Sales receivables	**19,937**	22,044
Ijara Muntahia Bittamleek & Ijara income receivable	**10,948**	7,920
Musharaka	**5,537**	4,359
	36,422	34,323

Table – 3. Capital requirement for market risk

The following table summarises the amount of exposures subject to standardised approach of market risk and related capital requirements as of:

	31 December 2015		*31 December 2014*	
	Self Financed US $ '000	***URIA US $ '000***	*Self Financed US $ '000*	*URIA US $ '000*
Market risk - standardised approach				
Sukuk risk	**-**	**-**	-	60
Foreign exchange risk	**6,017**	**-**	5,772	-
Total of market risk - standardised approach	**6,017**	**-**	5,772	60
Multiplier	**12.50**	**12.50**	12.50	12.50
	75,213	**-**	72,150	750
Eligible Portion for the purpose of the calculation	**100%**	**30%**	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	**75,213**	**-**	72,150	224
Total market RWE		**75,213**		72,374
		12.50%		12.00%
Minimum capital requirement		**9,402**		8,685

Table – 4. Capital Requirements for operational risk

The following table summarises the amount of exposures subject to basic indicator approach of operational risk and related capital requirements as of:

	31 December 2015 US $ '000	*31 December 2014 US $ '000*
Indicators of operational risk		
Average gross income	**86,867**	72,331
Multiplier	**12.5**	12.5
	1,085,838	904,138
Eligible Portion for the purpose of the calculation	**15%**	15%
Total operational RWE	**162,876**	135,621
	12.50%	12.00%
Minimum capital requirement	**20,359**	16,274

2 CAPITAL ADEQUACY (continued)

Management of Operational Risk

The policy framework envisages a fully functional risk framework which documents operational risk identification, assessment, control, mitigation and reporting. The Operational Risk Management Framework ("Op. Risk Framework"), approved by the Board, has been developed with the objective to ensure that operational risks within the Group are identified, monitored, managed and reported in a structured, systematic and consistent manner.

The management of Operational Risk has two key objectives:

• To minimise the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering an extreme (or unexpected) loss; and

• To improve the effective management of the Bank and strengthen its brand and external reputation.

The Bank has implemented a system that supports multiple operational risk management processes and tools including operational risk event reporting, control self-assessment, key risk indicators, tracking of issues or action plans and operational risk reporting. A key component of the Op. Risk Framework is a set of a core operational risk standards which provides guidance on the baseline control to ensure a controlled and sound operating environment.

The Bank has comprehensive system of internal controls, systems and procedures to monitor and mitigate risk. The Bank also institutionalised the approval process of new product, services, and outsourcing to identify the risk inherent in such activities.

Information Technology (IT) risk is managed in accordance to an IT Risk Management Framework (which covers risk governance, communication, monitoring, assessment, mitigation and acceptance), supported by a set of IT policies and standards, control processes and risk mitigation programs. Centralised functional control is exercised over all computer system developments and operations.

Compliance in the Bank is controlled centrally under the Bank Compliance Officer who is approved by the CBB to ensure divisional compliance in all of the Bank’s operations and activities. The Internal audit function of the Bank through the Risk Based Internal Audit, compliments the Bank's ability to control and mitigate risk.

The Bank is continually enhancing the Business Continuity Planning (BCP) programme for an ongoing and actively management of the Bank’s major critical business operations and activities at the Head Office, data centre, and branches locations.

The Bank continually refines and strengthens existing policies, procedures and internal controls measures; conduct internal reviews, compliance monitoring, and comprehensive audits to prevent or minimise unexpected losses, and when necessary to cope with the growth in the Bank’s size and complexity.

2 CAPITAL ADEQUACY (continued)

Table – 5. Capital adequacy ratios

The following are capital adequacy ratios for total capital and tier 1 capital as of:

	31 December 2015			*31 December 2014*	
	US $	***US $***	***US $***	*US $*	*US $*
	Total capital ratio	**Tier 1 capital ratio**	**CET 1 Capital Ratio**	Total capital ratio	Tier 1 capital ratio
Capital adequacy ratio	**16.97%**	**14.21%**	**14.20%**	15.39%	15.39%
Al Baraka Bank Pakistan Limited	**25.17%**	**19.99%**	**13.91%**	27.02%	18.98%
Itqan Capital	**34.48%**	**34.48%**	**34.48%**	-	-

**The subsidiaries' Capital adequacy ratio computed in accordance with the CBB requirements.*

Legal restrictions on capital and income mobility

Distribution of profits, mobilization of capital, realization of reserves and equivalent funds from subsidiaries are subject to compliance with local laws and regulations prevalent in countries of their incorporation. Further, the Group can support its subsidiaries after obtaining procedural approvals from Central Bank of Bahrain. However, there is no specific legal restriction on the Group to place funds in the form of deposit or capital.

