بنك دار الاستثمار
Investment Dar Bank

Risk and Capital Management

Basel II – Pillar III Disclosures

As at 31 December 2016

Index

1. Executive summary

Investment Dar Bank B.S.C. (c) ("the Bank") is a Bahraini closed shareholding company registered with the Ministry of Industry and Commerce in the Kingdom of Bahrain and operates under commercial registration number 66163 obtained on 8 August 2007. The "Parent Company" of the Bank is The Investment Dar K.S.C., a Kuwaiti incorporated Company listed on Kuwait Stock Exchange, which owns directly and indirectly more than 50% of the share capital of the Bank.

The Bank operates as an Islamic Wholesale Bank under a license granted by the Central Bank of Bahrain ("CBB") and accordingly activities are regulated by the CBB and supervised by a Religious Supervisory Board ("the Shari'a Board").

The principal activities of the Bank include investment banking services, which comply with the Islamic rules and principles according to the opinion of the Bank's Shari'a Board.

The CBB Basel II guidelines became effective on 1 January 2008 as the common framework for the implementation of Basel II capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

These annual disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Section PD-1: *Annual Disclosure Requirements*, CBB Rule Book, Volume II for Islamic Banks. These annual quantitative disclosure requirements follow the requirements of Basel II - Pillar 3 and the Islamic Financial Services Board's (IFSB) recommended disclosures for Islamic banks. These disclosures should be read in conjunction with the detailed Risk and Capital Management Disclosures made in Bank's consolidated financial statements for the year ended 31 December 2016.

This report contains a description of the Bank's risk management and capital adequacy practices and processes, including detailed information on the capital adequacy process.

As at 31 December 2016 the Bank's CAR stood at a healthy 31.64%. The Bank is in constant discussion with its regulator in relation to its capital position & its plan to further improve its regulatory capital ratio.

Basel II Framework

The Basel II framework introduced by CBB with effect from 2008, provides a more risk sensitive approach to the assessment of risk and the calculation of regulatory capital i.e. the minimum capital that a bank is required to maintain. The framework intends to strengthen the risk management practices and processes within financial institutions. The Bank has accordingly taken steps to comply with these requirements. The CBB's capital management framework, consistent with the Basel II accord, is built on three pillars:

- **Pillar I** defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. The requirement of capital has to be covered by the Bank's own regulatory funds.
- **Pillar II** addresses a bank's internal processes for assessing overall capital adequacy in relation to risks (ICAAP). Pillar II also introduces the Supervisory Review and Evaluation Process (SREP), which assesses the internal capital adequacy.
- **Pillar III** complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy.

2. Group structure

The consolidated financial information comprise the financial statements of the Bank and its subsidiaries (together referred to as the "Group") as at 31 December 2016.

As at 31 December 2016, the Bank owned the following subsidiaries:

Name	Country of incorporation	Ownership interest	Principal activity
Darco Real Estate Investment Co. W.L.L.	Kingdom of Bahrain	100%	Buying and selling properties, shares and securities, management and development of private property, investment in local industries and promotion of foreign products and services
Al Honaniya Real Estate Co. W.L.L.	Kuwait	100%- Indirect holding	Real estate
North Victoria Limited *	Jersey,Channel Islands	100%	Real estate
Gibson North Limited *	Jersey, Channel Islands	77.425%	Real estate

(*) The Bank acquired the shares of North Victoria Limited and Gibson North Limited ("these companies") as part of a settlement of a Murabaha placement with a related party of the Parent Company during 2012. As per the settlement contract, the liabilities as on the date of settlement in the books of these companies were not transferred to the Bank. The main asset in the books of these companies was the value of islands in "The World" which have been treated as investment properties on consolidation. The value of the investment properties was restricted to the value of the Murabaha carried in the books of the Bank prior to settlement.

3. Capital structure and capital adequacy

The Bank's equity position as at 31 December 2016 and 31 December 2015 is as follows:

	31 December 2016	31 December 2015
Share capital	200,000,000	200,000,000
Statutory reserve	1,686,626	851,737
Property fair value reserve	1,225,164	1,225,164
Investments fair value reserve	431,265	1,069,647
Foreign currency translation reserve	(376,688)	(346,825)
Accumulated losses	(114,465,090)	(121,979,093)
	88,501,277	80,820,633

3. Capital structure and capital adequacy (continued)

The Bank's regulatory capital position at 31 December 2016 was as follows:

USD' 000

	Tier 1	Tier 2	Total
Share capital	200,000	-	200,000
Statutory reserve	1,687	-	1,687
Accumulated losses brought forward	(121,979)	-	(121,979)
Current interim losses	7,514	-	7,514
Gain & losses from converting foreign currency subsidiaries to the Parent Company	(377)	-	(377)
Unrealized gross losses arising from fair valuing equity securities	431	-	431
Tier 1 capital before deductions	**87,276**	**-**	**87,276**
Asset revaluation reserve – property, plant and equipment	-	1,225	1,225
Total Tier 2		**1,225**	**1,225**
Total capital			**88,501**

Risk weighted exposures	Risk weighted exposure	Capital requirement @12%
Credit risk	262,279	31,473
Market risk	989	119
Operational risk	16,471	1,977
Total risk weighted exposures	**279,739**	**33,569**
Total Capital Adequacy Ratio		**31.64%**

The Bank's paid up capital consists of only ordinary shares which have proportionate voting rights.

4. Credit risk

4.1 Capital requirements for credit risk

To assess its capital adequacy requirements for credit risk in accordance with the CBB requirements, the Bank adopts the standardized approach. According to the standardized approach, on and off balance sheet credit exposures are assigned to various defined categories based on the type of counterparty or underlying exposure. The main relevant categories are claims on banks, claims on investment firms, investment in equities, holdings in real estate, claims on corporate portfolio and other assets. Risk Weighted Assets (RWAs) are calculated based on prescribed risk weights by CBB relevant to the standard categories and counterparty's external credit ratings, where available

Following is the analysis for credit risk as computed for regulatory capital adequacy purposes:

USD '000

Asset categories for credit risk	Gross credit exposures	Average risk Weights	Total credit risk weighted exposure
Self financed assets			
Cash items	1	0%	-
Standard risk weights for claims on banks	962	20%	192
Preferential risk weight for claims on locally incorporated banks – BD & USD	5,586	20%	1,117
Short term claims on banks	834	20%	167
Any Exposure exceeding 15% of total capital	23,448	800%	187,584
Past due facilities where specific provision is 20% or more	11,834	100%	11,834
Listed equity investment	3,867	100%	3,867
Unlisted equity investment	8,654	150%	12,982
Holding of real estate	8,614	200%	17,229
Other assets	27,307	100%	27,307
Total risk weighted exposure (A)	**91,108**		**262,278**
Total regulatory capital required (A x 12%)			**31,473**

4.2 Quantitative information on credit risk

4.2.1 Gross and average credit exposure

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations of the Bank classified as per disclosure in the condensed consolidated interim financial information:

USD '000

Balance sheet items	Self financed exposure	Total gross credit exposure	* Average gross credit exposure
Cash and cash equivalents	7,384	7,384	7,384
Prepayments and other assets	10,051	10,051	10,051
Investment securities	12,521	12,521	12,521
Investment in real estate held-for-use	46,392	46,392	46,392
	76,347	76,347	76,347

* Average gross credit exposures have been calculated based on the average of balances outstanding on 31 December 2016.

Equity Valuation:

The Bank is using the book value approach to value the unlisted equities.

4.2.2 Credit exposure by geography

The Classification of credit exposures by geography, based on the location of the counterparty, was as follows:
USD '000

	GCC Countries	Europe	Total
Balance sheet items			
Cash and bank balances	1,422	962	2,384
Mudharaba deposit	5,000	-	5,000
Prepayments and other assets	10,051	-	10,051
Investment securities	12,521	-	12,521
Investment in real estate held-for-use	46,392	-	46,392
	75,386	962	76,348
Off-Balance sheet items			
Restricted Investment Accounts	481,103	-	481,103

4.2.3 Credit exposure by industry

The classification of credit exposures by industry was as follows:

USD'000

	Banks and financial institutions	Real estate	Others	Total
Balance sheet items				
Cash and bank balances	2,384	-	-	2,384
Mudharaba deposit	5,000			5,000
Prepayments and other assets	-	-	10,051	10,051
Investment securities	245	12,276	-	12,521
Investment in real estate held-for-use	-	46,392	-	46,392
	7,629	58,668	10,051	76,348
Off-Balance sheet items				
Restricted Investment Accounts	-	-	481,103	481,103

4.2.4 Credit exposure by maturity

The maturity profile of exposures based on maturity was as follows:

USD'000

	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	5 to 10 years	Above 10 years	Overdue	Total
Balance sheet items									
Cash and bank balances	7,384	-	-	-	-	-	-	-	7,384
Prepayments and other assets	-	-	-	-	-	-	-	1	1
Investment securities	-	-	-	-	12,521	-	-	-	12,521
Total assets	7,384	-	-	-	12,521	-	-	1	19,906
Accruals and other payables	-	-	-	481	-	-	-	2,126	2,607
Net liquidity gap	7,384	-	-	(481)	12,521	-	-	(2,125)	17,299
Off-Balance sheet items									
Restricted Investment Accounts	-	-	-	-	453,907	-	-	27,196	481,103

4.2.5 Impaired facilities and past due exposures

Movement in impairment provisions during the period: USD'000

	Specific Provisions Against		
	Financing facilities	**Investments**	**Other assets and off-Balance sheet items**
At beginning of the year	92,874	616	2,556
New provisions made	-	-	-
Amounts written off	-	-	-
Recoveries/write backs	(33,393)	(5)	(٧٢)
Balance at 31 December 2016	59,481	6١١	2,٤٨٤

The movement of impairment provisions during the year by industry is as follows:

	Specific Provisions Against			**General Provision**
	Banks and financial institutions	**Real estate**	**Others**	**Allocated to Self Investment a/c**
At beginning of the year	93,608	688	1,750	-
New provisions made	-	-	-	
Amounts written off	-	-	-	
Recoveries / Write backs	(٣٣,٣٩٣)	(77)	-	-
Balance at 31 December 2016	60,215	611	1,750	-

Gross impaired facilities as at 31 December 2016 USD'000

	Gross impaired facilities/receivables
Up to 3 months	-
Over 3 months to 1 Year	-
1 to 3 Years	٢٢,286
Over 3 Years	74,226
Total	96,512

Analysis of all facilities/receivables by industry

	Amount outstanding	**Non-performing amounts**	**Specific Provisions**
Financial	45,525	45,525	45,525
Other sectors	50,987	50,987	15,706
Total facilities/receivables by industry	**96,512**	**96,512**	**61,231**

4.2.6 Exposure to connected counterparties (including off-Balance sheet items) - consolidated

Head office and overseas branches and offices	1
Claims on staff	1
Claims on senior management	-
Exposures to the directors and their associates	-
Exposures to unconsolidated subsidiaries	-
Exposures to consolidated subsidiaries	10,718
Exposures to bank's associates	-
Exposures to significant shareholders	453,908
Total exposures to connected counterparties	**464,628**

5. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in profit rates, foreign exchange rates, equity, and commodity prices. Under the CBB standarised approach, market risk exposures are calculated for the five categories shown in the table below. Apart from limited foreign exchange, which is mainly transaction-driven, and long-term foreign currency exposure on private equity investments, the Bank has limited exposure to short-term market risks.

The details of the Bank's market risk capital charges and the equivalent market risk-weighted exposure as at 31 December 2016 and 31 December 2015 are:

	31 December 2016	31 December 2015
Price risk	-	-
Equities position risk	-	-
Sukuk risk	-	-
Foreign exchange risk	79	64
Commodities risk	-	-
Total capital requirement for market risk	79	64
Multiplier	12.5	12.5
Total market risk-weighted exposure	989	801

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the approach agreed with the CBB. The bank's average gross income for the last two financial years is multiplied by a fixed coefficient alpha of 15% set by CBB and a multiple of 12.5x is used to arrive at the risk weighted assets that are subject to capital charge.

6. Operational risk - Basic Indicator Approach

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the approach agreed with the CBB. The bank's average gross income for the last three financial years is multiplied by a fixed coefficient alpha of 15% set by CBB and a multiple of 12.5x is used to arrive at the risk weighted assets that are subject to capital charge.

	Average gross income	Risk weighted assets	Capital charge at 15%
Operational risk	8,785	16,471	1,318

7. Regulatory Capital requirements for Credit Risk by type of Islamic Financing Contract

USD'000

Asset Categories for Credit Risk	Credit exposure	Risk weights	Credit Risk weighted asset
Murabha where Specific Provision is 20% or more	11,834	100%	11,834
Wakala where Specific Provision is 20% or more	-	-	-

8. Past Due Islamic financing Contracts

8.1 Past due Islamic financing contracts by industry

USD'000

Exposure	Country	Banks & financial institutions	Real estate	Others	Total
Murabha Placement	Kuwait	-	50,987	-	50,987
Provision for Impairment Murabha	Kuwait	-	(15,706)	-	(15,706)
Net Murabaha Placement	Kuwait	-	35,281	-	35,281
Wakala Placement	Kuwait	42,522	-	-	42,522
Provision for Impairment Wakala	Kuwait	(42,522)	-	-	(42,522)
Net Wakala Placement	Kuwait	-	-	-	-
		-	35,281	-	35,281

***Restricted Wakala:**

The Bank received a draft plan form TID to restructure the wakala amount by issuing for each creditor including the Bank a prorata shares based on outstanding amount granting the creditors the ownership shares in SPV created to hold all TID's assets transferred to the SPV to settle the outstanding debts. A formal Committee by the creditors will be created to manage the SPV and be responsible for assets disposal and management.

