# Al Baraka Banking Group B.S.C.

## Additional Public Disclosures
## 30 June 2015

## (Unaudited)

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## 1 INTRODUCTION

Al Baraka Banking Group B.S.C. ('the Bank') is a joint stock company incorporated in the Kingdom of Bahrain on 27 June 2002, under Commercial Registration (CR) number 48915. The Bank is engaged in banking activities in the Middle East, Europe, North African and South African region. The address of the Bank's registered office is P.O. Box 1882, Diplomatic Area, Manama, Kingdom of Bahrain. The Bank is listed on Bahrain Bourse and NASDAQ Dubai.

The Bank operates under an Islamic wholesale banking license issued by the Central Bank of Bahrain ('the CBB').

The principal activities of the Bank and its subsidiaries ('the Group') comprise of international and commercial banking, financing, treasury and investment activities. The Bank is supervised and regulated by the CBB.

The following are the principal subsidiaries of the Bank, which are consolidated for all financial information presented unless otherwise stated:

| ***Bank*** | ***Ownership for 2015*** | *Ownership for 2014* | *Year of incorporation* | *Country of incorporation* | ***No. of branches/ offices at 2015*** |
|---|---|---|---|---|---|
| ***Held directly by the Bank*** | | | | | |
| Banque Al Baraka D'Algerie (BAA) | **55.90%** | 55.90% | 1991 | Algeria | **30** |
| Al Baraka Islamic Bank - Bahrain (AIB) | **91.12%** | 91.12% | 1984 | Bahrain | **142** |
| Al Baraka Bank Tunis (ABT) | **78.40%** | 78.40% | 1983 | Tunisia | **16** |
| Al Baraka Bank Egypt (ABE) | **73.68%** | 73.68% | 1980 | Egypt | **29** |
| Al Baraka Bank Lebanon (ABBL) | **98.94%** | 98.86% | 1991 | Lebanon | **7** |
| Jordan Islamic Bank (JIB) | **66.01%** | 66.01% | 1978 | Jordan | **90** |
| Al Baraka Turk Participation Bank (ATPB) | **56.64%** | 56.64% | 1985 | Turkey | **209** |
| Al Baraka Bank Limited (ABL) | **64.51%** | 64.51% | 1989 | South Africa | **11** |
| Al Baraka Bank Sudan (ABS) | **75.73%** | 75.73% | 1984 | Sudan | **27** |
| Al Baraka Bank Syria (ABBS) | **23.00%** | 23.00% | 2009 | Syria | **11** |

The following are the subsidiaries held indirectly through the principal subsidiaries of the Bank:

| ***Company/ Bank*** | *Subsidiary held through* | ***Effective Ownership for 2015*** | *Effective Ownership for 2014* | *Year of incorporation* | *Country of incorporation* |
|---|---|---|---|---|---|
| ***Held indirectly by the Bank*** | | | | | |
| Al Baraka Bank (Pakistan) Limited | AIB | **58.90%** | 58.90% | 2010 | Pakistan |
| Itqan Capital | AIB | **75.69%** | 75.69% | 2007 | Saudi Arabia |
| Al-Omariya School Company | JIB | **62.31%** | 62.31% | 1987 | Jordan |
| Al-Samaha Real Estate Company | JIB | **65.15%** | 65.15% | 1998 | Jordan |
| Future Applied Computer Technology Company | JIB | **66.01%** | 66.01% | 1998 | Jordan |
| Sanable Alkhair for Financial Investment | JIB | **66.01%** | 66.01% | 2006 | Jordan |
| Al Baraka Properties (Pty) Ltd. | ABL | **64.51%** | 64.51% | 1991 | South Africa |

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: Quarterly Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks.

## 2 FINANCIAL HIGHLIGHTS

The following summarises the basic quantitative indicators of financial performance of the Group:

| EARNINGS (US$ Millions) | ***Jun 2015*** | *Dec 2014* | *Dec 2013* | *Dec 2012* | *Dec 2011* |
|---|---|---|---|---|---|
| Total Operating Income | **502** | 918 | 909 | 880 | 730 |
| Net Operating Income | **228** | 396 | 420 | 422 | 344 |
| Net Income | **150** | 275 | 258 | 235 | 212 |
| Net Income Attributable to Equity Holders of the Parent | **85** | 152 | 145 | 133 | 118 |
| Basic and diluted earnings per share - US cents** | **7.65** | 13.98 | 13.31 | 12.26 | 10.91 |
| **FINANCIAL POSITION (US$ Millions)** | | | | | |
| Total Assets | **24,034** | 23,464 | 20,968 | 19,055 | 17,154 |
| Total Financing and Investments | **17,927** | 17,624 | 15,355 | 14,319 | 11,818 |
| Total Customer Accounts | **20,008** | 19,861 | 17,744 | 16,398 | 14,680 |
| Total Owners' Equity | **2,011** | 2,075 | 1,983 | 1,968 | 1,799 |
| Equity Attributable to Parent's Shareholders | **1,307** | 1,338 | 1,299 | 1,294 | 1,203 |
| **CAPITAL (US$ Millions)** | | | | | |
| Authorised | **1,500** | 1,500 | 1,500 | 1,500 | 1,500 |
| Subscribed and Fully Paid-up | **1,115.7** | 1,093.9 | 1,048.3 | 1,014.5 | 869.6 |
| **PROFITABILITY RATIOS** | | | | | |
| Return on Average Owner's Equity | **14.7%** | 13.6% | 13.1% | 12.5% | 11.7% |
| Return on Average Parent's Shareholders Equity * | **12.9%** | 11.5% | 11.2% | 10.7% | 9.7% |
| Return on Average Assets | **1.3%** | 1.2% | 1.3% | 1.3% | 1.3% |
| Operating Expenses to Operating Income | **54.6%** | 56.9% | 53.8% | 52.1% | 52.8% |
| **FINANCIAL POSITION RATIOS** | | | | | |
| Owner's Equity to Total Assets | **8.4%** | 8.8% | 9.5% | 10.3% | 10.5% |
| Total Financing and Investments as a Multiple of Equity (times) | **8.9** | 8.5 | 7.7 | 7.3 | 6.6 |
| Liquid Assets to Total Assets | **26%** | 25% | 27% | 25% | 33% |
| Net Book Value per Share (US$)** | **1.18** | 1.23 | 1.20 | 1.19 | 1.11 |
| **OTHER INFORMATION** | | | | | |
| Total number of employees | **11,350** | 10,853 | 9,891 | 9,398 | 9,021 |
| Total number of branches | **573** | 549 | 479 | 425 | 399 |

