Kuwait Finance House (Bahrain) B.S.C.(c)
Public Disclosure

30th June 2016

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1 Group Structure

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–1: Annual Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks. Rules concerning the disclosures under this section are applicable to Kuwait Finance House (Bahrain) B.S.C. (c) ("KFH Bahrain" or "the Bank") being a locally incorporated Bank with an Islamic retail banking license and its subsidiaries, together known as ("the Group"). These disclosures should be read in conjunction with the Financial Statement for the period ended 30 June 2016. All amounts presented in the document are in Bahraini Dinar and rounded off to the nearest thousand. The shareholding structure as at 30 June 2016 is as follows:

Name	Number of shares	Nominal Value (BD '000)	Shareholding Percentage	Nationality
Kuwait Finance House K.S.C.	1,650,949,273	165,095	93.200%	Kuwaiti
Treasury Shares	120,437,813	12,044	6.799%	Bahraini
Khalid Mohammed Al-Maarafi	17,714	2	0.001%	Bahraini
Total	1,771,404,800	177,141	100%	

The Board of Directors (the "Board") at KFH Bahrain seeks to optimise the Group's performance by enabling the business units to realise the Group's business strategy and meet agreed business performance targets by operating within the agreed capital and risk parameters and the risk policy framework.

2 Capital Adequacy

The Group manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the CBB in supervising the Bank.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

Regulatory capital consists of Tier 1 capital (core capital) and Additional Tier 1 and Tier 2 capital (supplementary capital). Tier 1 comprises share capital, share premium, statutory reserve, general reserve, retained earnings (including current year's profit), foreign currency translation reserve, unrealised net gains arising from fair valuing equities and minority interest less goodwill. Additional Tier 1 and Tier 2 capital include instruments issued by the parent company, general financing loss provisions and asset revaluation reserves. Certain adjustments are made to the financial results and reserves, as prescribed by the CBB in order to comply with Capital Adequacy (CA) Module issued by the CBB. From the regulatory perspective, the significant amount of the Group's capital is in Tier 1.

The Group's approach to assessing capital adequacy has been in line with its risk appetite in the light of its current and future activities. To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardised Approach for the Credit and Market Risk, and the Basic Indicator Approach for the Operational Risk.

The Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of expectations for each business group, expected growth in off–balance sheet facilities and future sources and uses of funds. In achieving an optimum balance between risk and return, the Bank has established an Internal Capital Adequacy Assessment Program (ICAAP) which quantifies the economic capital requirements for the key risks that the Bank is exposed to including credit risk, investment risk, liquidity risk, strategic risk, profit rate risk, reputation risk, operational risk, and concentration risk. The Bank also conducts comprehensive stress tests for various portfolios and assesses the impact on the capital and profitability. In addition, the Bank's stress testing frameworks and models allow for forward looking scenarios, which is considered for business growth strategies. The ICAAP of the Bank is driven by the Board through the Capital Adequacy Strategy and the ICAAP Policy. In case a plausible stress scenario is identified which may severely affect the capital adequacy of the Bank, the senior management decides an appropriate corrective action to be taken under such a scenario.

For the purpose of computing CAR the Bank consolidates the following entities:

1. Bayan Group for Property Investment W.L.L.;
2. Baytik Investment One S.P.C.; and
3. Baytik Investment Two S.P.C;

Investment in unconsolidated subsidiaries are risk weighted as per the requirement of CA Module.

All transfer of funds within the Group is only carried out after proper approval process.

Table – 1. Capital Structure **Amount in BD '000**

CAPITAL STRUCTURE	
Capital Structure (PD-1.3.12, 1.3.13,1.3.14, 1.3.15) *	
Components of Capital	
Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	177,140
Share premium	71,403
Statutory reserve	17,642
General reserve	28,237
Treasury shares	(21,923)
Retained earnings	5,826
Accumulated other comprehensive income and losses (and other reserves)	78,668
Total CET1 capital prior to regulatory adjustments	356,993
Regulatory adjustments from CET1:	
Regulatory adjustments from CET1	-
Total Common Equity Tier 1 capital after the regulatory adjustments above	356,993
Other Capital (AT1 & T 2):	
Instruments issued by parent company (Note 1)	54,069
Assets revaluation reserve - property, plant, and equipment	6,340
General financing loss provisions	25,534
Total Available AT1 & T2 Capital	85,943
Total Capital	**442,936**

Note 1: The instrument issued by the Parent is in the form of subordinated Murabaha with a maturity of below five years as of 30 June 2016. The repayments of this Murabaha is subject to the prior approval of the CBB.

Note 2: investment in unconsolidated subsidiaries has note lead to any significant threshold breaches.

* For the purposes of guidance we have cross referenced every table with the relevant section of the CBB's Public Disclosures Module.

Table – 2. Capital Requirement by Type of Islamic Financing Contract. **Amount in BD '000**

CAPITAL ADEQUACY	
Regulatory Capital Requirements (PD-1.3.17) by Each Type of Islamic Financing Contracts	
Type of Islamic Financing Contracts	**Capital Requirement**
Murabaha contracts with Banks	661
Financing contracts with customers	
-Murabaha	55,085
-Ijarah	5,894
-Musharakah	70
Total	**61,710**

Table – 3. Capital Requirement for Market and Operational Risk **Amount in BD '000**

CAPITAL ADEQUACY		
Capital Requirements for Market Risk (PD-1.3.18) & Operational Risk (PD-1.3.19) & 1.3.30(a)		
Particulars	**Risk Weighted Assets**	**Capital Requirement**
Market Risk - Standardised Approach	38,030	4,754
Operational Risk - Basic indicator approach	180,611	22,576