8. Past Due Islamic financing Contracts (continued)

8.2 Ageing of past due financing contracts - Wakala and Murabaha placements

USD'000

	Over 3 months	Over 1 years	Over 3 years
Past due (gross exposure)	-	-	96,512
Impaired	-	-	(61,231)
Non-performing (net exposure)	-	-	35,281

8.3 Ageing of past due other assets

USD'000

	Over 3 months	Over 1 years	Over 3 years
Past due (gross exposure)	-	-	1,987
Impaired	-	-	(4,349)
Nonperforming (Net exposure)	-	-	(1,253)

8.4 Other Assets Provision breakup

USD'000

	Provision	Amount
Counterparty #1	(1,750)	1,750
Counterparty #2	(734)	734
Counterparty #3	(1,150)	1,150
Counterparty #4	(104)	104
Investment securities	(611)	611
	(4,349)	4,349

8.5 Gross value of contracts netted off by provisions and collaterals

USD'000

Financing Contracts	Amount outstanding	Specific provisions	Collateral	Net
Wakala	42,522	42,522	-	-
Murabha	-	-	-	-
Total Facilities / Receivables by Sector	42,522	42,522	-	-

General Provision on total Wakala & Murabha is USDNil.

9. Restricted Investment Accounts

The Group offers Restricted Investment Accounts (RIAs) to both financial and non-financial institutions. All RIA offering documents are prepared and issued with input from the business lines and Shari'ah Assurance, Financial Control, Legal and Risk Management departments, to ensure that all investors have sufficient information to consider all risk factors allowing them to make an informed decision. The Bank has clear guidelines and procedures for the development, management and risk mitigation of its RIAs. The Bank has established a robust operational and functional infrastructure to ensure that effective internal control systems are in place, and that RIA holders' interests are protected at all times. The Bank is fully aware of its fiduciary duties and responsibilities in managing RIAs.

USD'000

	2016 (12 months)	2015 (12 months)	2014 (12 months)	2013 (12 months)	2012 (12 months)
Historical returns over the last 5 years	-	-	-	-	-

10. Investments in foreign subsidiaries

Nature of the related currency exposure and how it changed from year to year

Nature of currency exposure	Investment in real estate held for rent
Fair value of the asset in 2016	8,614
Fair value of the asset in 2015	8,614

Foreign exchange translation effects

	Change in currency rate	Effect on profit 2016 USD	Effect on Equity 2016 USD	Effect on profit 2015 USD	Effect on Equity 2015 USD
KWD	+20%	900	900	523	523

11. Financial performance and position

	2016 (12months)	2015 (12months)	2014 (12months)	2013 (12 months)	2012 (12 months)	2011 (12 months)
Return on average equity	9.43%	-25.27%	-1.68%	-9.79%	0.71%	3.80%
Return on average assets	8.92%	-23.79%	-1.60%	-9.58%	0.69%	3.71%
Cost-to-income ratio	19.95%	763.58%	369.32%	146.60%	68.87%	57.28%

12. Liquidity Risk Management

Liquidity risk is the risk that the Group will not be able to meet its current and future cash flow and collateral needs, both expected and unexpected, without materially affecting its daily operations or overall financial condition.

The key features of the Group's liquidity methodology are:

• The Group Asset and Liability Committee (ALCO) is responsible for liquidity monitoring, cash flow planning, and general asset liability management.

• In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.

• The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon, and its forecast investment commitments over the liquidity horizon.

The following table discloses undiscounted residual contractual maturities of the Group's assets and liabilities except in case of investments in unquoted equity securities, equipment and certain other assets and other liabilities, which are based on management's estimate of realisation.

