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

Basel III, Pillar III Disclosures

30 June 2017

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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 license number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has eight 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 Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain.

For details on the Group's subsidiary as of 30 June 2017, refer note 2 of the interim 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 interim consolidated financial statements of the Group. Therefore, they might not be comparable with the interim financial statements in certain cases with respect to Bank's investment in Itqan capital.

2 CAPITAL ADEQUACY (continued)

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:

	30 June 2017			31 December 2016		
	CET 1	AT1	Tier 2	CET 1	AT1	Tier 2
	US $ '000	US $ '000	US $ '000	US $ '000	US $ '000	US $ '000
Common Equity Tier 1 (CET1)						
Issued and fully paid ordinary shares	**122,458**			122,458		
General reserves	**8,687**			8,687		
Statutory reserves	**22,699**			22,699		
Retained earnings	**4,551**			3,266		
Current interim cumulative net income / losses	**(523)**			543		
Unrealized gains and losses on available for sale	**-**					
financial instruments	**738**			1,700		
Gains and losses resulting from converting foreign currency						
subsidiaries to the parent currency	**(10,058)**			(9,316)		
Other reserves	**(94)**			(114)		
Total CET1 capital before minority interest	**148,458**			149,923		
Minority interest in banking subsidiaries	**28,705**			36,146		
Total CET1 capital prior to regulatory adjustments	**177,163**			186,069		
Less:						
Goodwill	**45,195**			45,264		
Intangible other than mortgage servicing rights	**972**			819		
Deferred tax assets	**20,587**			18,813		
Total CET 1 capital after the regulatory adjustments above (CET 1a)	**110,409**			121,173		
Other Capital (AT1 & T 2)						
Instruments issued by parent company		**25,000**	**6,000**		25,000	6,000
Instruments issued by banking subsidiaries to third parties		**1,688**	**10,003**		1,150	11,666
Assets revaluation reserve - property, plant, and equipment		**-**	**1,193**		-	1,193
General financing loss provisions		**-**	**4,024**		-	3,284
Total Available AT1 & T2 Capital		**26,688**	**21,220**		26,150	22,143
Total CET 1 Capital	**110,409**			121,173		
Total T1 Capital		**137,097**			147,323	
Total Capital			**158,317**			169,466

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:

Type of islamic financing contracts	***30 June 2017 Capital requirements US $ '000***	*31 December 2016 Capital requirements US $ '000*
Sales receivables	**23,432**	22,807
Ijara Muntahia Bittamleek & Ijara income receivable	**11,991**	12,035
Musharaka	**15,656**	11,081
	51,079	45,923

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:

	30 June 2017		*31 December 2016*	
	Self Financed US $ '000	***Financed by IAH US $ '000***	*Self Financed US $ '000*	*Financed by IAH US $ '000*
Market risk - standardised approach				
Foreign exchange risk	**6,932**	-	7,154	-
Total of market risk - standardised approach	**6,932**	**-**	7,154	-
Multiplier	**12.50**	**12.50**	12.50	12.50
	86,650	**-**	89,425	-
Eligible Portion for the purpose of the calculation	**100%**	**30%**	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	**86,650**	**-**	89,425	-
Total market RWE		**86,650**		89,425
		12.50%		12.50%
Minimum capital requirement		**10,831**		11,178

2 CAPITAL ADEQUACY (continued)

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:

	30 June 2017	*31 December 2016*
	US $ '000	*US $ '000*
Indicators of operational risk		
Average gross income	**102,586**	102,586
Multiplier	**12.5**	12.5
	1,282,325	1,282,325
Eligible Portion for the purpose of the calculation	**15%**	15%
Total operational RWE	**192,349**	192,349
	12.50%	12.50%
Minimum capital requirement	**24,044**	24,044

2 CAPITAL ADEQUACY (continued)

Table – 5. Capital adequacy ratios

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

	30 June 2017			*31 December 2016*		
	Total capital ratio	**Tier 1 capital ratio**	**CET 1 capital ratio**	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Group's Capital adequacy ratio	**15.20%**	**13.16%**	**10.60%**	16.58%	14.42%	11.86%
Minimum regulatory requirements*	**12.50%**	**10.50%**	**9.00%**	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	**19.29%**	**16.20%**	**16.20%**	20.41%	16.93%	16.93%
Itqan Capital Company	**33.49%**	**33.49%**	**33.49%**	33.97%	33.97%	33.97%

** Minimum required by CBB regulations under Basel III*
***The subsidiary's Capital adequacy ratio computed in accordance with the CBB requirements.*

Legal restrictions on capital and income mobility

Distributing profits by subsidiary to the parent is subject to compliance with applicable laws and regulations in Pakistan. Such distribution should go through the legal and regulatory channels applicable in relevant jurisdiction (i.e. Pakistan). Mobilisation of capital, reserves and equivalent funds out of the subsidiary to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, as a procedure and approval has to be obtained from the CBB for increasing investment in subsidiary.