Table – 4. Capital Ratios **Amount in BD '000**

CAPITAL ADEQUACY		
Capital Adequacy Ratios (PD-1.3.20)		
Particulars	**Total Capital Ratio**	**Tier 1 Capital Ratio**
	%	
Consolidated Ratios	13.9%	11.2%

Table – 6. Portfolio Geographic Breakdown. **Amount in BD '000**

CREDIT RISK: QUANTITATIVE DISCLOSURES										
Geographic Breakdown (PD-1.3.23(b)										
Portfolios	**Self-Financed Geographic Area**					**Financed by Unrestricted Investment Accounts Geographic Area**				
	Middle East	**North America**	**Europe**	**Others Countries**	**Total**	**Middle East**	**North America**	**Europe**	**Others Countries**	**Total**
Balances with Banks	25,074	1,057	312	10	26,453	22,327	941	277	10	23,555
Murabaha and due from Banks	41,424	-	-	-	41,424	54,152	-	-	-	54,152
Financing contracts with customers	267,631	-	-	-	267,631	327,121	-	-	-	327,121
Investments at amortised cost – Sukuk	66,724	-	-	-	66,724	59,920	-	-	-	59,920
Receivables	42,700	-	-	-	42,700	-	-	-	-	-
Total	**443,553**	**1,057**	**312**	**10**	**444,932**	**463,520**	**941**	**277**	**10**	**464,748**
Un-funded										
Credit commitments and contingent items	66,701	-	-	-	66,701	-	-	-	-	-
Grand Total	**510,254**	**1,057**	**312**	**10**	**511,633**	**463,520**	**941**	**277**	**10**	**464,748**

Note: The Bank's classification of geographical area is according to the distribution of its portfolios across material geographies.

Table – 7. Industrial Sector Breakdown by Portfolio **Amount in BD '000**

CREDIT RISK: QUANTITATIVE DISCLOSURES										
Industry Sector Breakdown (PD-1.3.23(c))										
Portfolios	**Self-Financed Industry Sector**					**Financed by Unrestricted Investment Accounts Industry sector**				
	Trading and Manufacturing	**Banking and Financial**	**Construction and Real Estate**	**Others**	**Total**	**Trading and Manufacturing**	**Banking and Financial**	**Construction and Real Estate**	**Others**	**Total**
Funded										
Balances with Banks	-	26,453	-	-	26,453	-	23,555	-	-	23,555
Murabaha and due from Banks	-	41,424	-	-	41,424	-	54,152	-	-	54,152
Financing contracts with customers	36,897	9,564	205,507	15,663	267,631	44,385	11,505	198,176	73,055	327,121
Investments at amortised cost – Sukuk	-	45,838	20,886	-	66,724	-	59,920	-	-	59,920
Receivables	-	1,248	299	41,153	42,700	-	-	-	-	-
Total	**36,897**	**124,527**	**226,692**	**56,816**	**444,932**	**44,385**	**149,132**	**198,176**	**73,055**	**464,748**
Un-funded										
Credit commitments and contingent items	23,006	-	5,527	38,168	66,701	-	-	-	-	-
Grand Total	**59,903**	**124,527**	**232,219**	**94,984**	**511,633**	**44,385**	**149,132**	**198,176**	**73,055**	**464,748**

3 Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from financing, trade finance and treasury activities. The Bank controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by collateral in the form of mortgage on real estate properties or other tangible securities.

3.1 Highly Leveraged and Other High Risk Counterparties

The Bank defines "Highly Leveraged Institutions" in line with the definitions of Basel in its papers detailed "Review of issues relating to Highly Leveraged Institutions (HLIs)", "Sound Practices for Banks' Interactions with Highly Leveraged Institutions", "Banks' Interactions with Highly Leveraged Institutions" as follows:

- Large financial institutions
- Are subject to little or no regulatory oversight.
- Are generally subject to very limited disclosure requirements and are not subject to rating by credit reference
- Take on significant leverage, where leverage is the ratio between risk, expressed in some common denominator, and

The Bank will not provide financing facilities to HLIs. On a case by case basis, if required, all financing deals to HLIs will be approved by the board of directors.

Table – 5. Average and Gross Credit Risk Exposure **Amount in BD '000**

CREDIT RISK: QUANTITATIVE DISCLOSURES				
Credit Risk Exposure (PD-1.3.23(a))				
	Self-Financed		**Financed by Unrestricted**	
Portfolios	**Total Gross Credit Exposure**	*** Average Gross Credit Exposure Over the Period**	**Total Gross Credit Exposure**	*** Average Gross Credit Exposure Over the Period**
Balances with Banks	26,453	21,414	23,555	26,518
Murabaha and due from Banks	41,424	37,919	54,152	59,057
Financing contracts with customers	267,631	243,635	327,121	337,147
Investments at amortised cost – Sukkuk	66,724	66,724	59,920	47,981
Receivables	42,700	16,926	-	-
Total	**444,932**	**386,618**	**464,748**	**470,703**
Credit commitments and contingent items	66,701	57,403	-	-
Grand Total	**511,633**	**444,021**	**464,748**	**470,703**

* Gross credit exposure is reflected net of specific provisions and gross of general provisions.

Average credit exposure has been calculated using quarterly consolidated financial statements and PIRI forms submitted to the CBB.

Table – 8. Exposures in Excess of 15% Limit

CREDIT RISK: QUANTITATIVE DISCLOSURES		
Concentration of risk (PD-1.3.23(f)) Exposure as a Percentage of Capital Base		
Counterparties	**Self-Financed**	**Financed by Unrestricted Investment Accounts**
	Concentration of Risk	**Concentration of Risk**
Counterparty # 1	36.76%	0.00%

The outstanding amount of financing contracts with customers for which financing terms have been renegotiated during the year and six months have not elapsed amounted to BD 3,589 thousand (2015: BD 23,756 thousand) and these are secured with collateral amounting to BD 7,259 thousand (2015: BD 39,313 thousand). As a condition to restructuring, the Bank has received partial payment from customers and/or obtained additional collateral.

