Ibdar Bank B.S.C. (c)

DISCLOSURES REQUIRED UNDER
PD MODULE OF THE CBB RULEBOOK
For The Six Months Ended 30 June 2017

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1 INTRODUCTION

The disclosures under this section have been prepared in accordance with the CBB requirements outlined in its Public Disclosure Module, of Volume 2 for Islamic Banks of the CBB rulebook (the "PD Module"). Rules concerning the disclosures under this section are applicable to Ibdar Bank B.S.C. (c) (Ibdar/the "Bank") being a locally incorporated bank with a wholesale Islamic Investment banking license and subsidiaries (together known as "the Group"). This document should be read in conjunction with the condensed consolidated interim financial information for the six months ended 30 June 2017 and the qualitative disclosures in the annual report for the year ended 31 December 2016. Information already included in the condensed consolidated interim financial information are not repeated.

1.1 Pillar I – Minimum Capital Requirements

Pillar I deals with the rules for the computation of regulatory capital requirements in respect of credit, market and operational risk. It defines the various classes of assets and the calculation of Risk Weighted Assets (RWAs) in respect of each class of assets. The capital adequacy ratio is calculated as the ratio of the Bank's regulatory capital to its total risk weighted assets. All Bahrain incorporated banks are currently required to maintain a minimum capital adequacy ratio of 12.5%.

1.1.1 Credit risk

The Bank has adopted the standardized approach under which on and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. Under the standardized approach, the risk weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external rating agencies approved by the CBB.

1.1.2 Market risk

The Bank has adopted the Standardized approach for determining the market risk capital requirement.

1.1.3 Operational risk

The Bank has adopted the basic indicator approach for operational risk. It is calculated by applying a co-efficient of 15 percent to the average gross income for the preceding three financial years.

1.2 Pillar II – The Supervisory Review and Evaluation Process

Pillar II involves the process of supervisory review of Bank's risk management framework and capital adequacy. It requires banks to hold additional capital for risks not covered by Pillar I. Other risk types which are not covered by the minimum capital requirements in Pillar I include liquidity risk, interest rate risk in the banking book, business risk and concentration risk.

Pillar II comprises of an Internal Capital Adequacy Assessment Process (ICAAP) and supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the Bank is exposed. The Bank has established an ICAAP which quantifies the capital requirements for the key risks that the Bank is exposed to including credit, investment, liquidity, strategic, reputation, operational, and concentration risks. 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 are 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.

1.3 Pillar III – Market Discipline

Pillar III is related to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process.

1.3.1 Pillar II quantitative and qualitative disclosures

For the purpose of computing regulatory minimum capital requirements, the Bank follows the rules as laid out under the CBB Rulebook module CA: Capital Adequacy.

There are no restrictions on the transfer of funds or regulatory capital within the group and all investments are made fully complying with the CBB approval instructions.

1.4 Overall Risk and Capital Management

The condensed consolidated interim financial statements of the Group has been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and the Bahrain Commercial Companies Law.

In the condensed consolidated interim financial statements, subsidiaries are fully consolidated from the date of acquisition, being the date on which the Bank obtains control, and continues to be consolidated until the date that control ceases.

For the purpose of computing the Capital Adequacy Ratio ("CAR") the Bank is not consolidating subsidiaries that are Commercial Entities.

The Bank does not hold any interest in insurance entities.

1.5 Compliance with High Level Control (PD-1.3.10(x))

In October 2010, CBB introduced requirements to Module (HC Module) that have to be met by all licensees with respect to, corporate governance principles to be in line with the Principles relating to the Corporate Governance Code issued by the Ministry of Industry and Commerce; International best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision; and related high-level controls and policies. The Group made detailed self-assessments on the revised content of HC Module to ensure compliance with the new requirements with specific milestones for implementation of any shortfalls.

2 CAPITAL ADEQUACY

The primary objective of the Group's capital management is to ensure that the Group maintains adequate risk capital, complies with the capital requirements laid down by the CBB and maintains a healthy capital ratio in order to support its business and maximize shareholder value.

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.

Regulatory capital consists of Common Equity Tier 1 capital ("CET1"), Additional Tier 1 Capital ("AT1") and Tier 2 capital (supplementary capital). The Group's Tier 1 comprises share capital, statutory reserves, current interim profit and unrealized gains and losses arising from fair valuing equities. Tier 2 includes general financing loss provisions.