Table - 6. The Group's subsidiary capital adequacy ratios as per local laws

The following is the Group's subsidiary, ABPL, capital adequacy ratio prepared on the basis of SBP requirements, which may differ from the CBB requirements, as of:

	31 December 2015			*31 December 2014*	
	US $ '000	***US $ '000***	***US $ '000***	*US $ '000*	*US $ '000*
	Total capital ratio	**Tier 1 capital ratio**	**CET 1 Capital Ratio**	Total capital ratio	Tier 1 capital ratio
Capital adequacy ratio	**14.47%**	**11.62%**	**11.62%**	14.24%	10.50%

3 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees, guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors. The Group risk management strategies have been effectively implemented during the year in line with the objective defined.

a) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

Table – 7. Credit risk exposure

The following table summarises the amount of gross funded and unfunded credit exposures and average gross funded and unfunded exposures as of:

	31 December 2015				*31 December 2014*			
	Self financed		***Financed by IAH***		*Self financed*		*Financed by IAH*	
	Total gross credit exposure US $ '000	****Average gross exposure over the period US $ '000***	***Total gross credit exposure US $ '000***	****Average gross credit risk exposure over the period US $ '000***	*Total gross credit exposure US $ '000*	**Average gross credit exposure over the period US $ '000*	*Total gross credit exposure US $ '000*	**Average gross credit exposure over the period US $ '000*
Funded								
Cash and balances with banks and financial institutions	**171,873**	**199,268**	**66,048**	**95,131**	203,164	185,040	96,842	98,265
Sales receivables	**3,454**	**6,458**	**606,230**	**592,279**	5,152	7,428	615,838	624,199
Mudaraba financing	**-**	**-**	**-**	**-**	-	5	-	-
Ijara Muntahia Bittamleek	**19,475**	**15,175**	**246,923**	**239,746**	-	107	221,040	173,574
Musharaka	**-**	**-**	**154,260**	**137,103**	-	3,360	116,382	97,302
Investments	**291,142**	**265,395**	**132,464**	**177,269**	242,737	210,786	199,237	162,452
Investment in real estate	**7,446**	**6,342**	**-**	**-**	5,974	5,880	-	-
Ijara income receivables	**1,101**	**907**	**22,365**	**21,592**	-	97	13,144	18,735
Premises and equipment	**27,214**	**24,728**	**-**	**-**	23,273	23,447	-	-
Other assets	**50,583**	**48,171**	**16,304**	**20,798**	46,611	70,113	27,220	25,878
Unfunded exposure								
Contingencies and commitments	**174,285**	**177,317**	**-**	**-**	189,364	193,700	-	-
	746,573	**743,761**	**1,244,594**	**1,283,918**	716,275	699,963	1,289,703	1,200,405

*Average balances are computed based on quarter end balances.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 8. Credit risk – geographic breakdown

The following table summarises the geographic distribution of exposures, broken down into significant areas by major types of credit exposure as of:

	31 December 2015				*31 December 2014*			
	Self financed *geographic area		***Financed by IAH *geographic area***		*Self financed *geographic area*		*Financed by IAH *geographic area*	
	Middle East US $ '000	***Other Asian countries US $ '000***	***Middle East US $ '000***	***Other Asian countries US $ '000***	*Middle East US $ '000*	*Other Asian countries US $ '000*	*Middle East US $ '000*	*Other Asian countries US $ '000*
Cash and balances with banks	**44,260**	**127,613**	**37,851**	**28,197**	58,504	144,660	40,348	56,494
Sales receivables	**3,454**	**-**	**356,758**	**249,472**	5,153	-	320,587	295,250
Ijara Muntahia Bittamleek	**19,475**	**-**	**201,884**	**45,039**	-	-	178,841	42,200
Musharaka	**-**	**-**	**101**	**154,159**	-	-	3,042	116,258
Investments	**171,123**	**120,019**	**106,128**	**26,336**	169,176	73,559	71,102	125,217
Investment in real estate	**7,446**	**-**	**-**	**-**	5,974	-	-	-
Ijara income receivables	**1,101**	**-**	**20,412**	**1,953**	-	-	11,552	1,592
Premises and equipment	**11,713**	**15,501**	**-**	**-**	8,375	14,898	-	-
Other assets	**10,444**	**40,139**	**1,861**	**14,443**	5,702	40,909	5,867	21,353
	269,016	**303,272**	**724,995**	**519,599**	252,884	274,026	631,339	658,364

* Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by management and the Board of Directors. For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries predominantly includes operations in Pakistan.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 9. Credit risk – counterparty type breakdown

The following table summarises the distribution of funded and unfunded exposure by counterparty type as of:

	31 December 2015				*31 December 2014*			
	Self financed		***Financed by IAH***		*Self financed*		*Financed by IAH*	
	Funded US $ '000	***Unfunded US $ '000***	***Funded US $ '000***	***Unfunded US $ '000***	*Funded US $ '000*	*Unfunded US $ '000*	*Funded US $ '000*	*Unfunded US $ '000*
Cash items	**11,344**	**-**	**12,352**	**-**	9,789	-	8,935	-
Claims on Sovereigns	**332,128**	**-**	**64,549**	**-**	234,729	-	184,288	-
Claims on Public Sector Entities	**55,482**	**3,907**	**52,530**	**-**	18,153	1,760	71,992	-
Claims on banks	**42,559**	**41,604**	**256,581**	**-**	103,163	73,360	185,222	-
Claims on corporate	**6,862**	**128,334**	**612,872**	**-**	13,539	112,747	638,951	-
Claims on Investment Firms	**-**	**-**	-	**-**	-	-	1,519	-
Mortgage	**-**	**-**	**155,495**	**-**	-	-	92,162	-
Past dues receivables	**-**	**-**	**34,733**	**-**	673	-	55,501	-
Regulatory Retail Portfolio	**440**	**-**	**28,662**	**-**	737	-	16,640	-
Equity investment	**11,243**	**-**	**350**	**-**	56,441	-	341	-
Investment in Funds	**1,050**	**-**	**5,000**	**-**	1,050	-	5,021	-
Holding of Real Estate	**58,421**	**-**	**7,298**	**-**	36,615	-	3,231	-
Other assets	**52,759**	**440**	**14,172**	**-**	52,022	1,497	25,900	-
	572,288	**174,285**	**1,244,594**	-	526,911	189,364	1,289,703	-

For the purpose of rating, the Group is using External Credit Assessment Institutions (ECAIs) Standard & Poors, Moodys, Capital Intelligence, Fitch and Islamic Rating Agency (IRA) for assigning risk weight to assets.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 10. Credit risk – related party transactions

The following table summarises the balances with related parties as of:

	31 December 2015		*31 December 2014*	
	Self financed	***Financed by IAH***	*Self financed*	*Financed by IAH*
	Funded	***Funded***	*Funded*	*Funded*
	US $ '000	***US $ '000***	***US $ '000***	*US $ '000*
Cash and balances with bank	**-**	**209**	-	241
Sales Receivable	**-**	**35,499**	-	49,637
Musharaka	**-**	**1,420**	-	1,305
Ijara Muntahia Bittamleek	**-**	**740**	-	2,439
Investments	**17,283**	**-**	17,885	278
Ijara Income Receivable	**-**	**78**	-	64
Other Assets	**2,672**	**1**	2,537	4,731
Contingencies and commitments	**10,242**	**-**	11,989	-
	30,197	**37,947**	32,411	58,695

The Group's intra-group transactions are as follows:

	31 December 2015	*31 December 2014*
	Self financed	*Self financed*
	US $ '000	*US $ '000*
Assets		
Investment in a subsidiary	**61,961**	61,961
Subordinated debt	**19,500**	11,000
Equity investment in Itqan Capital	**54,342**	54,342
Other receivables	**952**	952
	136,755	128,255
Contingencies and commitments		
Acceptances	**2,385**	-
Guarantees	**285**	285
Letters of credit	**187**	1,317
	2,857	1,602

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 11. Credit risk – concentration of risk

The Group follows the Central Bank of Bahrain's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the Central Bank of Bahrain Rulebook for Islamic Banks.

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2015:

Counterparties *	***Funded*** ***US $ '000***
Counterparty # 1	**121,684**
Counterparty # 2	**104,857**
Counterparty # 3	**88,163**
Counterparty # 4	**79,522**
Counterparty # 5	**44,181**
Counterparty # 6	**42,568**
Counterparty # 7	**39,389**
Counterparty # 8	**32,411**
Counterparty # 9	**28,226**

* Some exposures include outstanding amount raised as off balances sheet equity of investment accountholders and other off balance sheet items. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 11. Credit risk – concentration of risk (continued)

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2014:

Counterparties *	*Funded* *US $ '000*
Counterparty # 1	167,449
Counterparty # 2	78,537
Counterparty # 3	57,288
Counterparty # 4	54,342
Counterparty # 5	51,193
Counterparty # 6	48,685
Counterparty # 7	42,423
Counterparty # 8	31,259
Counterparty # 9	27,466
Counterparty # 10	22,493
Counterparty # 11	20,824

* These exposures includes outstanding amount raised as off balances sheet equity of investment accountholders and other off balance sheet items. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

Past due and non-performing facilities

Past due represents instalments that are not received on the contractual repayments date. The Group defines non-performing facilities as the facilities that are overdue for period of 90 days or more. These exposures are placed on a non-accrual status with income being recognised to the extent that it is actually received/distributed. It is the Group's policy, except for the subsidiary which is following their local regulations, that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due, not only the overdue instalments/payments.