Foreclosed Assets

The Group has implemented a policy to deal with foreclosed assets which prescribes the procedure to be followed by business units when foreclosing assets as deemed necessary. The policy provides for the recording of foreclosed assets in the Bank's books and their management, including sale or rental.

Table – 9. Maturity Breakdown of Credit Exposures Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES							
Residual Contractual Maturity Breakdown (PD-1.3.23(g))							
Portfolios	**Self Financed**						
	Maturity Breakdown						
	Up to 3 Months	**3-12 Months**	**1-5 Years**	**5-10 Years**	**10-20 Years**	**Over 20 Years**	**Total**
Balances with Banks	26,453	-	-	-	-	-	26,453
Murabaha and due from Banks	36,522	4,902	-	-	-	-	41,424
Financing contracts with customers	9,806	24,347	137,857	67,022	26,116	2,483	267,631
Investments at amortised cost – Sukuk	-	20,886	45,838	-	-	-	66,724
Receivables	4,915	56	37,729	-	-	-	42,700
Total	**77,696**	**50,191**	**221,424**	**67,022**	**26,116**	**2,483**	**444,932**
Credit commitments and contingent items	-	61,174	5,527	-	-	-	66,701
Grand Total	**77,696**	**111,365**	**226,951**	**67,022**	**26,116**	**2,483**	**511,633**

Amount in BD '000

Residual Contractual Maturity Breakdown (PD-1.3.23(g))							
Portfolios	**Financed by Unrestricted Investment Accounts**						
	Maturity breakdown						
	Up to 3 Months	**3-12 Month**	**1-5 Years**	**5-10 Years**	**10-20 Years**	**Over 20 Years**	**Total**
Balances with Banks	23,555	-	-	-	-	-	23,555
Murabaha and due from Banks	47,744	6,408	-	-	-	-	54,152
Financing contracts with customers	61,876	29,709	118,851	81,751	31,899	3,035	327,121
Investments at amortised cost – Sukuk	-	-	59,920	-	-	-	59,920
Receivables	-	-	-	-	-	-	-
Total	**133,175**	**36,117**	**178,771**	**81,751**	**31,899**	**3,035**	**464,748**
Credit commitments and contingent items	-	-	-	-	-	-	-
Grand Total	**133,175**	**36,117**	**178,771**	**81,751**	**31,899**	**3,035**	**464,748**

Table – 10. Break-up of Impaired Finances by Industry Sector

Amount in BD '000

	CREDIT RISK: QUANTITATIVE DISCLOSURES														
	Impaired Finances, Past Due Finances and Allowances (PD-1.3.23(h))														
						Self-Financed									
Industry Sector	**Total Portfolio**	**Good**	**Watchlist**	**Rescheduled**	**Substandard, Doubtful & loss**				**Specific Impairment**						**Collective Impairment**
						Over 3 Months	**1 to 3 Years**	**Over 3 years**	**Balance at the beginning of the Period**	**Charges During the Period**	**Transfer from (to) collective provision**	**Transfer to other assets**	**Reversals & write offs during the Period**	**Balance at the End of the Period**	
Trading and manufacturing	36,897	29,051	3,175	4,440	231	146	46	39	87	66	1,068	(107)	-	1,114	*
Banking and financial institutions	9,564	7,590	823	1,151	-	-	-	-	-	-	-	-	-	-	*
Construction & real estate	205,507	139,485	15,767	22,053	28,202	17,872	5,589	4,741	1,460	249	2,888	(402)	-	4,195	*
Others	15,663	6,723	3,465	4,846	629	399	124	106	1,002	11	(816)	(17)	-	180	*
Total	**267,631**	**182,849**	**23,230**	**32,490**	**29,062**	**18,417**	**5,759**	**4,886**	**2,549**	**326**	**3,140**	**(526)**	**-**	**5,489**	

* This amounts to BD 25,534 thousand representing collective impairment against total exposures (self financed and URIA financed) which, although not specifically identified, have a greater risk of default than when originally granted.

Past due finances are stated net of specific impairment.

Amount in BD '000

	Impaired Finances, Past Due Finances and Allowances (PD-1.3.23(h))													
						Financed by Unrestricted Investment Accounts								
Industry Sector	**Total Portfolio**	**Good**	**Watchlist**	**Rescheduled**	**Substandard, Doubtful & loss**				**Specific Impairment**					**Collective Impairment**
						Over 3 Months	**1 to 3 Years**	**Over 3 years**	**Balance at the beginning of the Period**	**Charges during the Period**	**Transfer from (to) collective provision**	**Reversals & write offs during the Period**	**Balance at the end of the Period**	
Trading and manufacturing	44,385	37,759	2,681	3,751	194	123	38	33	124	79	863	(126)	940	*
Banking and financial institutions	11,505	9,838	695	972	-	-	-	-	-	-	-	-	-	*
Construction & real estate	198,176	142,406	13,319	18,627	23,824	15,097	4,720	4,007	2,092	295	1,632	(475)	3,544	*
Others	73,055	65,502	2,927	4,094	532	337	106	89	1,436	13	(1,275)	(22)	152	*
Total	**327,121**	**255,505**	**19,622**	**27,444**	**24,550**	**15,557**	**4,864**	**4,129**	**3,652**	**387**	**1,220**	**(623)**	**4,636**	

* This amounts to BD 25,534 thousand representing collective impairment against total exposures (self financed and URIA financed) which, although not specifically identified, have a greater risk of default than when originally granted.