Table - 6. The Group's financial subsidiary capital adequacy ratios

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

	30 June 2017			*31 December 2016*		
	Total capital ratio	**Tier 1 capital ratio**	**CET 1 capital ratio**	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Capital adequacy ratio	**10.01%**	**8.43%**	**8.43%**	10.35%	8.66%	8.66%
Minimum regulatory requirements*	**10.00%**	**7.50%**	**6.00%**	10.00%	7.50%	6.00%

**There are no capital conversion buffer required as per SBP requirements.*

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:

	30 June 2017				*31 December 2016*			
	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	**231,053**	**162,859**	**15,792**	**27,194**	230,758	177,413	50,243	47,548
Receivables	**3,570**	**16,808**	**811,899**	**787,515**	3,002	3,097	739,582	631,293
Mudaraba financing	**-**	**-**	**-**	**-**	-	-	776	194
Ijara Muntahia Bittamleek	**21,782**	**22,146**	**253,651**	**255,198**	18,302	18,906	261,466	258,061
Musharaka	**51,823**	**51,415**	**268,045**	**264,425**	-	-	316,728	222,068
Investments	**385,261**	**417,217**	**112,960**	**118,012**	360,278	328,119	174,517	141,111
Investment in real estate	**6,789**	**6,791**	**-**	**-**	7,493	7,600	-	-
Ijara income receivables	**2,675**	**2,535**	**34,476**	**33,509**	1,713	1,259	28,892	26,986
Premises and equipment	**35,296**	**35,536**	**-**	**-**	32,203	28,072	-	-
Other assets	**81,499**	**79,788**	**35,692**	**35,204**	83,028	60,842	26,041	21,800
Unfunded exposure								
Contingencies and commitments	**228,498**	**218,054**	**-**	**-**	200,360	202,137	-	-
	1,048,246	**1,013,149**	**1,532,515**	**1,521,057**	937,137	827,445	1,598,245	1,349,061

*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:

	30 June 2017				31 December 2016			
	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	**82,711**	**148,342**	**4,301**	**11,491**	40,587	190,171	26,242	24,001
Receivables	**3,570**		**510,204**	**301,695**	3,002	-	472,141	267,441
Mudaraba financing	**-**	**-**	**-**	**-**	-	-	-	776
Ijara Muntahia Bittamleek	**21,782**	**-**	**223,276**	**30,375**	18,302	-	220,257	41,209
Musharaka	**-**	**51,823**	**62**	**267,983**	-	-	76	316,652
Investments	**226,192**	**159,069**	**69,389**	**43,571**	218,227	142,051	81,020	93,497
Investment in real estate	**6,789**	**-**	**-**	**-**	7,493	-	-	-
Ijara income receivables	**2,675**	**-**	**30,369**	**4,107**	1,713	-	25,758	3,134
Premises and equipment	**15,325**	**19,971**	**-**	**-**	11,537	20,666	-	-
Other assets	**7,870**	**73,629**	**3,195**	**32,497**	10,916	72,112	2,536	23,505
	366,914	**452,834**	**840,796**	**691,719**	311,777	425,000	828,030	770,215

* 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:

	30 June 2017				*31 December 2016*			
	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	**44,386**	**-**	**5,179**	**-**	24,579	-	8,229	-
Claims on Sovereigns	**338,306**	**-**	**41,610**	**-**	415,598	-	92,322	-
Claims on Public Sector Entities	**138,655**	**27**	**75,928**	**-**	60,344	7,069	145,601	-
Claims on banks	**103,540**	**48,213**	**309,859**	**-**	51,322	21,906	294,704	-
Claims on corporate	**28,665**	**180,246**	**675,991**	**-**	20,986	171,101	663,507	-
Mortgage	**-**	**-**	**215,535**	**-**	-	-	203,607	-
Past dues receivables	**-**	**12**	**63,682**	**-**	-	-	53,626	-
Regulatory Retail Portfolio	**-**	**-**	**96,637**	**-**	-	284	96,061	-
Equity investment	**15,413**	**-**	**695**	**-**	11,556	-	471	-
Investment in Funds	**6,445**	**-**	**5,000**	**-**	7,865	-	5,000	-
Holding of Real Estate	**54,773**	**-**	**10,731**	**-**	58,254	-	12,361	-
Other assets	**89,565**	**-**	**31,668**	**-**	86,273	-	22,756	-
	819,748	**228,498**	**1,532,515**	-	736,777	200,360	1,598,245	-

For the purpose of rating, the Group is using External Credit Assessment Institutions (ECAIs) Standard & Poors, Moodys, Capital Intelligence, Fitch and other approved credit rating agencies for assigning risk weight to assets.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 10. Credit risk – related party transactions

All transactions with related parties have been made on arms length basis. The following table summarises the balances with related parties as of:

	30 June 2017		*31 December 2016*	
	Self financed	***Financed by IAH***	*Self financed*	*Financed by IAH*
	Funded US $ '000	***Funded US $ '000***	*Funded US $ '000*	*Funded US $ '000*
Cash and balances with bank	**-**	**139**	-	914
Receivables	**-**	**10,704**	-	48,548
Musharaka	**-**	**3,542**	-	2,156
Ijara Muntahia Bittamleek	**-**	**469**	-	583
Investments	**14,595**	**18,127**	14,576	18,028
Ijara Income Receivable	**-**	**79**	-	81
Other Assets	**2,199**	**-**	2,688	-
Contingencies and commitments	**4,942**	**-**	4,432	-
	21,736	**33,060**	21,696	70,310