* Return based on parent's share of income and equity.
** Adjusted for treasury and bonus shares

## 3 CAPITAL STRUCTURE AND CAPITAL ADEQUACY

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 strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The Group's capital structure is primarily made of its paid-up capital, including the share premium and reserves. From regulation's perspective, the significant amount of the Group's capital is in Tier I as defined by the CBB, i.e., most of the consolidated capital are of permanent nature.

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. To calculate its capital adequacy, the Group follows the accepted approaches approved by the CBB Rulebook. The Group consolidates all subsidiaries for Capital Adequacy Ratio (CAR) calculation. The Group strives to sustain reasonably higher capital cushion that strikes the balance between its business conduct and the regulatory requirements stipulated in the CBB capital adequacy requirements as a minimum accepted level of capital adequacy.

**Table – 1. Capital Structure (PD-1.3.12, 1.3.13, 1.3.14 & 1.3.15)**

The following table summarises the eligible capital as of:

| | *30 June 2015* | | |
|---|---|---|---|
| | ***CET 1*** | ***AT1*** | ***T2*** |
| | ***US$ '000*** | ***US$ '000*** | ***US$ '000*** |
| ***Tier 1 Capital*** | | | |
| ***Common Equity Tier 1 (CET1)*** | | | |
| Issued and fully paid up ordinary shares | **1,115,746** | - | - |
| Less: Treasury Shares | **8,406** | - | - |
| Legal / statutory reserves | **108,311** | - | - |
| Share premium | **17,646** | - | - |
| Retained earnings | **342,951** | - | - |
| Current interim cumulative net income / losses | **84,613** | - | - |
| unrealized gains and losses on available for sale financial instruments | **(2,177)** | - | - |
| gains and losses resulting from converting foreign currency subsidiaries to the parent currency | **(402,216)** | - | - |
| all other reserves | **45,273** | - | - |
| unrealized gains and losses from fair valuing equities | **59** | - | - |
| **Total CET1 capital before minority interest** | **1,301,800** | **-** | **-** |
| Total minority interest in banking subsidiaries given recognition in CET1 capital | **643,061** | - | - |
| **Total CET1 capital prior to regulatory adjustments** | **1,944,861** | **-** | **-** |

## 3 CAPITAL STRUCTURE AND CAPITAL ADEQUACY (continued)

**Table – 1. Capital Structure (PD-1.3.12, 1.3.13, 1.3.14 & 1.3.15) (continued)**

| | *30 June 2015* | | |
|---|---|---|---|
| | *CET 1* | *AT1* | *T2* |
| | *US$ '000* | *US$ '000* | *US$ '000* |
| ***Less:*** | | | |
| Goodwill | **79,122** | - | - |
| Intangibles other than mortgage servicing rights | **6,465** | - | - |
| Deferred tax assets | **7,480** | - | - |
| **Total Common Equity Tier 1 capital after the regulatory adjustments above (CET1 d)** | **1,851,794** | **-** | **-** |
| **Other Capital (AT1 & T 2)** | | | |
| Instruments issued by banking subsidiaries to third parties | | **14,010** | **32,869** |
| Assets revaluation reserve - property, plant, and equipment | | - | **5,102** |
| General financing loss provision | | - | **14,812** |
| **Total Available AT1 & T2 Capital** | | **14,010** | **52,783** |
| Net Available Capital after regulatory adjustments before Applying Haircut | | **14,010** | **52,783** |
| Net Available Capital after Applying Haircut | **1,851,794** | **14,010** | **52,783** |
| **Total Tier 1** | | **1,865,804** | |
| **Total Capital** | | | **1,918,587** |

**Table – 2. Capital requirement for different type of risks (PD - 1.3.18, 1.3.19)**

The following table summarises the capital requirements for credit risk, market risk and operational risk as of:

| | *30 June 2015* | |
|---|---|---|
| | *Risk weighted assets* | *Minimum capital requirements* |
| | *US$ '000* | *US$ '000* |
| Credit Risk | **11,499,308** | **1,437,413** |
| Market Risk | **1,114,825** | **139,353** |
| Operational Risk | **1,691,760** | **211,470** |
| | **14,305,893** | **1,788,236** |

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

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

| | *30 June 2015* | |
|---|---|---|
| | *Risk weighted assets* | *Minimum capital requirements* |
| | *US$ '000* | *US$ '000* |
| **Islamic financing contracts** | | |
| Receivables | **6,484,898** | **810,612** |
| Mudaraba and Musharaka financing | **939,484** | **117,436** |
| Ijarah Muntahia Bittamleek | **1,035,244** | **129,406** |
| | **8,459,626** | **1,057,454** |