Past due finances are stated net of specific impairment.

Table – 11. Break-up of Provision by Geographic Area **Amount in BD '000**

CREDIT RISK: QUANTITATIVE DISCLOSURES						
Impaired Finances, Past Due Finances And Allowances (PD-1.3.23(i))						
	Own Capital and Current Account			**Unrestricted Investment Account**		
Geographic Area	**Past Due Islamic Financing Contracts**	**Specific Impairment**	**Collective Impairment**	**Past Due Islamic Financing Contracts**	**Specific Impairment**	**Collective Impairment**
Middle East	29,062	5,489	*	24,550	4,636	*
Total	**29,062**	**5,489**		**24,550**	**4,636**	

* This amounts to BD 25,534 thousand representing collective impairment against exposures which, although not specifically identified, have a greater risk of default then when originally granted.

Table – 12. Break-up of Eligible Collateral by Portfolio **Amount in BD '000**

CREDIT RISK MITIGATION (CRM): DISCLOSURES FOR STANDARDISED APPROACH		
Credit Risk Exposure Covered By CRM (PD-1.3.25 (b) and (c))		
Portfolios	**Total Exposure Covered by**	
	Eligible Collateral(after appropriate haircuts)*	**Guarantees**
Ijarah	343,816	3,222
Total	**343,816**	**3,222**

* Over and above the collateral, considered as eligible under the CA Module, the Bank maintains additional collateral in the form of mortgage of residential properties, corporate guarantees and other tangible assets, which could be invoked to claim the amount owed in the event of default.

Table –13. Counter Party Credit Risk **Amount in BD '000**

DISCLOSURES FOR EXPOSURES RELATED TO COUNTERPARTY CREDIT RISK (CCR)								
General Disclosures (PD-1.3.26 (b))								
Current Credit Exposure by Type of Islamic Financing Contracts	**Gross Positive Fair Value (Net of specific provision)**	**Netting Benefits**	**Netted Current Credit Exposures**	**Eligible Collaterals Held (after appropriate haircuts) ***				
				Cash	**Govt. Securities**	**Guarantees**	**Real Estate**	**Total**
Murabaha	224,063	-	224,063	-	-	-	-	-
Ijarah	370,302	-	370,302	217	-	3,222	357,029	360,468
Musharakah	387	-	387	-	-	-	-	-
Total	**594,752**	-	**594,752**	**217**	**-**	**3,222**	**357,029**	**360,468**

* Over and above the collateral, considered as eligible under the CA Module, the Bank maintains additional collateral in the form of mortgage of residential properties, corporate guarantees and other tangible assets, which could be invoked to claim the amount owed in the event of default.

4 Market Risk

Market risk is the risk that movements in market risk factors, including foreign exchange rates, profit rates, commodity prices, equity prices and credit spreads will reduce the Group's income or the value of its portfolios. The Group is also exposed to profit rate and potential foreign exchange risks arising from financial assets and liabilities.

The Board has approved the overall market risk appetite in terms of market risk strategy and market risk limits. RMD is responsible for the market risk control framework and sets a limit framework within the context of the approved market risk appetite. The Bank separates market risk exposures into either trading or non–trading portfolios. Trading portfolios include those positions arising from market–making, proprietary position–taking and other marked–to–market positions. Non–trading portfolios include all other positions that are not included in the trading book.

Daily market risk reports are produced for the Bank's senior management covering the different risk categories. These reports are discussed with the senior management committees such as ALCO which take appropriate action to mitigate the risk.

4.1 Market Risk Factors

For the Group, market risk may arise from movements in profit rates, foreign exchange markets, equity markets or commodity markets. A single transaction or financial product may be subject to any number of these risks.

Profit Rate Risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments.

Foreign Exchange Risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on FX Value At Risk (VAR) . Positions are monitored on a daily basis to ensure risk is maintained within established limits using VaR methodology.

The Group is exposed to the currency risk mainly due to the Bank's banking book FX net open positions and due to the fact that the assets and liabilities of its foreign subsidiaries are denominated in their respective functional currencies. Net assets of the Group's foreign subsidiary, located in Jordan, as at 30 June 2016 are BD 29,656 thousand (31 December 2015: BD 29,769 thousand).The assets and liabilities are translated into Bahraini Dinar (presentation currency of the Group) using the closing rate at the date of statement of financial position for the purpose of consolidated financial statements. The impact of foreign currency translation is recognised in the statement of comprehensive income and will be routed to statement of income at the time of disposal of investment in subsidiaries.

Equity Risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

Commodity Price Risk is the risk that arises as a result of sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within a particular sector and less correlated across sectors. The Group is not exposed to material commodity price risk.

Table – 14. Minimum and Maximum Capital Requirement for Market Risk

MARKET RISK: DISCLOSURES FOR BANK'S USAGE OF THE STANDARDISED APPROACH					
Level Of Market Risks In Terms Of Capital Requirements (PD-1.3.27 (b))					
Particulars	**Price Risk**	**Foreign Exchange Risk**	**Equity Position Risk**	**Market Risk on Trading Positions in Sukuks**	**Commodity Risk**
Capital requirements	502	3,987	266	-	-
Maximum value	502	4,023	266	-	-
Minimum value	402	3,987	248	-	-

This disclosure is based on the figures from the PIRI for the year ended 30 June 2016.

5 Operational Risk

5.1 Introduction

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The Bank has established a Risk Control and Self-Assessment (RCSA) process necessary for identifying and measuring and controlling its operational risks. This exercise covers the Bank's business lines and associated critical activities that exposes the Bank to material operational risks.