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

The Group'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 future sources and uses of funds.

Further the Bank monitors the CAR against an Internal Trigger Ratio of 20% compared to the required capital of 12.5% under CBB rulebook. If the ICAAP CAR touches the Internal Trigger Ratio, the Bank will initiate action to reduce its risk or increase capital before the Internal Target Ratio is breached.

Basis of Consolidation for Accounting and Regulatory Purposes

For the purpose of preparation of consolidated financial statements, the Bank consolidates all subsidiaries which are fully owned or exercises significant control over them. These subsidiaries are consolidated from date of acquisition being the date on which the group obtains control and continues until the control ceases. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. For regulatory purposes the Bank should consolidate all banking and other financial entities which are considered to be subsidiaries of the Bank. The treatment of the Bank's investments in all entities for the purpose of regulatory reporting is risk weighting of investment exposure. The principal subsidiaries and associates are as follows:

Amounts in USD ('000)

Subsidiaries	Country of incorporation	Total Assets	Total Equity	Description
Elaf Corporate Services Limited **	British Virgin Islands	14	(6)	A company established to manage affiliated companies
Tamkeen Investment Company BSC	Kingdom of Bahrain	12	3	Administer Management Incentive Program ("MIP")
Suffun Bahrain W.L.L.	Kingdom of Bahrain	54	36	Investment holding company
Medical Management Group SPC *	Kingdom of Bahrain	-	(19)	SPV to invest in health care
PKV Investment Company Limited	Cayman Islands	76,920	27,244	Investment holding vehicle for property lease

Associates	Country of incorporation	Description
Cumberland Palace Proj Co	British Virgin Islands	Investment holding vehicle for real estate development
MENA Energy Limited	Kingdom of Saudi Arabia	Investment company holding a stake in an electrical services contracting company

* The Bank has a commitment of USD 19 thousands towards the equity shortfall. The Bank is in the process of liquidating this subsidiary.
** The Bank has a commitment of USD 6 thousands towards the equity shortfall.

Associates which have been fully provided for, do not have any impact on regulatory reporting, and are not included in the table above.

2 CAPITAL ADEQUACY (continued)

2.1 Composition of capital disclosure

Table – 1. Statement of financial position under the regulatory scope of consolidation

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

	30 June 2017		
	Statement of financial position as in published financial statements (USD '000)	*Statement of financial position as per regulatory reporting (USD '000)*	*Reference*
Assets			
Cash and balances with banks	5,587	5,534	
Placements with financial institutions	4,021	4,021	
Investment in sukuk	101,080	101,080	
Of which related to insignificant investments in financial entities under CET1:	-	17,354	
Of which subject to regulatory adjustment from capital	-	5,575	**E**
Of which subject to risk weighting of investment exposure	-	11,779	
Of which related to other investments in sukuk	-	83,726	
Financing receivables	6,793	6,793	
Receivable from ijarah investors	6,029	6,029	
Investment in equity securities	92,419	116,730	
Of which related to insignificant investments in financial entities under CET1:	-	17,793	
Of which subject to regulatory adjustment from capital	-	5,718	**F**
Of which subject to risk weighting of investment exposure	-	12,075	
Of which related to significant investments in financial entities under CET1	-	13,475	**G**
Of which related to other investments	-	85,462	
Investment in real estate	97,974	25,603	
Equity-accounted investees	426	426	
Other assets	34,080	28,373	
Total assets	**348,409**	**294,589**	
Liabilities			
Placements from financial institutions	3,001	3,001	
Financing liabilities	83,380	34,100	
Other liabilities	19,050	18,652	
Of which related to collective impairment provisions	-	144	**H**
Of which related to other liabilities	-	18,508	
Total liabilities	**105,431**	**55,753**	
Shareholders' Equity			
Share capital	233,000	233,000	**A**
Statutory reserve	676	676	**C**
Retained earnings / (accumulated losses)	1,658	240	**B**
Property fair value reserve	302	302	
General reserve	4,618	4,618	**D**
Equity attributable to shareholders of the Bank	**240,254**	**238,836**	
Non-controlling interests	2,724	-	
Total owners' equity	**242,978**	**238,836**	
Total liabilities and owners' equity	**348,409**	**294,589**	

2 CAPITAL ADEQUACY (continued)

2.1 Composition of capital disclosure (Continued)

Table – 2. Composition of regulatory capital

The table below provides a detailed breakdown of the bank's regulatory capital components, including all regulatory adjustments. The table also provides reference to the comparison displayed in Table 1 between accounting and regulatory statement of financial positions.