Highly leveraged counter parties

Highly leveraged counter parties are determined by the Credit Department on case by case basis according to industry types and credit policies and procedures of the Group. Each industry has clear established leverage ratios set in place internally which are considered threshold for measuring how leveraged is our counterpart (Low, Medium/Acceptable or High). Any excess over such determined ratios, the customer is classified as highly leveraged with high risk. This ratio will have a big impact on Internal Rating / Grading of the customer.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 12. Credit risk – credit quality of Islamic financing contracts by counterparty type

The following table summarises the aging of non performing facilities disclosed by counterparty type as of:

	31 December 2015					31 December 2014				
			Aging of non performing facilities					Aging of non performing facilities		
	Past due but performing US $ '000	Non-performing Islamic financing contracts US $ '000	90 days to 1 year US $ '000	1 year to 3 years US $ '000	Over 3 years US $ '000	Past due but performing US $ '000	Non-performing Islamic financing contracts US $ '000	90 days to 1 year US $ '000	1 year to 3 years US $ '000	Over 3 years US $ '000
Corporates	**27,938**	**36,312**	**14,404**	**2,755**	**19,152**	8,721	60,335	29,548	12,733	18,054
Investment Firms	**5**	**18,805**	**-**	**-**	**18,805**	-	34,974	-	-	34,974
Individuals	**374**	**3,431**	**2,543**	**353**	**535**	206	5,588	3,914	1,121	552
Others	**12,581**	**10,117**	**1,429**	**1,643**	**7,046**	7,483	4,930	63	1,670	3,196
	40,898	**68,665**	**18,376**	**4,751**	**45,538**	16,410	105,827	33,525	15,524	56,776

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 13. Credit Risk – provision against financing facilities by counterparty type

The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 31 December 2015:

	Specific allowances						
	Opening Balance	***Charges during the year***	***Write-Back during the year***	***Write-offs during the year***	***Transferred to investment risk reserve***	***Exchange difference on opening balance***	***Balance at the end of the year***
	US $ '000	***US $ '000***	***US $ '000***	***US $ '000***	***US $ '000***	***US $ '000***	***US $ '000***
Corporates	**24,637**	**2,810**	**(2,415)**	**(94)**	**-**	**(1,002)**	**23,936**
Investment Firms	**21,936**	**3,870**	**(3,870)**	**(15,481)**	**-**	**(345)**	**6,110**
Individuals	**879**	**179**	**(188)**	**(82)**	**-**	**(22)**	**766**
Others	**2,631**	**1,244**	**(633)**	**(13)**	**-**	**(107)**	**3,122**
	50,083	**8,103**	**(7,106)**	**(15,670)**	**-**	**(1,476)**	**33,934**

A collective provision of US $ 642 thousand was charged during the year and accumulated balance has been increased to US $ 2,130 thousand as at 31 December 2015.

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 2014:

	Specific allowances						
	Opening Balance	*Charges during the year*	*Write-Back during the year*	*Write-offs during the year*	*Transferred from investment risk reserve*	*Exchange difference on opening balance*	*Balance at the end of the year*
	US $ '000	*US $ '000*	*US $ '000*	*US $ '000*	*US $ '000*	*US $ '000*	*US $ '000*
Corporates	23,769	6,437	(6,682)	(32)	-	1,145	24,637
Investment Firms	22,810	-	(500)	-	-	(374)	21,936
Individual	1,615	226	(1,063)	-	79	22	879
Others	2,151	541	(165)	-	-	104	2,631
	50,345	7,204	(8,410)	(32)	79	897	50,083

A collective provision of US $ 748 thousand was charged during the year and accumulated balance has been increased to US 1,488 thousand as at 31 December 2014.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 14. Credit risk – non performing facilities and provisions

The following table summarises the total non performing facilities and provisions disclosed by geographical area as of:

	31 December 2015			*31 December 2014*		
	Non-performing Islamic financing contracts US $ '000	***Specific provision US $ '000***	***Collective provision* US $ '000***	*Non-performing Islamic financing contracts US $ '000*	*Specific provision US $ '000*	*Collective provision US $ '000*
Middle East	**30,069**	**6,484**	**1,860**	64,261	22,265	1,323
Other Asian countries	**38,596**	**27,450**	**270**	41,565	27,818	165
	68,665	**33,934**	**2,130**	105,826	50,083	1,488

* Collective provision is calculated based on estimates by the management keeping in view general economic and market conditions, effecting investment and financing portfolio of the Group.