5.2 Quantitative disclosures

Table –15. Indicators of Operational Risk **Amount in BD '000**

OPERATIONAL RISK : QUANTITATIVE DISCLOSURES FOR BASIC INDICATOR APPROACH	
Indicators of Operational Risk (PD-1.3.30 (b) & (c))	
Particulars	**Total**
Gross Income (average)	96,326
Amount of non-Shari'a-compliant income	-
Number of Shari'a violations that were identified and reported during the financial year	-

Material legal contingencies including pending legal actions are as follows:

- An action was filed by the Bank against a defaulting customer for monies owed to the Bank under a facility. The Bank won the action against the customer and is seeking to enforce the judgment. The customer has also brought a frivolous action against the Bank and the Bank is defending the case vigorously.

Legal cases are handled by the Bank's in-house legal team and external legal consultants are consulted on such matters.

During the first half of the year 2016, the Bank paid BD 100 for two un-cleaned account in the Bahrain credit Reference Bureau (BCRB) System.

Any non-Shari'a compliant earnings are immediately given away as charity.

6 Equity Positions in the Banking Book

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio. The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the interim condensed consolidated financial statements. All of the Group's investments are intended to be for long term holdings except for investment classified as available for sale and held for sale.

Table – 16. Total and Average Gross Exposures **Amount in BD '000**

EQUITY POSITION IN BANKING BOOK - DISCLOSURE REQUIREMENTS				
Total and Average Gross Exposure - (PD-1.3.31 (b) & (c))				
Type and Nature of Investment	**Total Gross Exposure**	*** Average Gross Exposure**	**** Publicly Traded**	**Privately held**
Equity investments	377,867	350,904	17,443	360,424
Managed funds	1,111	3,009	-	1,111
Musharaka	387	397	-	387
Total	**379,365**	**354,310**	**17,443**	**361,922**

* Average exposure has been calculated using quarterly consolidated financial statements or PIRI forms submitted to CBB.

** This includes publically listed equities classified as investment in asscoiate and available for sale in the financial statements.

Table – 17. Break-up of Capital Requirement for Equity Groupings Amount in BD '000

EQUITY POSITION IN BANKING BOOK - DISCLOSURE REQUIREMENTS	
Capital Requirement - (PD-1.3.31 (f))	
Equity Grouping	**Capital Requirement**
Listed	2,180
Unlisted	197,074
Managed Funds	208
Total	**199,462**

Table – 18. Gain and Loss Reported Amount in BD '000

EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS	
Gains / Losses Etc. (PD-1.3.31 (d) and (e))	
Particulars	**Total**
Total realised gains arising from sales or liquidations in the reporting period	(265)
Total unrealised gains (net) recognised in statement of other comprehensive income	(703)
Unrealised gains included in Tier 1 Capital	81,163
Unrealised gains included in Additional Tier 1 and Tier 2 Capital	(2,579)

7 Equity of Investment Account Holders (URIA)

The Investment Account Holder ("IAH") authorizes the Bank to invest the account holder's funds on the basis of Mudaraba contract in a manner which the Bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. Under this arrangement the Bank can commingle the IAH funds with its own funds (owner's equity) and with other funds the Bank has the right to use (e.g. current accounts or any other funds which the Bank does not receive on the basis of Mudaraba contract). The IAH and the Bank participate in the returns on the invested funds.

The Bank has developed a Profit Sharing Investment Accounts (PSIA) policy which details the manner in which the URIA funds are deployed and the way the profits are calculated for the URIA holders. The strategic objectives of the investments of the IAH funds are:

- Investment in Shari'a compliant opportunities;
- Targeted returns;
- Compliance with investment policy and overall business plan;
- Diversified portfolio; and
- Preparation and reporting of periodic management information.

URIA holders' funds are invested in short and medium term Murabaha and due from banks, Sukuks and the financing portfolio. The Bank invests these funds through various departments including Treasury, corporate, consumer, and capital markets. No priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the URIA, 100% of the funds are invested after deductions of mandatory reserve and sufficient operational cash requirements. URIA funds are invested and managed in accordance with Shari'a requirements. Income generated and losses arising (including provisions) from the invested funds is allocated proportionately between URIA holders and shareholders on the basis of the average balances outstanding and share of the funds invested. The Bank does not share income from fee based services with the URIA holders. Administrative expenses incurred by the Bank are allocated to the URIA holders in the proportion of average URIA funded assets to average total pool assets of the Bank. The process has not changed significantly from the past years.

The mudarib share on investment accounts ranges from 20% to 85% depending on the investment period and in case of saving accounts, where there is no restriction of cash withdrawal, the mudarib share ranges from 85% to 95%. However, during the year, in addition to investors' share of profit, the Bank has distributed profit to investors from its own share of mudarib share. There is no change in mudarib share from the year ended 31 December 2015 to 30 June 2016.

The Bank has a Corporate Communications Department which is responsible for communicating new and/or extended product information through various channels of communication which may include publications, website, direct mailers, electronic mail and local media. The URIA products available to the customers can be classified broadly under two categories, 1) Term URIA and 2) Saving URIA. Term URIA are fixed term URIA having maturity of 1, 3, 6 and 12 months whereas Saving URIA can be withdrawn on demand. Detailed information about the features of various products offered by the Bank can be obtained from the website of the Bank, brochures at the branches, call centre and customer service representatives at the branches of the Bank. Branches of the Bank are the primary channel through which products are made available to the customers.

7 Equity of Investment Account Holders (URIA) (continued)

Fiduciary risk is the risk that arises from Bank's failure to perform in accordance with explicit and implicit standards applicable to their fiduciary responsibilities. Although KFHB will discourage subsidizing its URIA holders, the Bank may forgo a portion of its mudarib share from assets funded by PSIA and apportion its share to the IAH as part of smoothing returns and to mitigate potential withdrawal of funds by investment account holders.