## 3 CAPITAL STRUCTURE AND CAPITAL ADEQUACY (continued)

**Table – 4. Capital Adequacy Ratios (PD-1.3.20 (a))**
The following are capital adequacy ratios for Total capital and Total Tier 1 capital as of:

| | *30 June 2015* |
|---|---|
| Total capital | **13.41%** |
| Total Tier 1 capital | **13.04%** |

**Table - 5. The Group's Subsidiaries Capital Adequacy Ratios (PD-1.3.20 (b))**
The following are the Group's subsidiaries capital adequacy ratio prepared on the basis of the CBB requirements, which may differ form the local requirements of the countries in which the subsidiaries operate, as of:

| | *30 June 2015* | |
|---|---|---|
| | *Total Tier 1 capital ratio* | *Total capital ratio* |
| Head Office | **14%** | **14%** |
| Banque Al Baraka D'Algerie | **20%** | **22%** |
| Al Baraka Islamic Bank * | **14%** | **17%** |
| Al Baraka Bank Tunis | **20%** | **40%** |
| Al Baraka Bank Egypt | **14%** | **18%** |
| Al Baraka Bank Lebanon | **13%** | **15%** |
| Jordan Islamic Bank | **19%** | **21%** |
| Al Baraka Turk Participation Bank | **10%** | **15%** |
| Al Baraka Bank Limited | **26%** | **27%** |
| Al Baraka Bank Sudan | **12%** | **15%** |
| Al Baraka Bank Syria | **10%** | **14%** |

* These ratios represent the consolidated ratios and Al Baraka Pakistan has Tier 1 capital ratio of 19.16% and Total Capital ratio of 24.89%.

## 4 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The management committee and executive committees guide and assist with overall management of the Group's balance sheet risks. The Group manages exposure by setting limits approved by the Board of Directors. These risks and the processes to mitigate these risks have not significantly altered from the year end.

### a) 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.

**Table – 6. Liquidity Ratios (PD-1.3.37)**

The following table summarises the liquidity ratios as of:

| | ***30 June 2015*** |
|---|---|
| Short term assets to short term liabilities | **73%** |
| Liquid assets to total assets | **26%** |

**Table – 7. Residual Contractual Maturity Breakdown (PD-1.3.23(g), PD-1.3.24(a) & PD-1.3.38)**

The table on the next page summarises the maturity profile of the Group’s assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the stress-testing based on the Group's retention history of its investment accountholders and the availability of bank lines.

## 4 RISK MANAGEMENT (continued)

### a) Liquidity risk (continued)

**Table – 7. Residual Contractual Maturity Breakdown (PD-1.3.23(g), PD-1.3.24(a) & PD-1.3.38) (continued)**

The consolidated maturity profile as at 30 June 2015 is as follows:

| | *Up to 1 month US$ '000* | *1 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* | *20 years and above US$ '000* | *Undated US$ '000* | *Total US$ '000* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | | |
| Cash and balances with banks | 2,824,799 | - | - | - | - | - | - | - | - | 2,381,535 | 5,206,334 |
| Receivables | 1,342,506 | 1,399,133 | 1,527,074 | 2,106,303 | 3,076,118 | 1,182,368 | 452,561 | 897,412 | 716 | - | 11,984,191 |
| Mudaraba and Musharaka financing | 202,880 | 7,647 | 15,135 | 402,143 | 147,045 | 313,768 | 220,751 | 22,697 | 3,908 | - | 1,335,974 |
| Investments | 1,051,276 | 286,881 | 180,722 | 376,917 | 570,737 | 182,725 | 69,962 | 1,000 | - | 234,385 | 2,954,605 |
| Ijarah Muntahia Bittamleek | 32,892 | 26,710 | 55,629 | 88,980 | 342,002 | 460,005 | 303,592 | 332,537 | 10,359 | - | 1,652,706 |
| Property and equipment | - | - | - | - | - | - | - | - | - | 368,502 | 368,502 |
| Other assets | 57,678 | 35,083 | 16,181 | 35,231 | 56,238 | 58,269 | 1,047 | 2,136 | - | 269,447 | 531,310 |
| **Total assets** | **5,512,031** | **1,755,454** | **1,794,741** | **3,009,574** | **4,192,140** | **2,197,135** | **1,047,913** | **1,255,782** | **14,983** | **3,253,869** | **24,033,622** |
| **LIABILITIES** | | | | | | | | | | | |
| Customer current and other accounts | 4,536,178 | - | - | - | - | - | - | - | - | - | 4,536,178 |
| Due to banks | 630,626 | 533,093 | 87,030 | 69,579 | 60,000 | 8,716 | - | - | - | - | 1,389,044 |
| Long term financing | - | 251,964 | - | 26,421 | 268,000 | 350,060 | 223,071 | - | - | - | 1,119,516 |
| Other liabilities | 637,081 | 64,019 | 28,594 | 18,176 | 60,194 | 66,989 | 207 | 20,516 | - | - | 895,776 |
| **Total liabilities** | **5,803,885** | **849,076** | **115,624** | **114,176** | **388,194** | **425,765** | **223,278** | **20,516** | **-** | **-** | **7,940,514** |
| **Equity of investment accountholders** | 5,763,924 | 1,640,035 | 1,017,828 | 1,298,124 | 1,380,330 | 2,372,937 | 8,913 | 600,228 | - | - | **14,082,319** |
| **Total liabilities and equity of investment accountholders** | **11,567,809** | **2,489,111** | **1,133,452** | **1,412,300** | **1,768,524** | **2,798,702** | **232,191** | **620,744** | **-** | **-** | **22,022,833** |
| **Net liquidity gap** | **(6,055,778)** | **(733,657)** | **661,289** | **1,597,274** | **2,423,616** | **(601,567)** | **815,722** | **635,038** | **14,983** | **3,253,869** | **2,010,789** |
| **Cumulative net liquidity gap** | **(6,055,778)** | **(6,789,435)** | **(6,128,146)** | **(4,530,872)** | **(2,107,256)** | **(2,708,823)** | **(1,893,101)** | **(1,258,063)** | **(1,243,080)** | **2,010,789** | |
| **Off-balance sheet equity of investment accountholders** | 77,074 | 208,880 | 150,775 | 153,550 | 37,866 | 11,988 | 312 | 302,748 | - | - | **943,193** |