	30 June 2017		
	Components of regulatory capital (USD '000)	*Amounts subject to pre-2015 treatment (USD '000)*	*Reference*
Common Equity Tier 1 capital: instruments and reserves			
Directly issued qualifying common share capital plus related stock surplus	233,000	-	**A**
Retained earnings	241	-	**B**
Accumulated other comprehensive income (and other reserves)	5,294	-	**C+D**
Common Equity Tier 1 capital before regulatory adjustments	**238,535**	**-**	
Common Equity Tier 1 capital: regulatory adjustments			
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	(3,898)	23,018	**E+F**
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	13,475	**G**
Regulatory adjustments applied to common equity Tier 1 in respect of amounts subject to pre-2015 treatment	(7,395)	-	**E+F**
Total regulatory adjustments to Common equity Tier 1	**(11,293)**	**36,493**	
Common Equity Tier 1 capital (CET1)	**227,242**		
Additional Tier 1 capital (AT1)	**-**		
Tier 1 capital (T1 = CET1 + AT1)	**227,242**		
Tier 2 capital: instruments and provisions			
Provisions	144		**H**
Tier 2 capital before regulatory adjustments	**144**		
Tier 2 capital (T2)	**144**		
Total capital (TC = T1 + T2)	**227,386**		
Risk weighted assets in respect of amounts subject to pre-2015 treatment	**61,807**		
Of which: Insignificant investments in the common shares of financial entities <10% - Listed (RW at 100%)	15,327		
Of which: Insignificant investments in the common shares of financial entities <10% - Unlisted (RW at 150%)	12,792		
Of which: Significant investment in the common shares of financial entities >10% (RW at 250%)	33,688		
Total risk weighted assets	**609,004**		
Capital ratios and buffers			
Common Equity Tier 1 (as a percentage of risk weighted assets)	**37.31%**		
Tier 1 (as a percentage of risk weighted assets)	**37.31%**		
Total capital (as a percentage of risk weighted assets)	**37.34%**		
National minima including CCB (where different from Basel III)			
CBB Common Equity Tier 1 minimum ratio	9.00%		
CBB Tier 1 minimum ratio	10.50%		
CBB total capital minimum ratio	12.50%		

2 CAPITAL ADEQUACY (continued)

2.1 Composition of capital disclosure (Continued)

Disclosure template for main feature of regulatory capital instruments as at 30 June 2017:

1	**Issuer**	Ibdar Bank BSC (c)
2	**Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)**	NA
3	**Governing law(s) of the instrument**	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group & solo
7	Instrument type (types to be specified by each jurisdiction)	Equity shares
8	**Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)**	USD 233 million
9	**Par value of instrument**	USD 1.00
10	**Accounting classification**	Shareholder's equity
11	**Original date of issuance**	31 December 2012
12	**Perpetual or dated**	Perpetual
13	Original maturity date	No maturity
14	**Issuer call subject to prior supervisory approval**	NA
15	Optional call date, contingent call dates and redemption amount	NA
16	Subsequent call dates, if applicable	NA
	Coupons / dividends	
17	Fixed or floating dividend/coupon	NA
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Non-cumulative or cumulative	NA
23	**Convertible or non-convertible**	NA
24	If convertible, conversion trigger (s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	**Write-down feature**	NA
31	If write-down, write-down trigger (s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	**Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)**	NA
36	**Non-compliant transitioned features**	NA
37	**If yes, specify non-compliant features**	NA

2 CAPITAL ADEQUACY (continued)

Table – 3. Capital requirement for credit risk by type of Islamic financing contracts (PD - 1.3.17)

Table - 3.1 The following table summarizes the capital requirements by type of Islamic financing contracts:

	30 June 2017		
	Gross Exposure Amount (USD '000)	*Risk Weighted Amount (USD '000)*	*Capital requirements (USD '000)*
Type of Islamic financing contracts			
Mudaraba	**4,021**	**804**	**101**
Murabaha	**6,793**	**6,793**	**849**
Sukuks	**69,474**	**111,545**	**13,943**
	80,288	**119,142**	**14,893**