Complete mudarib share or part thereof, based on the approval of ALCO of the Bank, can be waived to pay a competitive rate to URIA holders. There are no instances where the Bank, as Mudarib, has taken any share greater than the agreed/disclosed profit sharing ratio. There were instances where the Bank has forgone part of its profit to distribute that to the Bank's customers or investors. The bank may also forgo part of its shareholder's returns as a "hiba" to URIA holders in order to mitigate DCR.

The rate of return payable to URIA holders is decided by ALCO, keeping in view the rate of return earned on the pool of assets. Based on the results of Mudarabah, allocation will take place to the URIA holders affected by the following factors including rates offered by peer banks, cost of funds from various sources, liquidity position of the Bank and market benchmarks (LIBOR etc). The Bank compares its rates with the rates offered by peer Islamic banks in the market along with performing analysis of its profitability and studies of other market indicators. The Bank does not use a fixed market benchmark rate for comparison to the returns paid to URIA holders. In order to ensure smooth returns and to mitigate the potential withdrawal of funds by URIA Investors; the Bank can use Profit Equalisation Reserve (PER). Similarly, the Bank can use an Investment Risk Reserve (IRR) to cater against future losses for URIA holders. The amount of PER and IRR as at 31 December 2015 and 30 June 2016 is Nil but the Bank may transfer an amount into PER and IRR in future after prior notice to its customers.

Deposits and URIA held with the Bank are covered by the Regulation Protecting Deposits and Unrestricted Investment Accounts issued by the Central Bank of Bahrain in accordance with Resolution No.(34) of 2010.

Table – 19. Break-up of URIA Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:			
	Amount	**Financing to Total URIA %**	**Ratio of Profit Distributed**
Savings URIA	193,132	42%	14%
Term URIA	261,539	58%	86%
Total	**454,671**	**100%**	**100%**

Table – 20. Percentage of Return on Average URIA Assets

UNRESTRICTED INVESTMENT ACCOUNTS:	
Unrestricted Investment Account (PD-1.3.33 (d))	**Percentage**
Average profit paid on average URIA assets	0.88%
Average profit earned on average URIA assets	0.79%

Table – 21. Percentage of Mudarib share to Total URIA Profits Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (f))			
	URIA Return Before Mudarib shares	**Share of Profit Paid to Bank as Mudarib**	**Percentage**
Mudarib share to total URIA profits	2,006	-	0%

Table – 22. Percentage of Islamic Financing Contracts Financed by URIA to Total URIA Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:		
Unrestricted Investment Account (PD-1.3.33 (h))		
Shari'a-Compliant Contract	**Financing**	**Financing to Total URIA %**
Cash and balances with banks	25,170	5.54%
Murabaha and due from banks	54,152	11.91%
Investments at amortised cost – Sukuk	59,920	13.18%
Customer Murabaha	108,971	23.97%
Customer Ijarah Muntahia Bittamleek	206,458	45.41%
Total	**454,671**	**100.00%**

Table – 23. Percentage of Counterparty Type Contracts Financed by URIA to Total URIA Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:		
Unrestricted Investment Account (PD-1.3.33 (i))		
Counterparty Type	**Financing**	**Financing to Total URIA %**
Cash items	1,615	0.36%
Claims on sovereigns & MDBs	92,575	20.36%
Claims on banks	31,201	6.86%
Claims on corporate	47,022	10.34%
Regulatory retail portfolio	22,792	5.01%
Mortgage	232,177	51.06%
Past due facilities	26,884	5.91%
Others	405	0.09%
Total	**454,671**	**100.00%**

Table – 24. Percentage of Profit Paid to URIA Holders to Total URIA Investment

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (l) (m) & (n))			
	Share of Profit Paid to IAH Before Transfer To/From Reserves %	**Share of Profit Paid to IAH After Transfer To/From Reserves %**	**Share of Profit Paid, as a % of Funds Invested, to Bank as Mudarib %**
URIA	0.82%	0.82%	0.00%

Table – 25. Range of Declared Rate of Return

UNRESTRICTED INVESTMENT ACCOUNTS:				
Unrestricted Investment Account (PD-1.3.33 (q))				
Declared rate of return for Investments accounts	**1-Month**	**3-Month**	**6-Month**	**12-Month**
BHD denominated	1.20%	1.40%	1.65%	1.90%
USD denominated	0.95%	1.20%	1.40%	1.65%

Table – 26. Movement of URIA by Type of Assets **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (r) & (s))			
Type of Assets	**Opening Actual Allocation as at 01 Jan 2016**	**Net Movement During the Period**	**Closing Actual Allocation as at 30 June 2016**
Cash and Balance with banks and CBB	30,302	(5,132)	25,170
Murabaha due from banks	54,311	(159)	54,152
Investments at amortised cost – Sukuk	36,870	23,050	59,920
Murabaha due from customers	118,122	(9,151)	108,971
Ijarah Muntahia Bittamleek due from customers	217,095	(10,637)	206,458
Total	**456,700**	**(2,029)**	**454,671**

Note: There are no limits imposed on the amount that can be invested by URIA funds in any one asset. However, the Bank monitors its URIA deployment classifications so that to ensure that URIA funds are not invested in the Bank's long term Investment Portfolio (including Private Equity and Real Estate). The Bank also does not allocate URIA funds to the equity investments in the trading book.