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

	30 June 2017	*31 December 2016*
	Self financed US $ '000	*Self financed US $ '000*
Assets		
Investment in a subsidiary	**84,201**	82,662
Equity investment in Itqan Capital	**54,342**	54,342
	138,543	137,004
Contingencies and commitments		
Letters of credit	**790**	4,054
Guarantees	**-**	285
Acceptances	**63**	3,098
	853	7,437

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 30 June 2017:

Counterparties *	***Funded*** ***US $ '000***
Counterparty # 1	**120,012**
Counterparty # 2	**100,849**
Counterparty # 3	**65,713**
Counterparty # 4	**57,204**
Counterparty # 5	**42,917**
Counterparty # 6	**40,138**
Counterparty # 7	**39,929**
Counterparty # 8	**39,821**
Counterparty # 9	**39,451**
Counterparty # 10	**30,121**
Counterparty # 11	**28,187**
Counterparty # 12	**24,796**

* These exposures are in excess of individual obligor limits. 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 2016:

Counterparties *	*Funded* *US $ '000*
Counterparty # 1	158,695
Counterparty # 2	157,520
Counterparty # 3	100,944
Counterparty # 4	64,712
Counterparty # 5	55,689
Counterparty # 6	55,624
Counterparty # 7	43,405
Counterparty # 8	39,912
Counterparty # 9	37,480
Counterparty # 10	33,171
Counterparty # 11	28,200

* These exposures are in excess of individual obligor limits. 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 installments 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.

Highly leveraged counter parties

Highly leveraged counter parties are determined by the Credit and Risk Management 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 – Residual Contractual Maturity Breakdown

64% of Group assets are financed by equity of IAH, while 36% are self financed. The following table summarises the residual contractual maturity breakdown of the total assets portfolio as of 30 June 2017, broken down by major types of exposure:

	Up to 3 months US $ '000	*3 to 6 months US $ '000*	*6 months to 1 year US $ '000*	*1 to 3 years US $ '000*	*3 to 5 years US $ '000*	*5 to 10 years US $ '000*	*10 to 20 years US $ '000*	*Over 20 years US $ '000*	*No fixed maturity US $ '000*	*Total US $ '000*
ASSETS										
Cash and balances with banks	168,584	-	48,595	-	-	-	-	-	29,313	246,492
Receivables	475,799	166,488	96,983	37,183	11,755	2,732	-	-	24,529	815,469
Ijara Muntahia Bittamleek	13,445	7,502	14,554	60,479	49,569	51,751	63,042	15,091	-	275,433
Musharaka	18,346	7,961	4,213	65,532	142,871	52,335	22,959	-	5,651	319,868
Investments*	9,916	8,000	5,626	242,726	61,455	100,006	1,000	-	85,536	514,265
Investments in real estate	-	-	-	5,974	-	-	-	-	-	5,974
Ijara income receivable	17,524	581	1,072	4,069	3,423	3,751	3,320	795	2,616	37,151
Investment in Joint Venture	-	-	-	-	-	14,595	-	-	-	14,595
Premises and equipment	-	-	-	-	-	-	-	-	32,462	32,462
Goodwill	-	-	-	-	-	-	-	-	28,113	28,113
Other assets	47,961	13,072	8,509	6,673	32,808	-	-	-	5,649	114,672
Total assets	751,575	203,604	179,552	422,636	301,881	225,170	90,321	15,886	213,869	2,404,494
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY										
Due to banks and financial institutions	59,011	-	-	-	-	-	-	-	-	59,011
Current accounts**	140,210	18,355	26,221	78,664	39,332	39,332	13,110	-	-	355,224
Medium term financing	36,966	2,653	40,741	22,000	-	-	-	-	-	102,360
Other liabilities	94,126	630	1,357	6,605	3,982	-	-	-	-	106,700
Total liabilities	330,313	21,638	68,319	107,269	43,314	39,332	13,110	-	-	623,295
Equity of investment accountholders**	508,052	219,786	287,789	246,263	172,872	73,315	24,438	-	-	1,532,515
Subordinated debts	1,603	-	1,362	5,450	10,087	25,628	-	-	-	44,130
Total owners' equity	-	-	-	-	-	-	-	-	204,554	204,554
Total liabilities, Equity of investment accountholders, subordinate debt and owner's equity	839,968	241,424	357,470	358,982	226,273	138,275	37,548	-	204,554	2,404,494
Net gap	(88,393)	(37,820)	(177,918)	63,654	75,608	86,895	52,773	15,886	9,315	-
Cumulative net gap	(88,393)	(126,213)	(304,131)	(240,477)	(164,869)	(77,974)	(25,201)	(9,315)	-	-
Off-balance sheet equity of investment accountholders	7,898	55,512	9,519	-	-	-	-	-	-	72,929