Table – 15. Credit risk – restructured Islamic financing contracts

The following table summarises the total outstanding Islamic financing contracts that were restructured during the year as of:

	31 December 2015 Total US $ '000	*31 December 2014 Total US $ '000*
Restructured Islamic financing contracts	**16,213**	11,359

There is no significant impact of the renegotiated Islamic financing contracts on the provisions as well as present and future earnings. In addition, the magnitude of the restructuring activities is immaterial.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 16. Counterparty credit risk exposure

The following table summarises the counterparty credit risk exposure covered by collateral as of:

	31 December 2015		*31 December 2014*	
	Gross positive FV of contracts	**** Collateral held***	Gross positive FV of contracts	** Collateral held*
	US $ '000	***US $ '000***	*US $ '000*	*US $ '000*
Cash and balances with banks and financial institutions	**237,921**	**-**	300,006	-
Sales receivables	**609,684**	**397,567**	620,990	417,441
Ijara Muntahia Bittamleek	**266,398**	**113,649**	221,041	115,342
Musharaka	**154,260**	**154,159**	119,300	116,258
Investments	**423,606**	**-**	439,055	-
Investment in real estate	**7,446**	**-**	5,974	-
Ijara income receivables	**23,466**	**-**	13,144	-
Premises and equipment	**27,214**	**-**	23,273	-
Other assets	**66,887**	**-**	73,832	-
	1,816,882	**665,375**	1,816,615	649,041

* Collaterals values have been restricted to outstanding exposure of financing facilities.

Table – 17. Counterparty credit risk exposure

The following table summarises exposure by type of Islamic financing contract that is covered by eligible collateral after the application of haircuts as of:

	31 December 2015		*31 December 2014*	
	Gross positive FV of contracts	***Collateral held***	*Gross positive FV of contracts*	*Collateral held*
	US $ '000	***US $ '000***	*US $ '000*	*US $ '000*
Ijara Muntahia Bittamleek & Ijara income receivable	**289,864**	**82,512**	234,185	83,383

b) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

Table – 18. Market risk capital requirements

The following table summarises the capital requirement for each category of market risk as of:

	31 December 2015		*31 December 2014*	
	Equity/ Sukuk risk	***Foreign exchange risk***	*Equity/ Sukuk risk*	*Foreign exchange risk*
	US $ '000	***US $ '000***	*US $ '000*	*US $ '000*
RWE	**-**	**75,213**	224	72,150
Capital requirements	**-**	**9,402**	27	8,658
Maximum value of RWE	**3**	**75,428**	224	73,633
Minimum value of RWE	**-**	**70,968**	-	71,651

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 19. Equity position risk in Banking Book

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2015:

	Total gross exposure US $ '000	***Average gross exposure over the period US $ '000***	***Publicly held US $ '000***	***Privately held US $ '000***	***Capital requirement US $ '000***
Sukuk	**375,722**	**392,309**	**161,001**	**214,720**	**4,201**
Managed funds	**6,000**	**6,020**	**-**	**6,000**	**306**
Private equity	**14,643**	**14,295**	**11,237**	**3,406**	**1,989**
Real estate related	**27,243**	**31,386**	**-**	**27,243**	**12,831**
	423,608	**444,010**	**172,238**	**251,369**	**19,327**

Investments stated at a carrying amount of US $ 161,002 thousand are placed in custody of a financial institution against a borrowing line.

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2014:

	Total gross exposure US $ '000	*Average gross exposure over the period US $ '000*	*Publicly held US $ '000*	*Privately held US $ '000*	*Capital requirement US $ '000*
Sukuk	345,366	320,836	137,418	207,947	10,240
Managed funds	6,021	6,018	-	6,021	205
Private equity	59,855	36,702	2,162	57,693	2,661
Real estate related	10,416	7,521	-	10,416	1,957
	421,658	371,077	139,580	282,077	15,063

Investments stated at a carrying amount of US $ 136,114 thousand are placed in custody of a financial institution against a borrowing line.