## 4 RISK MANAGEMENT (continued)

### b) Credit risk

**Table - 8. Gross funded and unfunded exposure (PD-1.3.23(a))**

The Group's assets are funded by equity of investment accountholders (IAH) as well as the Group's own capital and current accounts (Self). The percentage of funding varies for each of the Group's subsidiary based on market conditions and applicable rules and regulations.

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

| | *30 June 2015* | | | | |
|---|---|---|---|---|---|
| | *Self financed* | | *Financed by IAH* | | *Total* |
| | *Total gross credit exposure* | **Average gross credit exposure over the period* | *Total gross credit exposure* | **Average gross credit exposure over the period* | *Total gross credit exposure self financed and financed by IAH* |
| | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* |
| **Funded Exposure** | | | | | |
| Receivables | 6,183,242 | 5,994,383 | 5,800,949 | 5,893,806 | 11,984,191 |
| Mudaraba and Musharaka financing | 793,450 | 822,364 | 542,524 | 665,358 | 1,335,974 |
| Investments | 1,418,028 | 1,366,366 | 1,536,577 | 1,466,397 | 2,954,605 |
| Ijarah Muntahia Bittamleek | 923,643 | 890,567 | 729,063 | 719,037 | 1,652,706 |
| Other assets | 184,042 | 147,996 | 93,610 | 83,862 | 277,652 |
| **Unfunded Exposure** | | | | | |
| Commitments and contingencies | 5,043,319 | 5,023,764 | - | - | 5,043,319 |
| | 14,545,724 | | 8,702,723 | | 23,248,447 |

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

**4 RISK MANAGEMENT (continued)**

**b) Credit risk (continued)**

**Table - 9. Geographic distribution of the gross funded exposure (PD-1.3.23(b))**

The following table summarises the geographic distribution of gross funded exposure as of 30 June 2015, broken down into significant areas by major types of credit exposure:

| | *Self financed* | | | | | *Financed by IAH* | | | | | *IAH & Self financed* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Middle East* | *North Africa* | *Europe* | *Others* | *Total* | *Middle East* | *North Africa* | *Europe* | *Others* | *Total* | *Total* |
| | ***US$ '000*** | ***US$ '000*** | ***US$ '000*** | ***US$ '000*** | ***US$ '000*** | ***US$ '000*** | ***US$ '000*** | ***US$ '000*** | ***US$ '000*** | ***US$ '000*** | ***US$ '000*** |
| Receivables | **1,467,125** | **442,841** | **4,050,192** | **223,084** | **6,183,242** | **2,575,601** | **363,327** | **2,539,350** | **322,671** | **5,800,949** | **11,984,191** |
| Mudaraba and Musharaka financing | **391,401** | **81,882** | **131,862** | **188,305** | **793,450** | **185,979** | **67,043** | **-** | **289,502** | **542,524** | **1,335,974** |
| Investments | **564,296** | **74,381** | **618,355** | **160,996** | **1,418,028** | **1,400,327** | **46,610** | **-** | **89,640** | **1,536,577** | **2,954,605** |
| Ijarah Muntahia Bittamleek | **329,099** | **232,339** | **347,948** | **14,257** | **923,643** | **508,480** | **190,796** | **240** | **29,547** | **729,063** | **1,652,706** |
| Other Assets | **144,957** | **4,329** | **4,825** | **29,931** | **184,042** | **54,436** | **3,552** | **5,833** | **29,789** | **93,610** | **277,652** |
| | **2,896,878** | **835,772** | **5,153,182** | **616,573** | **9,502,405** | **4,724,823** | **671,328** | **-** | **761,149** | **8,702,723** | **18,205,128** |