* Investments in 1 to 3 years are easily convertible into liquid funds.
** Demand accounts are presented using behavioural approach
The above table excludes the consolidation of Itqan Capital Company in its calculation. Therefore, it will not match to the remaining tables in this report.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown (continued)

67% of Group assets are financed by equity of IAH, while 33% are self financed. The following table summarises the residual contractual maturity breakdown of the total assets portfolio as of 31 December 2016, broken down by major types of exposure:

	Up to 3 months US $ '000	*3 to 6 months US $ '000*	*6 months to 1 year US $ '000*	*1 to 3 years US $ '000*	*3 to 5 years US $ '000*	*5 to 10 years US $ '000*	*10 to 20 years US $ '000*	*Over 20 years US $ '000*	*No fixed maturity US $ '000*	*Total US $ '000*
ASSETS										
Cash and balances with banks	104,211	-	-	-	-	-	-	-	176,400	280,611
Receivables	391,810	170,117	97,407	41,301	11,815	3,388	-	-	26,746	742,584
Mudaraba financing	776	-	-	-	-	-	-	-	-	776
Ijara Muntahia Bittamleek	12,862	8,004	14,654	63,567	54,770	49,368	59,346	15,510	1,687	279,768
Musharaka	19,848	737	9,804	65,700	143,524	41,577	28,193	-	7,345	316,728
Investments	8,604	138,578	8,609	132,393	88,542	91,996	1,000	-	79,177	548,899
Investments in real estate	-	-	-	5,974	-	-	-	-	-	5,974
Ijara income receivable	735	378	723	2,741	2,220	2,398	2,185	571	18,654	30,605
Investment in Joint Venture	-	-	-	-	-	14,576	-	-	-	14,576
Premises and equipment	-	-	-	-	-	-	-	-	30,029	30,029
Goodwill	-	-	-	-	-	-	-	-	28,181	28,181
Other assets	38,636	4,774	21,527	4,069	32,127	-	-	-	5,386	106,519
Total assets	577,482	322,588	152,724	315,745	332,998	203,303	90,724	16,081	373,605	2,385,250
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY										
Due to banks and financial institutions	40,386	15,436	2,652	-	-	-	-	-	-	58,474
Current accounts**	293,308	-	-	-	-	-	-	-	-	293,308
Medium term financing	30,582	-	-	60,000	-	-	-	-	-	90,582
Other liabilities	72,265	2,360	3,974	7,506	5,371	3	-	-	-	91,479
Total liabilities	436,541	17,796	6,626	67,506	5,371	3	-	-	-	533,843
Equity of investment accountholders	696,872	233,404	250,970	223,456	89,501	78,031	26,011	-	-	1,598,245
Subordinated debts	1,631	-	1,366	5,463	5,463	32,555	-	-	-	46,478
Total owners' equity	-	-	-	-	-	-	-	-	206,684	206,684
Total liabilities, Equity of investment accountholders, subordinate debt and owner's equity	1,135,044	251,200	258,962	296,425	100,335	110,589	26,011	-	206,684	2,385,250
Net gap	(557,562)	71,388	(106,238)	19,320	232,663	92,714	64,713	16,081	166,921	-
Cumulative net gap	(557,562)	(486,174)	(592,412)	(573,092)	(340,429)	(247,715)	(183,002)	(166,921)	-	-
Off-balance sheet equity of investment accountholders	4,500	62,085	9,405	-	-	-	-	-	-	75,990

* Investments in 1 to 3 years are easily convertible into liquid funds.

** Current Accounts are shown under up to 3 months maturity in the above table. However, most of these current accounts are stable funds which are expected to be available to the bank on continuous basis.

The above table excludes the consolidation of Itqan Capital Company in its calculation. Therefore, it will not match to the remaining tables in this report.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 13. 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:

	30 June 2017					*31 December 2016*				
			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	**26,431**	**75,273**	**37,478**	**13,909**	**23,886**	16,785	67,139	28,327	12,056	26,756
Investment Firms	**789**	**15,455**	**-**	**15,455**	**-**	433	18,645	-	-	18,645
Individuals	**1,020**	**12,854**	**10,062**	**1,605**	**1,187**	1,205	12,453	10,671	826	956
Others	**8,870**	**17,404**	**4,872**	**4,069**	**8,463**	10,288	11,196	879	3,080	7,237
	37,110	**120,986**	**52,412**	**35,038**	**33,536**	28,711	109,433	39,877	15,962	53,594

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 14. 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 30 June 2017:

	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	**37,220**	**2,060**	**(3,350)**	**-**	**480**	**(86)**	**36,324**
Investment Firms	**13,187**	**-**	**-**	**-**	**-**	**131**	**13,318**
Individuals	**1,958**	**338**	**(196)**	**-**	**159**	**(5)**	**2,254**
Others	**3,446**	**481**	**(49)**	**-**	**-**	**(8)**	**3,870**
	55,811	**2,879**	**(3,595)**	**-**	**639**	**32**	**55,766**

A collective provision of US $ 0.72 million was charged during the period and accumulated balance has been increased to US $ 4.02 million as at 30 June 2017.