Table – 20. Equity gains or losses in Banking Book

The following table summarises the cumulative realised and unrealised gains or (losses) during the year ended:

	31 December 2015 US $ '000	*31 December 2014 US $ '000*
Cummulative realised gains arising from sale or liquidation	**901**	4,118
Total unrealised losses recognised in the balance sheet but not through P&L	**(416)**	(45)
Unrealised gross losses included in Tier One Capital	**(416)**	(45)
Assets revaluation reserve - property, plant, and equipment	**1,193**	-

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Bank invests its own funds separately or jointly with amount received from Equity of Investment Account Holders. These funds received are managed in accordance with Shari' a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Bank to exercise its fiduciary responsibilities. The Group is authorised by Equity of Investment Accountholders to invest the funds on the basis of Mudaraba, Murabaha, Salam, Ijara transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in the Group's credit risk, liquidity risk, and other risks policies of the group. The strategic objectives of the investments of the funds are:

a) Investment in Shari' a compliant opportunities;

b) Targeted returns;

c) Compliance with credit and Investment policy and overall business plan; and

d) Diversified portfolio.

Funds are invested in Shari' a compliant commercial or consumer financing as well as short, medium, and long term investments excluding strategic investments. A due diligence process is in place which is consistent with business and risk policy guidelines of the Group after deduction of mandatory reserves and making allowance for short-term liquidity requirements.

Under all the aforesaid arrangement the Group can commingle the IAH funds with its own funds (Self-Financed). Some of the assets right from inception is designated exclusively as Self Financed by the Group. These self financed assets are deducted from total assets to arrive at "Jointly Financed Assets". To segregate the Jointly Financed Assets into self financed and Investment accountholders (IAH), the Group applies formula to identify the proportional share of each fund's in the Jointly Financed Assets .

The Group's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These funds are invested in Islamic modes of financing and investments including murabaha, musharaka, mudaraba and ijara. The Group is offering these accounts for saving and term accounts ranging from 3 months to 5 years. There are no separate designations for portfolio managers, investment advisors and trustee. IAH accounts are managed at Head Office and subsidiary levels by relevant departments.

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income. In some cases, equity of IAH withdrawn before maturity and without completing three months are not entitled to any income. Equity of IAH held for more than three months and withdrawn before their maturity are entitled to income only after deducting a penalty charge equivalent to three months income.

The basis applied by the Group in arriving at the investment accountholders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and equity of investment accountholders) times average funds of equity of IAH].

Investment risk reserve

The Group deducts investment risk reserve as per approved policy from time to time from the profit distributable to equity of investment accountholders of its Bahrain operations, after allocating the Mudarib share in order to cater against future losses for equity of IAH.

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Profit equalisation reserve

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

Displaced commercial risk

The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Group has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the segment level (Pakistan, Bahrain offshore, Bahrain Commercial).

Complaint procedure / awareness programs

A complaint management system is established; procedures on handling complaints have been developed, new Complaints form has been introduced, a number of complaints channels are available where customers can communicate through branches, call centre, email, dedicated staff number and web-site. Monitoring procedures have been developed as well.

The Group uses it's website, print and electronic media for consumer awareness program and to inform about new products.

Penalty charges

A financial penalty of US $ 0.4 thousand (2014: US $ 5.5 thousand) was charged by the CBB during the year ended 31 December 2015.

A financial penalty of US $ 3 thousand (2014: US $ 297 thousand) was charged by SBP to the Group's subsidiary in Pakistan during the year ended 31 December 2015.

Non-Shari'a complaint income

The Group has received US $ 348 thousand (2014: US $ 392 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

Table – 21. Equity of Investment Accountholders

The following table summarises the breakdown of equity of IAH and the analysis of profit equalisation reserve, investment risk reserve and return on equity of IAH as of:

	31 December 2015	*31 December 2014*
	US $ '000	*US $ '000*
IAH - Banks	**217,415**	235,105
IAH - Non-banks	**1,024,282**	1,051,686
Profit equalisation reserve	**558**	574
Investment risk reserve	**2,339**	2,338
	1,244,594	1,289,703

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 22. Ratio of reserves to total IAH

The following table summarises the ratio of reserves to the total amount of equity of IAH as of:

	31 December 2015	*31 December 2014*
PER to IAH (%)	**0.04%**	0.04%
IRR to IAH (%)	**0.19%**	0.18%

Table – 23. Equity of Investment Accountholders by Islamic financing product type

The following table summarises the percentage of IAH financing for each type of Shari's-compliant contract to total equity of IAH financing as of:

	31 December 2015	*31 December 2014*
Sales receivable	**58.87%**	63.53%
Musharaka	**14.98%**	12.31%
Ijara Muntahia Bittamleek & Ijara income receivable	**26.15%**	24.16%

Table – 24. Equity of Investment Accountholders by Counterparty Type

The following table summarises the percentage of equity of investment accountholders for each category of counterparty to total financing as of:

Counterparty type

	31 December 2015	*31 December 2014*
Banks	**17.61%**	18.32%
Investment Firms	**2.86%**	5.69%
Corporates	**16.64%**	20.23%
Residentials	**51.08%**	45.63%
Others	**11.80%**	10.13%

Table – 25. Investment Accountholders share of profit

The following table summarises the share of profits earned by and paid out to equity of IAH and the Group as Mudarib for the year ended:

	31 December 2015	*31 December 2014*
Administrative expenses charged to equity of investment accountholders	**3,405**	2,979
Share of profits earned by IAH, before transfers to/from reserves	**69,244**	72,635
Percentage share of profit earned by IAH before transfer to/from reserves	**5.40%**	6.05%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**51,697**	58,786
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**4.03%**	4.90%
Share of profit paid out to Bank as mudarib	**17,547**	13,849
Mudarib Fee to total Investment Profits	**25.34%**	19.07%

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 26. Movement in profit equalisation reserve

The following table summarises the movement in profit equilisation reserve during the year ended:

	31 December 2015 US $ '000	*31 December 2014 US $ '000*
Balance at 1 January	**574**	573
Amount apportioned from income allocable to equity of Investment accountholders	**-**	23
Foreign exchange loss	**(16)**	(22)
	558	574
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	**0.00%**	0.03%

Table – 27. Movement in investment risk reserve

The following table summarises the movement in investment risk reserve during the year ended:

	31 December 2015 US $ '000	*31 December 2014 US $ '000*
Balance at 1 January	**2,338**	2,418
Amount apportioned from income allocable to equity of investment accountholders	**2**	-
Exchange difference	**(1)**	(1)
Amount apportioned to provision	**-**	(79)
	2,339	2,338
Percentage of the profit earned on equity of investment accountholders appropriated to investment risk reserve	**Nil**	Nil

The profit equalisation reserve and investment risk reserve will revert to IAH as per terms and conditions of the Mudaraba contract.

As IAH funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of IAH is up to a maximum of 70% (31 December 2014: up to 70%) as per the terms of IAH agreements.

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 28. Equity of Investment Accountholders by type of assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2015:

	Opening Actual Allocation US $ '000	***Movement US $ '000***	***Closing Actual Allocation US $ '000***
Cash and balances with banks	**96,842**	**(30,794)**	**66,048**
Sales receivable	**615,838**	**(9,608)**	**606,230**
Ijara Muntahia Bittamleek	**221,040**	**25,883**	**246,923**
Musharaka	**116,382**	**37,878**	**154,260**
Investments	**199,237**	**(66,773)**	**132,464**
Ijara income receivables	**13,144**	**9,221**	**22,365**
Other assets	**27,220**	**(10,916)**	**16,304**
	1,289,703	**(45,109)**	**1,244,594**

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2014:

	Opening actual allocation US $ '000	*Movement US $ '000*	*Closing actual allocation US $ '000*
Cash and balances with banks	97,475	(633)	96,842
Sales receivable	553,924	61,914	615,838
Ijara Muntahia Bittamleek	126,580	94,461	221,040
Musharaka	65,057	51,325	116,382
Investments	245,511	(46,274)	199,237
Ijara income receivables	16,685	(3,540)	13,144
Other assets	13,533	13,688	27,220
	1,118,765	170,941	1,289,703

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 29. Equity of Investment Accountholders profit earned and paid

The following table summarises the amount and percentage of profits earned and paid out to profit sharing investment accounts over the past five years:

	Profit earned		*Profit paid to IAH*	
	US $ '000	*%age*	*US $ '000*	*%age*
2015	**69,244**	**5.40%**	**51,697**	**4.03%**
2014	72,635	6.05%	58,786	4.90%
2013	68,754	6.37%	55,662	5.15%
2012	75,886	7.75%	61,441	6.27%
2011	86,985	8.33%	68,601	6.57%

Table - 30. Treatment of assets financed by Equity of Investment Accountholders

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2015:

	RWA US$ '000	*RWA for capital adequacy purposes US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	**46,229**	**13,869**	**1,734**
Claims on PSEs	**18,157**	**5,447**	**681**
Claims on Banks	**143,416**	**43,025**	**5,378**
Claims on Corporates	**576,966**	**173,090**	**21,636**
Mortgage	**162,104**	**48,631**	**6,079**
Regulatory Retail Portfolio	**15,733**	**4,720**	**590**
Past due facilities	**44,930**	**13,479**	**1,685**
Investment in securities	**9,786**	**2,936**	**367**
Holding of Real Estates	**29,191**	**8,757**	**1,095**
Other Assets	**14,172**	**4,252**	**532**
	1,060,684	**318,206**	**39,777**

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2014:

	RWA US$ '000	*RWA for capital adequacy purposes US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	55,453	16,636	1,996
Claims on PSEs	11,255	3,377	405
Claims on Banks	131,680	39,504	4,740
Claims on Corporates	594,264	178,279	21,394
Claims on Investment Firms	760	228	27
Mortgage	95,117	28,535	3,424
Regulatory Retail Portfolio	9,068	2,720	326
Past due facilities	73,171	21,951	2,634
Investment in securities	5,502	1,651	198
Holding of Real Estates	6,462	1,939	233
Other Assets	27,220	8,166	980
	1,009,952	302,986	36,357

3 RISK MANAGEMENT (continued)

d) Off-balance sheet equity of Investment Accountholders

Off-balance sheet equity of Investment accountholders is invested and managed in accordance with Shari'a requirements.

The Group as fund manager will manage and administer the investment account in a proper, diligent and efficient manner in accordance with applicable laws and local regulations.

The Group has appropriate procedures and controls in place commensurate to the size of its portfolio which includes:

(a) Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;

(b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and

(c) Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

Table – 31. Off-balance sheet equity of Investment Accountholders by Islamic product type

The following table summarises the breakdown of Off-balance sheet equity of IAH by type of islamic financing contracts as of:

Islamic products

	31 December 2015	*31 December 2014*
Sales receivables	**90.91%**	91.30%
Investments	**9.09%**	8.70%

Table – 32. Off-balance sheet equity of Investment Accountholders by counterparty type

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

Counterparty type

	31 December 2015	*31 December 2014*
Banks	**78.12%**	68.07%
Corporate	**21.88%**	31.93%

3 RISK MANAGEMENT (continued)

d) Off-balance sheet equity of Investment Accountholders (continued)

Table – 33. Off-balance sheet equity of Investment Accountholders by type of assets
The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2015:

	Opening actual allocation US$ '000	***Movement US$ '000***	***Closing actual allocation US$ '000***
Sales receivables	**101,930**	**(7,253)**	**94,677**
Investments	**9,718**	**(256)**	**9,462**
	111,648	**(7,509)**	**104,139**

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2014:

	Opening actual allocation US$ '000	*Movement US$ '000*	*Closing actual allocation US$ '000*
Sales receivables	106,619	(4,688)	101,930
Investments	30,159	(20,441)	9,718
	136,778	(25,129)	111,648

Table – 34. Off-balance sheet equity of Investment Accountholders historical returns
The following table summarises the historical returns over the past five year:

	31 December 2015 US$ '000	*31 December 2014 US$ '000*	*31 December 2013 US$ '000*	*31 December 2012 US$ '000*	*31 December 2011 US$ '000*
Gross Income	1,782	1,772	105	1,209	459
Mudarib Fee	77	99	47	168	110

The Group's share of profit as a Mudarib for managing Off-balance sheet equity of Investment accountholders and their share of income is based on the terms and conditions of the related mudarib agreements. These mudarib agreements are done at the individual Counter party level.

e) Liquidity risk
Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on regular basis. The liquidity management policy at a minimum includes the following:

a. Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.

b. Establish approval processes to ensure adherence to liquidity risk management processes.

c. Require periodic calculations to determine the extent to which the segments are funding long-term assets with short-term liabilities.

3 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.

e. Establish limits on the degree of concentrations that are deemed acceptable. This should:

i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the segments manage their assets and liquidity profile to mitigate the risk; and

ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the segments conduct an impact analysis on its dependency on any such concentrations.

f. Provide for periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.

g. Provide for the review of alternate funding sources including stand-by facilities and lines of credit.

h. Establish a framework for the composition of assets.

i. Assess the acceptable mismatch in combination with currency commitments. The segments undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

Table – 35. Liquidity ratios
The following table summarises the liquidity ratios as of:

	31 December 2015	*31 December 2014*
Liquid assets to total assets*	**20.53%**	20.74%
Short term assets to short term liabilities	**60.90%**	68.96%

** Includes cash and bank balances and short term commodities including statutory / madatory reserves held with the central banks.*

Table – 36. Quantitative indicators of financial performance and position

	31 December 2015*	*31 December 2014**	*31 December 2013**	*31 December 2012**	*31 December 2011*
Return on average equity	3.5%	1.2%	0.6%	-6.1%	1.4%
Return on average assets	0.3%	0.1%	0.1%	-0.8%	0.2%
Cost to Income Ratio	88.5%	92.7%	91.1%	98.4%	91.0%

* Return based on total income and equity (including non-controlling interest)

4 OTHERS

The responsibility for payment of Zakat is on individual shareholders and investment accountholders. However, in Pakistan, Zakah is deducted at source from the Equity of Investment accountholders as required by local laws.