Table – 27. Capital Charge on URIA by Type of Claims **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (v))			
Type of Claims	**Exposures**	**Risk Weighted Assets**	**Capital Charge**
Cash items	1,615	-	61
Claims on sovereign	92,576	-	3,472
Claims on MDBs	-	-	-
Claims on banks	31,201	9,202	1,170
Claims on corporate	47,022	38,447	1,763
Regulatory retail portfolio	22,792	17,094	855
Mortgages	232,177	70,253	8,707
Past due facilities	26,884	20,603	1,008
Other assets	404	404	15
Total	**454,671**	**156,003**	**17,051**

* The RWA for Capital Adequacy Ratio Purposes is presented above prior to the application of the CBB approved 30% alpha factor which is the proportion of assets funded by URIA for RWA purposes in accordance to the CA module.

Table – 28. Percentage of Profit Earned and Profit Paid to Total Mudaraba **Amount in BD '000**

DISPLACED COMMERCIAL RISK - URIA:			
Displaced Commercial Risk Unrestricted Investment Account (PD-1.3.41 (b)			
	Total Mudaraba profits available for sharing between URIA and shareholders	**Contractual Range of Mudharib Share**	**Mudharib Share % of URIA Profit Earned**
June 2016	2.09%	20%-95%	-
2015	2.50%	20%-85%	-
2014	3.29%	20%-40%	-
2013	3.73%	20%-60%	26.81%
2012	3.57%	20%-60%	30.21%

Table – 29. Percentage rate of return to URIA and shareholders from Mudaraba Profit **Amount in BD '000**

DISPLACED COMMERCIAL RISK - URIA:	
Displaced Commercial Risk Unrestricted Investment Account (PD-1.3.41 (d))	
Type of Claims	**Shareholder Mudharaba Profit Earned as % of shareholder funds (before mudharib share)**
June 2016	4.71%
2015	-4.96%
2014	4.33%
2013	6.64%
2012	4.92%

Table – 30. Percentage of Profit Earned and Profit Paid to Total URIA Funds **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:					
Unrestricted Investment Account (PD-1.3.33 (w))					
	*** URIA Funds (Average)**	**** Profit Earned**	**Profit Earned as a percentage of funds invested**	**Profit paid**	***** Profit paid as a percentage of funds invested (after smoothing)**
June 2016	454,960	1,863	0.41%	2,006	0.44%
2015	479,767	3,568	0.74%	3,871	0.81%
2014	488,067	5,864	1.29%	6,283	1.29%
2013	459,227	10,808	2.35%	7,894	1.72%
2012	463,540	13,327	2.88%	9,300	2.01%

* Average assets funded by URIA have been calculated using consolidated management accounts.

** This is the rate of return gross of mudarib share which ranges from 20% to 85% (2015: 20% to 85%) for term URIA, depending on the investment period of the Investment, and from 50% to 60% for saving URIA.

*** During the year the Bank waived its mudarib share resulting in higher return paid to URIA holders by 100.00% (2015: 100.00%).

Table – 31. Operating Expenses Allocated to URIA **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:	
Unrestricted Investment Account (PD-1.3.33 (x))	
Unrestricted IAH	**Amount**
Amount of administrative expenses charged to URIA	6,589

8 Restricted Investment Accounts ("RIA")

Under RIA, the IAH has authorized the Bank to invest the funds on the basis of Mudaraba contract for investments, but imposes certain restrictions as to where, how and for what purpose this funds are to be invested. Further, the Bank may be restricted from commingling its own funds with the RIA funds for the purposes of investment. In addition, there may be other restrictions which IAHs may impose. RIA funds are invested and managed in accordance with Shari'a requirements. The funds are managed by the Bank under a fiduciary capacity as per the instructions of the RIA holders and accordingly the Bank is not liable to make good any losses occurred due to normal commercial reasons.

The Bank has developed the PSIA policy, approved by the Board, which details the manner in which the RIA funds are deployed and the way the profits are calculated for the RIA.

The Bank as fund manager (mudarib) carries out its fiduciary duties and administers the scheme in a proper, diligent and efficient manner, in accordance with the Shari'a principles and applicable laws and relevant rules and guidelines issued by the CBB.

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

a) Organising its internal affairs in a responsible manner, ensuring it has appropriate internal controls and management systems and procedures and controls designed to mitigate and manage such risk;
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 Bank has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

RIA products are made available to the customers through Priority Banking and Investment Placement Department. Detailed product information about various RIA products is available in the respective RIA information pack. The detailed risks are disclosed in the respective RIA information pack for the investors to make informed decision. Such disclosure includes the disclosure on participation risks, default risks, investment risks and exchange rate risks.

Table – 32. History of Profit Paid to RIA Holders **Amount in BD '000**

RESTRICTED INVESTMENT ACCOUNTS:						
Restricted Investment Account (PD-1.3.35 (a) & (b))						
	June 2016	**2015**	**2014**	**2013**	**2012**	**2011**
Return to RIA holders	3,266	7,080	7,377	7,455	5,476	5,459

Table – 33. Break-up of RIA by Type of Deposits **Amount in BD '000**

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (a))	
	Amount
RIA funds	134,980

Table – 34. Percentage of Profit Paid to RIA Holders to RIA Assets

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (d))	
	Percentage
Return on average* RIA assets	4.82%

* Average RIA funds have been calculated using consolidated management accounts.