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 2016:

	Specific allowances							
	Opening Balance	*Charges during the year*	*Amalgamation 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*	*US $ '000*
Corporates	23,936	5,676	13,388	(5,813)	-	-	33	37,220
Investment Firms	6,110	7,129	-	-	-	-	(52)	13,187
Individual	766	357	1,065	(230)	(1)	-	1	1,958
Others	3,122	799	166	(644)	-	-	3	3,446
	33,934	13,961	14,619	(6,687)	(1)	-	(15)	55,811

A collective provision of US $ 0.7 million was charged during the year and accumulated balance has been increased to US $ 3.3 million as at 31 December 2016.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 15. Credit risk – non performing facilities and provisions

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

	30 June 2017			*31 December 2016*		
	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	**48,364**	**16,771**	**3,195**	41,115	15,495	2,535
Other Asian countries	**72,622**	**38,995**	**829**	68,318	40,316	749
	120,986	**55,766**	**4,024**	109,433	55,811	3,284

* 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 – 16. Credit risk – restructured Islamic financing contracts

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

	30 June 2017 Total US $ '000	*31 December 2016 Total US $ '000*
Restructured Islamic financing contracts	**-**	63,875

The amount represents total facilities restructured during the year. Further, there is no significant impact of the renegotiated Islamic financing contracts on the provisions as well as present and future earnings.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 17. Counterparty credit risk exposure

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

	30 June 2017		*31 December 2016*	
	Gross positive FV of contracts *US $ '000*	**** Collateral held US $ '000***	Gross positive FV of contracts *US $ '000*	** Collateral held US $ '000*
Cash and balances with banks and financial institutions	**246,845**	**-**	281,001	-
Receivables	**815,469**	**456,263**	742,584	428,640
Mudaraba financing	**-**	**-**	776	776
Ijara Muntahia Bittamleek	**275,433**	**86,791**	279,768	106,823
Musharaka	**319,868**	**319,805**	316,728	316,652
Investments	**498,220**	**-**	534,795	-
Investment in real estate	**6,789**	**-**	7,493	-
Ijara income receivables	**37,151**	**-**	30,605	-
Premises and equipment	**35,296**	**-**	32,203	-
Other assets	**117,191**	**-**	109,069	-
	2,352,262	**862,859**	2,335,022	852,891

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

Table – 18. 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:

	30 June 2017		*31 December 2016*	
	Gross positive FV of contracts US $ '000	***Collateral held US $ '000***	*Gross positive FV of contracts US $ '000*	*Collateral held US $ '000*
Ijara Muntahia Bittamleek & Ijara income receivable	**312,584**	**63,644**	310,373	69,534

b) Market risk

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

Table – 19. Market risk capital requirements

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

	30 June 2017	*31 December 2016*
	Foreign exchange risk US $ '000	*Foreign exchange risk US $ '000*
RWE	**86,649**	89,429
Capital requirements (12.5%)	**10,831**	11,179
Maximum value of RWE	**89,152**	89,429
Minimum value of RWE	**86,649**	75,218

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 20. 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 30 June 2017:

	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***
Managed funds	**6,000**	**6,000**	**-**	**6,000**	**306**
Private equity	**41,820**	**33,907**	**18,185**	**23,635**	**4,488**
Real estate related	**26,816**	**35,878**	**-**	**26,816**	**13,791**
	74,636	**75,785**	**18,185**	**56,451**	**18,585**

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 2016:

	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*
Managed funds	6,000	6,000	-	6,000	306
Private equity	22,716	18,467	15,516	7,200	3,731
Real estate related	43,283	34,902	-	43,283	12,702
	71,999	59,369	15,516	56,483	16,739

Table – 21. Equity gains or losses in Banking Book

The following table summarises the cumulative realised and unrealised gains during the year ended:

	30 June 2017 US $ '000	*31 December 2016 US $ '000*
Cummulative realised gains arising from sale or liquidation	**3,594**	2,942
Total unrealised gains recognised in the balance sheet but not through P&L	**738**	1,700
Unrealised gross gains included in Tier One Capital	**738**	1,700
Assets revaluation reserve - property, plant, and equipment	**1,193**	1,193

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

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

Profit rate risk
The Bank generates funds mainly through profit sharing arrangements or agency modes. The Bank continously monitor the profit rates prevailing in the domestic/ regional markets (issued by competitors). Further, the following factors also affects the determination of profit rates:

• Availability of profitable opportunities in the market
• Key economic fundamentals and liquidity levels
• Policy interest rates promulgated by domestic and leading global monetary agencies.