Table - 3.2 Capital requirement for credit risk by type of exposure:

	30 June 2017		
	On- & Off Balance Sheet Credit Exposures (USD '000)	*Risk Weighted Amount (USD '000)*	*Capital requirements (USD '000)*
Claims on Sovereigns	**40,867**	**-**	**-**
Claims on PSEs	**8,332**	**8,332**	**1,042**
Claims on banks	**9,553**	**2,018**	**252**
Claims on Corporates	**308**	**308**	**39**
Investments in Equity Securities and Equity Sukuk	**98,087**	**152,930**	**19,116**
Holding of Real Estate	**77,050**	**256,966**	**32,121**
Other Assets and Specialized Financing	**35,064**	**120,321**	**15,040**
	269,261	**540,875**	**67,610**

Table – 4. Capital requirement for Market risk (PD–1.3.18)

The following table summarizes the amount of exposures subject to the standardized approach of market risk and related capital requirements:

	30 June 2017 (USD '000)
Market Risk - Standardized Approach	
Price Risk	**-**
Equity Position Risk	**-**
Sukuk Risk	**714**
Foreign exchange risk	**2,043**
Total of market risk - standardized approach	**2,757**
Multiplier	**12.5**
Total Market Risk Weighted Exposures	**34,459**
Minimum capital requirement (12.5%)	**4,307**

Table – 5. Capital Requirements for Operational risk (PD–1.3.19 and PD–1.3.30)

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

			30 June 2017 (USD '000)
Indicators of operational risk			
Year	**2016**	**2015**	**2014**
Gross Income	18,135	22,911	12,826
Average gross income			**17,957**
Multiplier			**12.5**
			224,467
Eligible Portion for the purpose of the calculation			**15%**
Total operational Risk Weighted Exposures			**33,670**
Minimum capital requirement (12.5%)			**4,209**

3 RISK MANAGEMENT

3.1 Credit risk

Table – 6. Credit Risk Exposure (PD–1.3.23(a))

The following table summarizes the amount of gross funded and unfunded credit exposure and average gross funded and unfunded exposure as of:

	30 June 2017	
	Total gross credit exposure (USD '000)	**Average gross credit exposure over the period (USD '000)*
Funded exposure		
Cash & balances with banks	5,587	8,398
Placements with financial institutions	4,021	3,517
Investment in sukuk	101,080	85,156
Financing receivables	6,793	6,793
Assets aquired for leasing **	-	67,430
Receivable from Ijara investors	6,029	6,832
Investment in equity securities	92,419	93,096
Equity-accounted investees	426	2,589
Investment in real estate	97,974	98,153
Other assets	34,080	25,389
Total Funded Exposures	**348,409**	**397,352**
Unfunded exposure		
Uncalled capital commitments in respect of investment	2,083	6,102
Operating lease commitments - within one year	242	242
Operating lease commitments - over one year	121	152
Total Unfunded Exposures	**2,446**	**6,496**

*Average balances are computed based on quarter-end balances.
** Sold during Q2 with a gain of US$ 2.1m. Hence, average is computed for only one quarter.

3 RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Table – 7. Credit Risk – Geographic Breakdown (PD–1.3.23(b))

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

	30 June 2017					
	Middle East (USD '000)	*Europe (USD '000)*	*Africa (USD '000)*	*North America (USD '000)*	*Others (USD '000)*	*Total (USD '000)*
Funded exposure						
Cash & balances with banks	3,820	1,767	-	-	-	**5,587**
Placements with financial institutions	4,021	-	-	-	-	**4,021**
Investment in sukuk	87,656	5,543	-	-	7,881	**101,080**
Financing receivables	6,793	-	-	-	-	**6,793**
Receivable from Ijara investors	6,029	-	-	-	-	**6,029**
Investment in equity securities	61,557	20,187	10,675	-	-	**92,419**
Equity-accounted investees	426	-	-	-	-	**426**
Investment in real estate	25,603	-	-	72,371	-	**97,974**
Other assets	27,584	151	250	6,055	40	**34,080**
Total Funded Exposures	**223,489**	**27,648**	**10,925**	**78,426**	**7,921**	**348,409**
Unfunded exposure						
Uncalled capital commitments in respect of investment	2,083	-	-	-	-	**2,083**
Operating lease commitments - within one year	242	-	-	-	-	**242**
Operating lease commitments - over one year	121	-	-	-	-	**121**
Total Unfunded Exposures	**2,446**	**-**	**-**	**-**	**-**	**2,446**

The Group allocates exposures to a particular geographical area based on the risk domicile concept, which could be either the location of the asset or the location of the counterparty.