Table – 35. Mudarib share as a Percentage of Total RIA Profits

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (f))	
	Percentage
Mudarib share to total (gross) RIA profits	30.02%

Table – 36. Share of Islamic Financing Contracts in Total RIA Financing **Amount in BD '000**

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.33 (h))		
Shari'a-Compliant Contract	**Financing**	**Financing to Total Financing %**
Murabaha	134,980	100.00%
Total	**134,980**	**100.00%**

Table – 37. Percentage of Counterparty Type Contracts Financed by RIA to Total RIA **Amount in BD '000**

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.33 (i))		
Counterparty Type	**Financing**	**Financing to Total Financing %**
Claims on corporate	134,980	100.00%

Table – 38. Share of Profit Paid to RIA Holders as a Percentage of Total RIA **Amount in BD '000**

RESTRICTED INVESTMENT ACCOUNTS:				
Restricted Investment Account (PD-1.3.33 (l) (m) (n) & (o))				
Type of RIA	**Total RIA**	**RIA Return Before Mudarib shares**	**RIA Return after Mudarib shares**	**Share of Profit Paid to Bank as Mudarib**
	A	**B**	**C**	**D**
Murabaha	134,980	4,667	3,266	1,401
Total	**134,980**	**4,667**	**3,266**	**1,401**

Table – 39. Declared Rate of Return of RIA

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.33 (q))		
	12-Month	**24-Month**
Declared rate of return	4.0% - 5.7%	4.5% - 6.2%

Table – 40. Treatment of Assets Financed by RIA in the Calculation of RWA for Capital Adequacy Purposes

Amount in BD '000

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.33 (v))		
Type of IAH	**Exposure**	**Risk Weighted Amount While Calculating CAR**
Murabaha	134,980	-

Table – 41. Profit Earned and Profit Paid as a Percentage of Total RIA Funds **Amount in BD '000**

RESTRICTED INVESTMENT ACCOUNTS:				
Restricted Investment Account (PD-1.3.33 (w))				
	Profit Earned	***Profit Earned as a Percentage of RIA Funds**	**Profit Paid**	***Profit Paid as a Percentage of RIA Funds**
2016	4,667	6.89%	3,266	4.82%
2015	9,447	7.38%	7,080	5.53%
2014	9,226	7.56%	7,377	6.18%
2013	9,013	7.33%	7,455	6.06%
2012	6,494	8.98%	5,476	7.57%
2011	6,051	7.75%	5,459	6.99%

* Profit earned and profit paid are based on average RIA funds and may not tally with the declared profit rates

9 Liquidity Risk

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

Table – 42. Liquidity Risk Exposure Indicators

LIQUIDITY RISK: QUANTITATIVE DISCLOSURE	
Liquid assets to customer deposits (PD-1.3.37)	
As at 30 June 2016	31.02%
During the period:	
Average	28.18%
Highest	32.71%
Lowest	25.05%

Table – 43. Maturity Analysis based conservative deposit behavioural analysis **Amount in BD '000**

LIQUIDITY RISK: QUANTITATIVE DISCLOSURE								
Maturity Analysis by Different Maturity Buckets. (PD-1.3.38)								
	Upon One Year			**Over One Year**				
	Up to 3 Months	**3 Months to 12 Months**	**Subtotal up to 12 Months**	**1 to 5 Years**	**5 to 10 Years**	**Over 10 Years**	**Subtotal Over 1 Year**	**Total**
Assets								
Cash and balances with banks and Central Bank of Bahrain	15,273	4,151	19,424	10,087	6,926	20,983	37,996	57,420
Murabaha and due from banks	84,266	11,310	95,576	-	-	-	-	95,576
Financing contracts with customers	46,148	54,056	100,204	256,708	148,773	63,533	469,014	569,218
Investments	1,059	539	1,598	1,110	144,127	-	145,237	146,835
Investment in joint ventures and associates	-	20,886	20,886	105,758	-	-	105,758	126,644
Investment in real estate	-	-	-	130,348	-	-	130,348	130,348
Receivables, prepayments and other assets	-	-	-	-	288,303	12,507	300,810	300,810
Intangibles	8,187	56	8,243	88,171	-	-	88,171	96,414
Premises and equipment	-	-	-	-	29,087	-	29,087	29,087
Total	**154,933**	**90,998**	**245,931**	**592,182**	**617,216**	**97,023**	**1,306,421**	**1,552,352**
Liabilities and Unrestricted Investment Accounts								
Customers' current accounts	7,701	-	7,701	46,327	46,327	46,326	138,980	146,681
Due to banks	32,402	-	32,402	181,950	-	-	181,950	214,352
Murabaha due to non-banks	2,677	89,032	91,709	110,404	16,102	16,101	142,607	234,316
Other liabilities	24,481	2,110	26,591	11,398	-	-	11,398	37,989
Equity of investment account holders	19,897	17,292	37,189	139,161	139,161	139,160	417,482	454,671
Subordinated murabaha payable	-	-	-	92,426	-	-	92,426	92,426
Total	**87,158**	**108,434**	**195,592**	**581,666**	**201,590**	**201,587**	**984,843**	**1,180,435**

10 Profit Rate Risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments.

Table – 44. Profit Rate Shock **Amount in BD '000**

PROFIT RATE RISK IN THE BANKING BOOK			
200bp Profit Rate Shocks (PD-1.3.40 (a)+(b))			
Assets	**Amount**	**Change in Basis Points**	**Effect on Net Income for the Year**
Murabaha and due from banks	57,420	200	1,148
Financing contracts with customers	248,197	200	4,964
Investments at amortized cost	126,644	200	2,533
Liabilities			
Murabaha and due to banks	214,352	200	(4,287)
Murabaha due to non-banks	234,316	200	(4,686)
Subordinated murabaha payable	92,426	200	(1,849)
Equity of investment account holders	454,671	200	(9,093)

11 Financial Performance and Position

Table – 45. Ratios

Financial Performance and Position					
(PD-1.3.9(b))					
Quantitative Indicator	**June 2016**	**2015**	**2014**	**2013**	**2012**
Return on average equity	1.72%	2.94%	1.40%	1.53%	2.56%
Return on average assets	0.42%	0.73%	0.34%	0.38%	0.65%
Staff cost to net operating income ratio	40.54%	16.02%	25.83%	41.5%	33.8%

Formula is as follows:
ROAE = Net Income/average equity
ROAA= Net profit/ average Assets