Table – 22. Profit rate mismatch

The following are the profit rate mismatch between the rate of return on assets and the expected funding due to the sources of finance as of:

	30 June 2017				
	Up to 3 months US $ '000	***3 to 6 months US $ '000***	***6 months to 1 year US $ '000***	***1 to 3 years US $ '000***	***Over 3 years US $ '000***
Receivables	475,799	166,488	96,983	37,183	39,016
Ijara Muntahia Bittamleek and Ijara Income Receivables	30,969	8,083	15,626	64,548	193,358
Musharaka	18,346	7,961	4,213	65,532	223,816
Investments-Sukuk	3,142	9,814	5,626	234,037	170,056
Profit rate sensitive assets	**528,256**	**192,346**	**122,448**	**401,300**	**626,246**
Medium term financing	36,966	2,653	40,741	22,000	-
Equity of investment accountholders	508,052	219,786	287,789	246,263	270,625
Subordinated debt	1,603	-	1,362	5,450	35,715
Profit rate sensitive liabilities	**546,621**	**222,439**	**329,892**	**273,713**	**306,340**
Profit rate gap	**(543,479)**	**(212,625)**	**(324,266)**	**(39,676)**	**(136,284)**
Profit rate sensitivity (200bps)	**(10,870)**	**(4,253)**	**(6,485)**	**(794)**	**(2,726)**

	31 December 2016				
	Up to 3 months US $ '000	*3 to 6 months US $ '000*	*6 months to 1 year US $ '000*	*1 to 3 years US $ '000*	*Over 3 years US $ '000*
Receivables	391,810	170,117	97,407	41,301	41,949
Mudaraba financing	776	-	-	-	-
Ijara Muntahia Bittamleek and Ijara Income Receivables	13,597	8,382	15,377	66,308	206,709
Musharaka	19,848	737	9,804	65,700	220,639
Investments-Sukuk	2,954	143,412	609	123,705	192,117
Profit rate sensitive assets	428,985	322,648	123,197	297,014	661,414
Medium term financing	30,582	-	-	60,000	-
Equity of investment accountholders	696,872	233,404	250,970	223,456	193,543
Subordinated debt	1,631	-	1,366	5,463	38,018
Profit rate sensitive liabilities	729,085	233,404	252,336	288,919	231,561
Profit rate gap	(726,131)	(89,992)	(251,727)	(165,214)	(39,444)
Profit rate sensitivity (200bps)	(14,523)	(1,800)	(5,035)	(3,304)	(789)

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Foreign exchange risk
Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

Table – 23. Foreign currency translation risk

Following is the Group's exposure to different currencies in equivalent US dollars:

	30 June 2017		
	Operational equivalent US $ '000	***Strategic equivalent US $ '000***	***Total equivalent US $ '000***
Pakistani rupees	**21,315**	**62,885**	**84,200**
Euro	**(11,244)**	**-**	**(11,244)**
Kuwaiti dinars	**2,381**	**-**	**2,381**
Pound sterling	**(3,452)**	**-**	**(3,452)**
Others	**67**	**-**	**67**

	31 December 2016		
	Operational equivalent US $ '000	*Strategic equivalent US $ '000*	*Total equivalent US $ '000*
Pakistani rupees	31,210	51,452	82,662
Euro	(10,503)	-	(10,503)
Kuwaiti dinars	6,514	-	6,514
Pound sterling	(3,315)	-	(3,315)
Others	228	-	228

The strategic currency risk represents the amount of equity of the subsidiary

Foreign currency risk sensitivity analysis
In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks approach which calculates the effect on assets and income of the Group as a result of 20% appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is calculated using various percentages based upon the judgement of the management of the Group.

Table – 24. Foreign currency risk sensitivity analysis

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of owner's equity. The impact of a similar increase / (decrease) in exchange rates will be approximately opposite to the impact disclosed below:

At 30 June 2017

Currency	**Particular**	***Change***	***Exposures in US $ '000***	***Effect on profit and loss/Equity US $ '000***
Pakistani rupees	Net long Position	**20%**	**84,200**	**67,360**
Euro	Net short Position	**20%**	**(11,244)**	**(8,995)**
Kuwaiti dinars	Net long Position	**20%**	**2,381**	**1,905**
Pound sterling	Net short Position	**20%**	**(3,452)**	**(2,762)**

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 24. Foreign currency risk sensitivity analysis (continued)

At 31 December 2016

Currency	Particular	*Change*	*Exposures in US $ '000*	*Effect on profit and loss/Equity US $ '000*
Pakistani Rupees	Net long Position	20%	82,662	66,130
Euro	Net short Position	20%	(10,503)	(8,402)
Kuwaiti Dinars	Net long Position	20%	6,514	5,211
Pound Sterling	Net short Position	20%	(3,315)	(2,652)

c) Equity of Investment Accountholders (IAH)

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 IAH. 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 Group to exercise its fiduciary responsibilities. The Group is authorised by Equity of IAH 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 funds generated from various sources (Self-Financed). In this regards, the Bank at inception designate each asset separately as "Self" and "Jointly" financed, except liquid assets which are managed collectively. Further, the jointly financed assets are segregated proportionately based on amounts of funds contributed by each category of investors.

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, salam, istisna, wakala, musharaka, mudaraba and ijara. The Group is offering these accounts for saving and term accounts ranging from 1 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.

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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.

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 and Bahrain).