**4 RISK MANAGEMENT (continued)**

**b) Credit risk (continued)**

**Table - 10. Exposure by counterparty type (PD-1.3.23(c))**

The following table summarises the distribution of funded and unfunded exposure by counterparty type, broken down by major types of credit exposures as of 30 June 2015:

| | *Funded Exposures* | | | | | | | | | | *Unfunded Exposures* | | *Funded and Unfunded Exposures* | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Receivables* | | *Mudaraba and Musharaka financing* | | *Investments* | | *Ijarah Muntahia Bittamleek* | | *Other Assets* | | *Commitments and contingencies* | | *Total* | |
| | *Self* | *IAH* | *Self* | *IAH* | *Self* | *IAH* | *Self* | *IAH* | *Self* | *IAH* | *Self* | *IAH* | *Self* | *IAH* |
| | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* |
| Claims on sovereigns | **361,718** | **570,052** | **-** | **-** | **1,077,022** | **1,249,131** | **21,527** | **-** | **-** | **-** | **2,974** | **-** | **1,463,241** | **1,819,183** |
| Claims on investment firms | **-** | **133,832** | **-** | **117,772** | **83,459** | **26,254** | **-** | **1,504** | **-** | **-** | **-** | **-** | **83,459** | **279,362** |
| Claims on banks | **86,344** | **464,302** | **20,000** | **186,444** | **22,743** | **47,065** | **-** | **225,242** | **-** | **-** | **68,663** | **-** | **197,750** | **923,053** |
| Claims on corporates | **4,998,944** | **2,497,260** | **-** | **939** | **55,002** | **45,034** | **530,956** | **162,416** | **-** | **-** | **4,802,493** | **-** | **10,387,395** | **2,705,649** |
| Claims on retail | **667,182** | **2,028,697** | **-** | **2,691** | **-** | **-** | **368,412** | **337,651** | **-** | **-** | **168,980** | **-** | **1,204,574** | **2,369,039** |
| Past due receivables | **69,054** | **106,806** | **-** | **2,918** | **76,817** | **5,680** | **2,748** | **2,250** | **-** | **-** | **209** | **-** | **148,828** | **117,654** |
| Equity investment | **-** | **-** | **320,487** | **156,602** | **9,995** | **45,482** | **-** | **-** | **-** | **-** | **-** | **-** | **330,482** | **202,084** |
| Investment in funds | **-** | **-** | **-** | **-** | **18,968** | **14,646** | **-** | **-** | **-** | **-** | **-** | **-** | **18,968** | **14,646** |
| Specialized lending | **-** | **-** | **452,963** | **75,158** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **452,963** | **75,158** |
| Other assets | **-** | **-** | **-** | **-** | **74,022** | **103,285** | **-** | **-** | **184,042** | **93,610** | **-** | **-** | **258,064** | **196,895** |
| | **6,183,242** | **5,800,949** | **793,450** | **542,524** | **1,418,028** | **1,536,577** | **923,643** | **729,063** | **184,042** | **93,610** | **5,043,319** | **-** | **14,545,724** | **8,702,723** |

The Group is working in a highly regulated environment which monitors high risk credit exposures on a regular basis.

**Large Credit Exposure (PD - 1.3.23 (f))**

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

**4 RISK MANAGEMENT (continued)**

**b) Credit risk (continued)**

**Table -11. Credit quality of Islamic financing contracts by counterparty type (PD-1.3.23(h), 1.3.24 (b)**

The following table summarises the total past due, non performing and neither past due nor non performing Islamic financing contracts and aging of non performing Islamic financing contracts disclosed by counterparty type as of 30 June 2015:

| | | | | | *Aging of non performing Islamic financing contracts* | | |
|---|---|---|---|---|---|---|---|
| | *Total* | *Neither past due nor non performing* | *Past due but performing* | *Non performing Islamic financing contracts* | *90 days to 1 year* | *1 year to 3 years* | *Over 3 years* |
| | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* |
| **Sovereign** | **1,032,125** | **1,031,049** | **1,076** | **-** | **-** | **-** | **-** |
| **Bank** | **866,977** | **863,049** | **-** | **3,928** | **-** | **-** | **3,928** |
| **Investment Firms** | **101,743** | **82,858** | **-** | **18,885** | **4,332** | **2,340** | **12,213** |
| **Corporates** | **8,175,415** | **7,275,438** | **486,597** | **413,380** | **128,320** | **111,744** | **173,316** |
| **Retail** | **3,868,657** | **3,618,540** | **128,853** | **121,265** | **22,538** | **28,390** | **70,337** |
| | **14,044,917** | **12,870,934** | **616,526** | **557,458** | **155,190** | **142,474** | **259,794** |

**Table -12. Specific provisions by counterparty type (PD-1.3.23 (h), 1.3.24 (d))**

The following table summarises the total specific provisions disclosed by counterparty type as of 30 June 2015:

| | *Specific provisions* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Opening balance* | *Charged during the period* | *Write-back during the period* | *Write-offs during the period* | *Appropriation from IAH during the period* | *Foreign exchange translations/ others - net* | *Balance at the end of the period* |
| | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* | *US$ '000* |
| **Bank** | **3,533** | **-** | **-** | **-** | **-** | **(1,190)** | **2,343** |
| **Investment Firms** | **42,601** | **3,880** | **(3,870)** | **(15,769)** | **-** | **(617)** | **26,225** |
| **Corporates** | **292,602** | **35,538** | **(14,594)** | **(303)** | **1,959** | **(12,051)** | **303,151** |
| **Retail** | **114,477** | **7,761** | **(3,769)** | **(244)** | **4,200** | **(635)** | **121,790** |
| | **453,213** | **47,179** | **(22,233)** | **(16,316)** | **6,159** | **(14,493)** | **453,509** |

**4 RISK MANAGEMENT (continued)**

**b) Credit risk (continued)**

**Table -13. General provisions movement (PD-1.3.23 (h), 1.3.24 (d))**

The following table summarises the movement of general provisions during the period ended:

| | *30 June 2015* *US$ '000* |
|---|---|
| Opening balance | **11,521** |
| Charged during the period | **3,678** |
| Write-back during the period | **(5,466)** |
| Write-offs during the period | **(174)** |
| Foreign exchange translations/ others | **5,253** |
| Balance at the end of the period | **14,812** |

This represents collective provision against exposures which, although not specifically identified, have a greater risk of default than when originally granted.