3 RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Table – 8. Credit risk – Industry Sector Breakdown (PD–1.3.23(c))

The following table summarizes the distribution of funded and unfunded exposure by industry type broken down by major types of credit exposure as of:

	30 June 2017				
	Banks and financial institutions (USD '000)	*Real Estate (USD '000)*	*Aviation (USD '000)*	*Others (USD '000)*	*Total (USD '000)*
Funded exposure					
Cash & balances with banks	5,587	-	-	-	**5,587**
Placements with financial institutions	4,021	-	-	-	**4,021**
Investment in sukuk	33,692	9,500	-	57,888	**101,080**
Financing receivables	-	6,793	-	-	**6,793**
Receivable from Ijara investors	-	-	-	6,029	**6,029**
Investment in equity securities	31,269	44,238	-	16,912	**92,419**
Equity-accounted investees	-	-	426	-	**426**
Investment in real estate	-	97,974	-	-	**97,974**
Other assets	451	7,077	24,515	2,037	**34,080**
Total Funded Exposures	**75,020**	**165,582**	**24,941**	**82,866**	**348,409**
Unfunded exposure					
Uncalled capital commitments in respect of investment	-	-	-	2,083	**2,083**
Operating lease commitments - within one year	-	-	-	242	**242**
Operating lease commitments - over one year	-	-	-	121	**121**
Total Unfunded Exposures	**-**	**-**	**-**	**2,446**	**2,446**

3 RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Table – 9. Maturity breakdown of credit exposures (PD–1.3.23(g))

The maturity breakdown for balances with banks, placements with financial institutions and financing receivables were based on residual commercial period. For the remaining exposures the residual maturities was determined based on management's expected realization period as at 30 June 2017.

	Up to 3 month (USD '000)	*3 months to 1 year (USD '000)*	*Total up to 1 year (USD '000)*	*1 to 5 years (USD '000)*	*5 to 10 years (USD '000)*	*No fixed maturity (USD '000)*	*Total (USD '000)*
Funded exposure							
Cash & balances with banks	5,587	-	**5,587**	-	-	-	**5,587**
Placements with financial institutions	4,021	-	**4,021**	-	-	-	**4,021**
Investment in sukuk	14,252	5,382	**19,634**	20,652	43,440	17,354	**101,080**
Financing receivables	-	-	**-**	6,793	-	-	**6,793**
Receivable from Ijara investors	-	-	**-**	6,029	-	-	**6,029**
Investment in equity securities	-	-	**-**	-	-	92,419	**92,419**
Equity-accounted investees	-	-	**-**	-	-	426	**426**
Investment in real estate	-	-	**-**	-	-	97,974	**97,974**
Other assets	32,093	1,078	**33,171**	567	-	342	**34,080**
Total Funded Exposures	**55,953**	**6,460**	**62,413**	**34,041**	**43,440**	**208,515**	**348,409**
Unfunded exposure							
Uncalled capital commitments in respect of investment	-	2,083	**2,083**	-	-	-	**2,083**
Operating lease commitments - within one year	-	242	**242**	-	-	-	**242**
Operating lease commitments - over one year	-	-	**-**	121	-	-	**121**
Total Unfunded Exposures	**-**	**2,325**	**2,325**	**121**	**-**	**-**	**2,446**

3 RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Table – 10.1 Breakup of provision by industry for financing receivables exposures (PD-1.3.23(h & i)) and (PD-1.3.24(c))

	Banks & Financial Institutions *(USD '000)*	Real Estate *(USD '000)*	Aviation *(USD '000)*	Others *(USD '000)*	Total *(USD '000)*
Specific Provision	-	-	-	8,376	**8,376**
Collective Provision	-	144	-	-	**144**

Table – 10.2 Breakup of provision by geographical area for financing receivables exposures (PD-1.3.23(h & i)) and (PD-1.3.24(c))