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 $ 2 thousand (2016: US $ 7 thousand) was charged by the CBB during the period ended 30 June 2017 for anomalisies related to electronic fund transfers.

A financial penalty of US $ 251 thousand (2016: US $ 5 thousand) was charged by SBP to the Group's subsidiary in Pakistan during the period ended 30 June 2017 for various non-compliances.

Non-Shari'a complaint income
The Group has received US $ 294 thousand (2016: US $ 382 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

Table – 25. 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:

	30 June 2017 US $ '000	*31 December 2016 US $ '000*
IAH - Non-banks	**1,260,196**	1,324,689
IAH - Banks	**270,054**	270,666
Profit equalisation reserve	**564**	551
Investment risk reserve	**1,701**	2,339
	1,532,515	1,598,245

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 26. Ratio of reserves to total IAH

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

	30 June 2017	*31 December 2016*
PER to IAH (%)	**0.04%**	0.03%
IRR to IAH (%)	**0.11%**	0.15%

Table – 27. 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:

	30 June 2017	*31 December 2016*
Receivable	**59.35%**	54.89%
Mudaraba	**0.00%**	0.06%
Musharaka	**19.59%**	23.51%
Ijara Muntahia Bittamleek & Ijara income receivable	**21.06%**	21.55%

Table – 28. 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 equity as of:

Counterparty type

	30 June 2017	*31 December 2016*
Banks	**17.79%**	17.06%
Investment Firms	**5.61%**	5.38%
Corporates	**25.32%**	15.88%
Residentials	**42.08%**	49.83%
Others	**9.19%**	11.86%

Table – 29. 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:

	30 June 2017	*31 December 2016*
Administrative expenses charged to equity of investment accountholders	**3,610**	5,755
Share of profits earned by IAH, before transfers to/from reserves	**36,450**	61,137
Percentage share of profit earned by IAH before transfer to/from reserves	**2.40%**	4.53%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**26,611**	44,558
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**1.75%**	3.30%
Share of profit paid out to Bank as mudarib	**9,839**	16,579
Mudarib Fee to total Investment Profits	**26.99%**	27.12%

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 30. Movement in profit equalisation reserve

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

	30 June 2017 US $ '000	*31 December 2016 US $ '000*
Balance at 1 January	**551**	558
Foreign exchange gain / (loss)	**13**	(7)
	564	551
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	**Nil**	**Nil**

Table – 31. Movement in investment risk reserve

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

	30 June 2017 US $ '000	*31 December 2016 US $ '000*
Balance at 1 January	**2,339**	2,339
Exchange difference	**1**	-
Amount apportioned to provision	**(639)**	-
	1,701	2,339
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 2016: up to 70%) as per the terms of IAH agreements.

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 32. Equity of Investment Accountholders rate of return

The following table summarises the average rate of return over the period:

	Average 30 June 2017 Rate of return %		
	Bahrain		*Pakistan*
	BD	US $	
Saving Accounts	**0.11%**	**0.08%**	**3.08%**
One Month Term Deposits	**0.56%**	**-**	**3.41%**
Three Months Term Deposits	**0.66%**	**0.77%**	**3.67%**
Six Months Term Deposits	**0.77%**	**0.74%**	**3.48%**
Nine Months Term Deposits	**0.84%**	**-**	-
1 Year Term Deposits	**0.89%**	**0.91%**	**4.59%**
2 Years Term Deposits	**1.00%**	**1.11%**	**3.66%**
3 Year Term Deposits	**1.55%**	**-**	**4.34%**
4 Years Term Deposits	**-**	**-**	**4.80%**
5Years Term Deposits	**-**	**-**	**4.71%**

	Average 31 Dec 2016 Rate of return %		
	Bahrain		*Pakistan*
	BD	US $	
Saving Accounts	0.11%	0.08%	2.62%
One Month Term Deposits	0.56%	-	2.96%
Three Months Term Deposits	0.66%	0.89%	3.78%
Six Months Term Deposits	0.77%	0.96%	3.56%
Nine Months Term Deposits	0.81%	-	-
1 Year Term Deposits	0.89%	1.03%	4.09%
2 Years Term Deposits	1.00%	1.15%	2.94%
3 Year Term Deposits	1.52%	-	4.46%
4 Years Term Deposits	-	-	4.95%
5Years Term Deposits	-	-	4.64%

Table – 33. 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 30 June 2017:

	Opening Actual Allocation US $ '000	*Movement US $ '000*	*Closing Actual Allocation US $ '000*
Cash and balances with banks	**50,243**	**(34,451)**	**15,792**
Receivables	**739,582**	**72,317**	**811,899**
Mudaraba	**776**	**(776)**	**-**
Ijara Muntahia Bittamleek	**261,466**	**(7,815)**	**253,651**
Musharaka	**316,728**	**(48,683)**	**268,045**
Investments	**174,517**	**(61,557)**	**112,960**
Ijara income receivables	**28,892**	**5,584**	**34,476**
Other assets	**26,041**	**9,651**	**35,692**
	1,598,245	**(65,730)**	**1,532,515**