**Table - 14. Past due and non-performing Islamic financing contracts and provisions by geographic areas (PD-1.3.23(i), PD-1.3.24(c))**

The following table summarises the total past due and non performing Islamic financing contracts and provisions disclosed by geographical area as of:

| | *30 June 2015* | | |
|---|---|---|---|
| | *Past due and non performing Islamic financing contracts* *US$ '000* | *Specific provision* *US$ '000* | *General provision* *US$ '000* |
| Middle East | **319,906** | **250,244** | **19,719** |
| North Africa | **58,282** | **33,595** | **(4,962)** |
| Europe | **662,071** | **126,073** | **55** |
| Others | **133,725** | **43,597** | **-** |
| | **1,173,984** | **453,509** | **14,812** |

**4 RISK MANAGEMENT (continued)**

**b) Credit Risk (continued)**

**Table - 15. Renegotiated Islamic financing contracts (PD-1.3.23(j))**

| | ***30 June 2015*** <br> ***US$ '000*** |
|---|---|
| Renegotiated Islamic financing contracts | **68,987** |

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

**Others (PD-1.3.23(k), (l), PD-1.3.25(b) & (c))**

The Group has no significant obligations with respect to recourse transaction.

The Group has not imposed any material penalties on customers for defaults.

The Group does not make use of eligible collaterals and guarantees in its credit risk analysis.

**4 RISK MANAGEMENT (continued)**

**b) Credit risk (continued)**

**Table - 16. Counterparty Credit (PD-1.3.26 (b))**

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

| | ***30 June 2015*** |
|---|---|
| | ***US$ '000*** |
| Gross positive fair value of contracts | **17,927,476** |
| Netting Benefits | **-** |
| Netted Current Credit Exposure | **17,927,476** |
| Collateral held: | |
| Cash | **2,133,980** |
| Others | **3,839,849** |
| Real Estate | **12,890,762** |
| | **18,864,591** |

The utilisation of the collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

**c) Market risk**

Market risk includes profit rate risk, displaced commercial risk, equity price risk and foreign exchange rate risk. The Group has set limits on the level of risk that may be accepted. This is monitored by the local management at the subsidiary level.

**Table – 17. Market Risk Capital Requirements (PD-1.3.27 (b))**

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

| | ***30 June 2015*** | |
|---|---|---|
| | ***Equity position risk*** | ***Foreign exchange risk*** |
| | ***US$ '000*** | ***US$ '000*** |
| Risk weighted exposure (RWE) | **-** | **1,114,825** |
| Capital requirements (12%) | **-** | **133,779** |
| Maximum value of RWE | **-** | **1,160,238** |
| Minimum value of RWE | **-** | **1,114,825** |

## 4 RISK MANAGEMENT (continued)

### c) Market risk (continued)

*Profit rate risk*
Profit rate risk is the risk that the Group will incur a financial loss as a result of mismatch in the profit rate on the Group's assets and IAH. The profit distribution to IAH is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

*Displaced Commercial Risk*
The Group is exposed to displaced commercial risk in the event of having IAH profit rates that are lower than market rates. The Group has partially 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 individual subsidiary level.

*Equity price risk*
Equity price risk is the risk that the fair values of equities decrease as the 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.

Equity-type instruments at fair value through equity and investments in real estate are kept for capital gain purposes.

If financial instruments qualify to be included in the trading book, these must not exceed 25% of the total subsidiary's assets portfolio. For equity securities, the subsidiaries are required to observe the sectorial concentration limits outlined by the Group and/or their local requirement in this respect. Since trading securities in the trading book would be under marked-to-market requirement, the Risk Manager at the subsidiary level should immediately bring to the Credit and Risk Management at the Group as well as the subsidiary's asset/liability committee any volatility of position's value that is 15% or higher than the subsidiary's eligible capital to decide upon the appropriate course of action.

**Table – 18. Equity Position Risk in Banking Book (PD-1.3.31 (b) (c) & (f))**

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 2015:

| | ***Total gross exposure*** | ***Average gross exposure over the period*** | ***Publicly held*** | ***Privately held*** | ***Capital requirement*** |
|---|---|---|---|---|---|
| | ***US$ '000*** | ***US$ '000*** | ***US$ '000*** | ***US$ '000*** | ***US$ '000*** |
| **Sukuk and similar items** | **2,624,809** | **2,504,178** | **1,386,466** | **1,238,343** | **25,299** |
| **Equity Investment** | **125,676** | **125,928** | **63,597** | **62,079** | **15,081** |
| **Managed funds** | **26,813** | **29,471** | **21,347** | **5,466** | **3,218** |
| | **2,777,298** | **2,659,577** | **1,471,410** | **1,305,888** | **43,597** |

## 4 RISK MANAGEMENT (continued)

### c) Market risk (continued)

**Table – 19. Equity gains or losses in banking book (PD-1.3.31 (d) and (e))**

The following table summarises the cumulative realised and unrealised gains or losses during the period ended:

| | *30 June 2015 US$ '000* |
|---|---|
| Cumulative realised gains arising from sales or liquidations in the reporting period | **3,508** |
| Total unrealized losses recognised in the consolidated statement of financial positions but not through consolidated statement of income | **(2,177)** |

*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 – 20. Foreign currency translation risk (PD-1.3.42)**