	Middle East (USD '000)	*Europe (USD '000)*	*Africa (USD '000)*	*South East Asia (USD '000)*	Total *(USD '000)*
Specific Provision	-	-	8,376	-	**8,376**
Collective Provision	144	-	-	-	**144**

Table – 10.3 Reconciliation of changes in provisions (PD-1.3.23(h & i)) and (PD-1.3.24(c))

	Opening *(USD '000)*	Charged/ (reversed) during the *(USD '000)*	Closing *(USD '000)*
Specific Provision	8,610	(234)	**8,376**
Collective Provision	225	(81)	**144**

Table – 10.4 Past due and impaired Islamic facilities

There has been no past due facilities as of 30 June 2017. During 2016 Murabaha financing relating to energy sector located in Africa which amounts to USD 8,376 thousand was outstanding for a period of less than one year and has been fully provided for.

3.2 Market risk

Table – 11. Market Risk Capital Requirements

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

	30 June 2017			
	Weighted risk exposures (USD '000)	*Market risk capital requirement (USD '000)*	*Maximum value of RWE (USD '000)*	*Minimum value of RWE (USD '000)*
Foreign exchange risk	25,538	3,192	**25,538**	**25,250**
Sukuk risk	8,922	1,115	**8,922**	**8,400**
Total risk weighted exposures	**34,459**	**4,307**		

As of 30 June 2017, the Group holds a portfolio of trading sukuks amounting to USD 14,252 thousand with a total gain of USD 479 thousand.

3 RISK MANAGEMENT (continued)

3.3 Equity price risk

Table – 12. Equity Position Risk in the Banking Book (PD-1.3.31(b), (c) & (f))

The following table summarizes the total and average gross exposure of equity investments as of 30 June 2017:

	Total gross exposure (USD '000)	** Average gross exposure over the period (USD '000)*	*Publicly Traded (USD '000)*	*Privately held (USD '000)*	*Capital requirement (USD '000)*
Fair value through statement of income	**37,739**	**33,015**	**17,354**	**20,385**	**4,717**
Fair value through equity	**72,034**	**72,742**	**4,229**	**67,805**	**9,004**
Investment in associates	**426**	**2,589**	**-**	**426**	**53**
	110,199	**108,346**	**21,583**	**88,616**	**13,775**

*Average balances are computed based on quarter-end balances.

Table – 13. Equity gains or losses in the Banking Book (PD-1.3.31(d) to (e))

The following table summarizes the cumulative realized gains/(losses) during the half year ended:

	30 June 2017 USD ('000)
Realized gains/(losses) arising from sale of equity type sukuk (non-trading)	**14**

3.4 Liquidity risk

Table – 14. Liquidity ratios (PD-1.3.37)

The following table summarizes the liquidity ratios as of:

	30 June 2017
Liquid assets to total assets	**25.26%**
Short term assets to short term liabilities	**126.61%**

Formula is as follows:

Liquid Assets to total assets = (Cash and bank balances + due from financial institutions + Quoted sukuks at amortised cost + sukuks held for trading)/total assets

Short term assets to short term liabilities = Assets with up to one year maturity/liabilities with up to one year maturity

3.5 Financial Indicators

Table – 15. Quantitative indicators of financial performance and position (PD–1.3.9)

	Jun 2016	*Dec 2016*	*Dec 2015*	*Dec 2014*	*Dec 2013*
Return on average equity (ROAE)	**0.55%**	-17.50%	-4.62%	-4.75%	0.01%
Return on average assets (ROAA)	**0.36%**	-10.88%	-3.14%	-3.90%	0.01%
Total cost to Income ratio	**62.19%**	64.38%	60.14%	96.08%	74.29%

* Ratios are based on pre-merger financials

Formula is as follows:
ROAE = Net Income (Loss)/Average Equity
ROAA= Net profit (Loss)/ Average Assets

3.6 Rate of return risk

Table – 16. Rate of return risk management

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of finance. The table below analyses the Group's profit rate risk exposure on non-trading financial assets and liabilities.