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 33. Equity of Investment Accountholders by type of assets (continued)

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 30 June 2016:

	Opening actual allocation US $ '000	*Movement US $ '000*	*Closing actual allocation US $ '000*
Cash and balances with banks	66,048	(29,168)	36,880
Receivables	606,230	4,869	611,099
Ijara Muntahia Bittamleek	246,923	11,622	258,545
Musharaka	154,260	8,207	162,468
Investments	132,465	9,215	141,680
Ijara income receivables	22,364	4,212	26,576
Other assets	16,304	7,078	23,381
	1,244,594	16,035	1,260,629

Table – 34. 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***
2017*	***72,900***	***4.79%***	***53,222***	***3.50%***
2016	61,137	4.53%	44,558	3.30%
2015	69,244	5.40%	51,696	4.03%
2014	72,635	6.05%	58,786	4.90%
2013	68,754	6.37%	55,662	5.15%

* Annualised

Table - 35. 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 30 June 2017:

	RWA US$ '000	***RWA for capital adequacy purposes US$ '000***	***Capital charges US$ '000***
Type of Claims			
Claims on Sovereign	**40,949**	**12,285**	**1,536**
Claims on PSEs	**6,436**	**1,931**	**241**
Claims on Banks	**157,551**	**47,265**	**5,908**
Claims on Corporates	**622,235**	**186,671**	**23,334**
Mortgage	**218,843**	**65,653**	**8,207**
Regulatory Retail Portfolio	**65,169**	**19,551**	**2,444**
Past due facilities	**81,999**	**24,600**	**3,075**
Investment in securities	**8,632**	**2,590**	**324**
Holding of Real Estates	**42,922**	**12,877**	**1,610**
Other Assets	**31,667**	**9,500**	**1,188**
	1,276,403	**382,923**	**47,867**

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table - 35. Treatment of assets financed by Equity of Investment Accountholders (continued)

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 2016:

	RWA US$ '000	*RWA for capital adequacy purposes US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	56,981	17,094	2,137
Claims on PSEs	8,028	2,408	301
Claims on Banks	176,616	52,985	6,623
Claims on Corporates	636,092	190,828	23,854
Mortgage	71,906	21,572	2,697
Regulatory Retail Portfolio	207,228	62,168	7,771
Past due facilities	78,567	23,570	2,946
Investment in securities	8,399	2,520	315
Holding of Real Estates	49,444	14,833	1,854
Other Assets	22,756	6,827	853
	1,316,017	394,805	49,351

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 is not engaged in investment management activities or in managing funds. Therefore, the investments policies or risk parameters related to funds management are not relevant amid with specific nature of such business. The exposures given above are raised predominantly under agency arrangements/ syndications with specified institutional customers . In this respect, the respective nature, associated risks and returns measures are duly disclosed as follows:

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 – 36. 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

	30 June 2017	*31 December 2016*
Receivables	**86.95%**	87.62%
Investments	**13.05%**	12.38%

3 RISK MANAGEMENT (continued)

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

Table – 37. 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	***30 June 2017***	*31 December 2016*
Banks	**86.95%**	87.62%
Corporate	**13.05%**	12.38%

Table – 38. 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 period ended 30 June 2017:

	Opening actual allocation US$ '000	***Movement US$ '000***	***Closing actual allocation US$ '000***
Receivables	**66,585**	**(3,175)**	**63,410**
Investments	**9,405**	**114**	**9,519**
	75,990	**(3,061)**	**72,929**

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 2016:

	Opening actual allocation US$ '000	*Movement US$ '000*	*Closing actual allocation US$ '000*
Receivables	94,677	(28,092)	66,585
Investments	9,462	(57)	9,405
	104,139	(28,149)	75,990

Table – 39. Off-balance sheet equity of Investment Accountholders historical returns

The following table summarises the historical returns over the past five year:

	Jun 2017 US$ '000	*Dec 2016 US$ '000*	*Dec 2015 US$ '000*	*Dec 2014 US$ '000*	*Dec 2013 US$ '000*
Gross Income	**722**	1,810	1,782	1,772	105
Mudarib Fee	**31**	118	77	99	47

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.

3 RISK MANAGEMENT (continued)

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

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.

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 – 40. Liquidity ratios

The following table summarises the liquidity ratios as of:

	30 June 2017	*31 December 2016*
Liquid assets to total assets	**20.66%**	20.69%
Short term assets to short term liabilities	**78.86%**	74.41%

Table – 41. Quantitative indicators of financial performance and position

	Jun 2017*	*Dec 2016*	*Dec 2015*	*Dec 2014*	*Dec 2013*
Return on average equity	0.9%	1.2%	3.5%	1.2%	0.6%
Return on average assets	0.1%	0.1%	0.3%	0.1%	0.1%
Cost to Income Ratio	96.0%	82.5%	88.5%	92.7%	91.1%

* 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.

The Group has dedicated staff and hires services of professional firms to ensure compliance with applicable laws and regulations. Further, the legal cases are actively followed in collaboration of legal councils and directly monitored by the strategic management.