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

| | *30 June 2015* | | |
|---|---|---|---|
| | *Operationa equivalent Long (short) US$ '000* | *Strategic equivalent Long (short) US$ '000* | *Total equivalent Long (short) US$ '000* |
| **Currency** | | | |
| Turkish Lira | (42,088) | 395,714 | 353,626 |
| Jordanian Dinar | 583 | 286,900 | 287,483 |
| Egyptian Pound | (26,487) | 134,360 | 107,873 |
| Sudanese Pound | 7,925 | 29,578 | 37,503 |
| Algerian Dinar | - | 104,052 | 104,052 |
| Lebanese Pound | 5,944 | 21,029 | 26,973 |
| Pound Sterling | (724) | - | (724) |
| Tunisian Dinar | (49,589) | 64,076 | 14,487 |
| Euro | 32,215 | - | 32,215 |
| South African Rand | (197) | 30,818 | 30,621 |
| Pakistani Rupees | 24,817 | 62,234 | 87,051 |
| Syrian Pound | (2,131) | 12,134 | 10,003 |
| Others | 13,227 | - | 13,227 |

*Foreign currency risk sensitivity analysis*
In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks adopted by Derivatives Policy Group in this respect which calculates the effect on assets and income of the Group as a result of appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is done using various percentages based upon the judgement of the management of the Group.

**4 RISK MANAGEMENT (continued)**

**c) Market risk (continued)**

**Table – 21. Foreign currency risk sensitivity analysis (PD-1.3.42)**

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 equity.

***At 30 June 2015***

| Currency | Particular | *Exposures in US$ '000* | *Maximum expected decrease %* | *Change in net income and equity US$ '000* | *Maximum expected increase %* | *Change in net income and equity US$ '000* |
|---|---|---|---|---|---|---|
| Algerian Dinar | Net Income | **18,788** | **10%** | **(1,708)** | **10%** | **2,088** |
| | Total Equity | **186,142** | **10%** | **(16,922)** | **10%** | **20,682** |
| Egyptian Pound | Net Income | **14,416** | **20%** | **(1,880)** | **15%** | **3,604** |
| | Total Equity | **182,353** | **25%** | **(23,785)** | **15%** | **45,588** |
| Turkish Lira | Net Income | **66,989** | **20%** | **(11,165)** | **20%** | **16,747** |
| | Total Equity | **698,592** | **20%** | **(116,432)** | **20%** | **174,648** |
| Sudanese Pound | Net Income | **3,467** | **25%** | **(452)** | **0%** | **1,156** |
| | Total Equity | **39,055** | **25%** | **(5,094)** | **0%** | **13,018** |
| S.African Rand | Net Income | **2,190** | **10%** | **(199)** | **10%** | **243** |
| | Total Equity | **47,771** | **10%** | **(4,343)** | **10%** | **5,308** |
| Syrian Pound | Net Income | **14,017** | **15%** | **(1,274)** | **10%** | **14,017** |
| | Total Equity | **52,755** | **15%** | **(4,796)** | **10%** | **52,755** |
| Pakistani Rupees | Net Loss | **1,538** | **15%** | **(140)** | **10%** | **271** |
| | Total Equity | **52,060** | **15%** | **(4,733)** | **10%** | **9,187** |

## 4 RISK MANAGEMENT (continued)

### d) Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

**Table - 22. Operational risk exposure (PD-1.3.30 (a), (b) & (c))**
The following table summarises the amount of exposure subject to basic indicator approach of operational risk and related capital requirements:

| | ***Gross income*** | | |
|---|---|---|---|
| | ***2014*** | *2013* | *2012* |
| | ***US$ '000*** | *US$ '000* | *US$ '000* |
| ***Total Gross Income*** | **917,562** | 909,484 | 879,770 |

| | ***June 2015*** |
|---|---|
| **Indicators of operational risk** | |
| Average Gross income (US$ '000) | **902,272** |
| **Multiplier** | **12.5** |
| | **11,278,400** |
| Eligible Portion for the purpose of the calculation | **15%** |
| **TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (US$ '000)** | **1,691,760** |

The Bank has no material legal contingencies including pending legal action.

## 5 EQUITY OF INVESTMENT ACCOUNTHOLDERS DISCLOSURES

The Group is exposed to some of the price risk on assets funded by IAH. The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by IAH on a pro-rata basis. IAH funds are invested and managed in accordance with Shari'a requirements.

**Table – 23. Equity of IAH (PD-1.3.33 (a), (b) & (c))**

The following table summarises the breakdown of IAH and return on IAH as of:

| | ***30 June 2015 US$ '000*** |
|---|---|
| IAH - Banks | **417,236** |
| IAH - Non-banks | **13,457,571** |
| Profit equalisation reserve (PER) - Banks | **373** |
| Profit equalisation reserve (PER) - Non-banks | **11,855** |
| Investment risk reserve (IRR) - Banks | **5,537** |
| Investment risk reserve (IRR) - Non-banks | **175,475** |
| Cumulative changes in fair value attributable to IAH | **14,272** |
| | **14,082,319** |

**Table – 24. Return on average IAH (PD-1.3.33 (d))**

| | ***30 June 2015*** **%** |
|---|---|
| Return on average IAH Equity | **7.5** |
| Return on average IAH Assets | **4.9** |

**Table – 25. Ratio by type of IAH (PD-1.3.33 (g))**

| | ***30 June 2015*** **%** |
|---|---|
| IAH - Banks | **3** |
| IAH - Non-banks | **97** |

The appropriation percentage of IAH into profit equalisation reserve and investment risk reserve varies between each of the Group's subsidiary based on market conditions and applicable rules and regulations.