2017	*Up to 3 month (USD '000)*	*3 months to 1 year (USD '000)*	*Subtotal up to 1 year (USD '000)*	*1 to 5 years (USD '000)*	*Above 5 Years (USD '000)*	*Total (USD '000)*
Assets						
Placements with financial institutions	4,021	-	4,021	-	-	4,021
Financing receivable	-	-	-	6,793	-	6,793
Investment in sukuk	-	5,382	5,382	16,582	47,510	69,474
Total profit rate sensitive assets	4,021	5,382	9,403	23,375	47,510	80,288
Liabilities						
Placements from financial institutions	3,001	-	3,001	-	-	3,001
Financing liabilities	27,871	-	27,871	6,229	49,280	83,380
Total profit rate sensitive liabilities	27,871	-	27,871	6,229	49,280	86,381
Profit rate sensitivity gap	**(23,850)**	**5,382**	**(18,468)**	**17,146**	**(1,770)**	**(6,093)**

The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) on floating rate non trading financial assets and liabilities, would be an increase (decrease) of profit by USD (112) thousand (31 December 2016:USD (1,385) thousand).

The rate of return risk is generally associated with overall balance sheet exposures where mismatches arise between assets and balances from fund providers. The Group is not exposed to any significant rate of return risk and is aware of the factors that give rise to rate of return risk. Factors that possibly will affect rate of return may include an increase in long-term fixed rates in the market. The Bank is also aware of the fact that in general, profit rates earned on assets reflect the benchmark of the previous period and do not correspond immediately to changes in increased benchmark rates. The Bank does not have financial instruments that are subject to floating rate or repricing risks.

The Bank uses a combination of mismatch gap limits to measure and control its rate of return risk. Mismatched positions are regularly monitored to ensure that mismatch is maintained within established limits.

Displaced commercial risk (“DCR”) refers to the market pressure to pay returns that exceed the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor’s rates.

The Bank does not have DCR as it does not have any Restricted or Unrestricted Investment Accounts.

3.7 Maturity Profile

Table – 17. Maturity Profile (PD–1.3.38)

The maturity profile of the Group's assets and liabilities are based on contractual repayment arrangements. The contractual maturities of financial assets and liabilities have been determined on the basis of the remaining period at the financial position date to the contractual maturity date. For the remaining assets and liabilities, the maturity is determined based on expected realization/ profit settlement. The consolidated maturity profile at 30 June 2017 was as follows:

2016	*Up to 3 month (USD '000)*	*3 months to 1 year (USD '000)*	*Subtotal up to 1 year (USD '000)*	*1 to 5 years (USD '000)*	*5 to 10 years (USD '000)*	*No fixed maturity (USD '000)*	*Total (USD '000)*
Assets							
Cash and balances with banks	5,587	-	5,587	-	-	-	**5,587**
Placements with financial institutions	4,021	-	4,021	-	-	-	**4,021**
Investment in sukuk	14,252	5,382	19,634	20,652	43,440	17,354	**101,080**
Financing receivable	-	-	-	6,793	-	-	**6,793**
Receivable from Ijara investors	-	-	-	6,029	-	-	**6,029**
Investment in equity securities	-	-	-	-	-	92,419	**92,419**
Equity-accounted investees	-	-	-	-	-	426	**426**
Investment in real estate	-	-	-	-	-	97,974	**97,974**
Other assets	32,093	1,078	33,171	567	-	342	**34,080**
Total assets	55,953	6,460	**62,413**	**34,041**	**43,440**	**208,515**	**348,409**
Liabilities							
Placements from financial institutions	3,001	-	3,001	-	-	-	**3,001**
Financing from a financial institution	27,871	-	27,871	6,229	49,280	-	**83,380**
Other liabilities	11,144	7,281	18,425	199	-	426	**19,050**
Total liabilities	42,016	7,281	**49,297**	**6,428**	**49,280**	**426**	**105,431**
Commitments	-	2,325	2,325	121	-	-	**2,446**
Net liquidity gap	**13,937**	**(3,146)**	**10,791**	**27,492**	**(5,840)**	**208,089**	**240,532**
Cumulative net liquidity gap	**13,937**	**10,791**	**24,728**	**38,283**	**32,443**	**240,532**	**-**

4 LEGAL CONTINGENCIES

There are no legal cases outstanding as of 30 June 2017.

5 DISCLOSURE REQUIREMENTS PERTAINING TO REMUNERATION

Quantitative disclosure requirements pertaining to remuneration under PD 1.3.10 B to PD 1.3.10 G for approved persons or material risk takers have not been presented in this document as these relate to the annual remuneration and would be disclosed in the annual report.