**Table – 26. IAH by Islamic financing product type (PD-1.3.33 (h))**

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

| | ***30 June 2015 %*** |
|---|---|
| Receivables | **82** |
| Mudaraba and Musharaka financing | **8** |
| Ijarah Muntahia Bittamleek | **10** |

## 5 EQUITY OF INVESTMENT ACCOUNTHOLDERS DISCLOSURES (continued)

### Table – 27. IAH by Counterparty Type (PD-1.3.33 (i))

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

| | ***30 June 2015 %*** |
|---|---|
| Sovereign | **3** |
| Bank | **3** |
| Investment Firms | **8** |
| Corporates | **13** |
| Retail | **73** |

### Table - 28. Movement in Profit Equalisation Reserve and Investment Risk Reserve (PD-1.3.33 (o), (p))

The following table summarises the movement on profit equalisation reserve (PER) and utilization and computation of PER during the six months period ended 30 June:

**Movement in profit equalisation reserve**

| | ***30 June 2015 US$ '000*** |
|---|---|
| Balance at 1 January | **13,045** |
| Amount apportioned from income allocable to equity of investment accountholders | **675** |
| Foreign exchange translations investment accountholders | **(1,492)** |
| Balance at 30 June | **12,228** |

The following table summarises the movement on investment risk reserve (IRR) and utilization and computation of IRR during the six months period ended 30 June:

**Movement in investment risk reserve**

| | ***30 June 2015 US$ '000*** |
|---|---|
| Balance at 1 January | **198,559** |
| Amount appropriated to provision | **21,618** |
| Amount apportioned from income allocable to equity of investment accountholders | **(5,577)** |
| Foreign exchange translations | **(33,588)** |
| Balance at 30 June | **181,012** |

### IAH Share of Profit (PD-1.3.33 (e) & (q))

The Group's share of profit as a Mudarib for managing IAH and the IAHs' share of income is based on the terms and conditions of the related Mudaraba agreements. These Mudaraba agreements are done at the individual subsidiary level. The rates and return are highly variable based on each of the subsidiaries' local environment as well as local rules and regulations. Detailed disclosures on IAH returns are analysed at the local level.

## 5 EQUITY OF INVESTMENT ACCOUNTHOLDERS DISCLOSURES (continued)

### Table – 29. IAH by type of Assets (PD-1.3.33 (r) & (s))

The following table summarises the types of assets in which the funds are invested, the actual allocation among various types of assets and the changes in the asset allocation in the six months of the period ended:

| | *30 June 2015* | | |
|---|---|---|---|
| | *Opening actual allocation US$ '000* | *Movement US$ '000* | *Closing actual allocation US$ '000* |
| Cash and balances with banks | **4,987,922** | **170,387** | **5,158,309** |
| Receivables | **6,099,080** | **(298,131)** | **5,800,949** |
| Mudaraba and Musharaka financing | **721,994** | **(179,470)** | **542,524** |
| Investments | **1,382,533** | **154,044** | **1,536,577** |
| Ijarah Muntahia Bittamleek | **685,153** | **43,910** | **729,063** |
| Other assets | **263,110** | **51,787** | **314,897** |
| | **14,139,792** | **(57,473)** | **14,082,319** |

### Table – 30. Treatment of Assets financed by Equity of IAH (PD-1.3.33 (v))

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 2015* | | |
|---|---|---|---|
| **Type of Claims** | *RWA US$ '000* | *RWA for capital adequacy purposes US$ '000* | *Capital charges US$ '000* |
| Claims on Sovereign | **1,695,896** | **508,769** | **61,052** |
| Claims on PSEs | **9,301** | **2,790** | **335** |
| Claims on Banks | **155,796** | **46,739** | **5,609** |
| Claims on Corporates | | **-** | **-** |
| Claims on Investment Firms | **5,474,220** | **1,642,266** | **197,072** |
| Regulatory Retail Portfolio | **868,467** | **260,540** | **31,265** |
| Mortgage | **1,030,283** | **309,085** | **37,090** |
| Past due facilities | **169,334** | **50,800** | **6,096** |
| Investment in securities | **246,724** | **74,017** | **8,882** |
| Holding of Real Estates | **239,646** | **71,894** | **8,627** |
| Other Assets | **404,149** | **121,245** | **14,549** |
| | **10,293,817** | **3,088,145** | **370,577** |

## 6 OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

**Table – 31. Off-balance sheet equity of IAH by Islamic Financing product type (PD-1.3.33 (h))**

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

| | ***30 June 2015 %*** |
|---|---|
| Receivables | **46** |
| Mudaraba and Musharaka financing | **45** |
| Ijarah Muntahia Bittamleek | **9** |

**Table – 32. Off-balance sheet equity of IAH by Counterparty Type (PD-1.3.33 (i))**

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

| | ***30 June 2015 %*** |
|---|---|
| Sovereign | **6** |
| Investment Firms | **8** |
| Bank | **40** |
| Corporates | **9** |
| Retail | **37** |

**Off-Balance Sheet Equity of IAH Share of Profit (PD-1.3.33 (e) & (q))**

The Group's share of profit as a Mudarib for managing IAH and off-balance sheet IAH's share of income is based on the terms and conditions of the related mudaraba agreements. These mudaraba agreements are done at the individual subsidiary level. The rates and return are highly variable based on each of the subsidiaries' local environment as well as local rules and regulations. Detailed disclosures on off-balance sheet equity of investment accountholders' returns are analysed at the local level.