	Gross undiscounted cash flows as on 31 December 2016 (in US$ '000)						
	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	over 3 years	Overdue	Total
Assets							
Cash and cash equivalents	7,384	-	-	-	-	-	7,384
Other assets / net of Prepayments	-	-	-	-	-	1	1
Investment securities	-	-	-	-	12,521	-	12,521
Total assets	7,384	-	-	-	12,521	1	19,906
Liabilities							
Accruals and other Liabilities	-	-	-	481	-	2,126	2,607
Net liquidity gap	7,384	-	-	(481)	12,521	(2,125)	17,299
Restricted investment Accounts							
Others	-	-	-	-	453,907	27,196	481,103
Financial institution	-	-	-	-	-	-	-

13. Exposure Grading Policy

The Bank's exposures grading policy is classifying exposures as per the grades listed below and the level of provisions are determined accordingly:

(i) *'Standard credits 0%'* are those, which are performing, as the contract requires. There is no reason to suspect that the creditor's financial condition or collateral adequacy has depreciated in any way. The bank is very likely to extend additional funds to this borrower if requested (subject to internal or legal credit restrictions);

(ii) *'Substandard credits 25%'* are inadequately protected by the paying capacity of the obligor or by the collateral pledged. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of Substandard assets does not have to exist in individual assets classified Substandard;

(iii) *'Doubtful credits 50%'* have all the weaknesses inherent in a credit classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable or improbable. The possibility of Loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its rating as an estimated Loss is deferred until its more exact status may be determined; and

(iv) *'Loss credits 100%'* are considered uncollectible and of such little value that their continuance as assets is not warranted. The rating does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

14. Rate of return Risk

As of 31st December 2016, the Bank has no profit bearing Liabilities/Deposits and accordingly its profit Rate Risk is at minimal level. However, the Bank is making sure to charge enough profit margins on its wakalas and murabaha to cover its cost and yield margin on its invested capital. The use of sensitivity analysis to measure Profit Rate Risk although useful approach where no liabilities are recorded, but in our current position it is not a precise approach to measure the risk.

Profit Rate Risk mainly affected by the cost of Funding/Borrowing and the ability to manage the profitability gap between the Funding Cost and Investment Return. Several methods used by the management to manage the gap each depends on the nature of the Product/Contract between the Bank and investors.

The Bank is using sensitivity analysis and margin gap to monitor the margin between its Investment Return and Cost Funding.

Profit Rate Risk	**31-Dec-16**			
Counterparty	Amount	Profit Rate	Calculation	
TID -1	9,963,743	5.00%	20.97%	1.05%
TID -2	22,746,770	5.00%	47.87%	2.39%
TID-ADAM	9,811,534	5.00%	20.65%	1.03%
Murabaha deposit	4,999,930	1.30%	10.52%	0.14%
	47,521,977		100.00%	4.61%

15. IDB's policies and processes for collateral valuation and management

1. The Bank obtains three independent valuation reports and considering the average.

2. Financing up to 70% of the collateral value.

3. Registering the collateral in the "Survey & Land Registration Bureau".

16. Bank's Fiduciary Duty and Responsibilities

The Bank's Fiduciary duty is a legal requirement and care that applies to the Bank to monitor the Bank's IAH funds. The Bank owes the legal duty to the Bank's IAH funds and strict care is taken to ensure no conflict of interest arises between them. In most cases, no profit is to be made from the relationship unless explicit consent is granted at the time the relationship begins.

The duties and responsibilities of the Board with respect to giving due regards to the interest of the IAH shall include the following:

(a) approve and review the objectives, strategies, policies and processes of the investment account including profit distribution policy and valuation policy;

(b) ensure the investment operations are performed in accordance with the fiduciary duties and agency duties in the agreed terms and conditions of the investment account, relevant legislations and Shari'a rulings;

(c) ensure establishment of effective risk management policies, processes and infrastructure to identify, measure, monitor, control and report the various types of risk associated with the assets funded by the investment account including policies and procedures to determine the significant level of investment account business.

(d) ensure the management of investment accounts is conducted by personnel with the appropriate competency and investment expertise; and

(e) approve disclosure policies to ensure reliable, relevant and timely information are disseminated to the IAH to facilitate informed decision making and conduct regular review on the effectiveness of these policies to protect the interest of the IAH.

to facilitate access to relevant, reliable and timely information by market participants generally, and by investment account holders (IAH) in particular, thereby enhancing their monitoring capacity.

These disclosure principles and practices are designed to enable market participants generally, and IAH in particular, to assess key information on: 1) the type of IIFS and, where applicable, the scope of the consolidation method used by members of an Islamic financial group; 2) capital structure and overview of capital adequacy;3) the treatment of investment accounts, including their risks and returns; 4) the risk management process; 5) risk exposures by types of risk, and indicators of risk-sharing with IAH; 6) key aspects of general governance and Sharī`ah governance; 7) the scope of consumer-friendly disclosures concerning such risks and returns, Sharī`ah compliance and investment account products; and 8) the role of Islamic windows2 .

17. Operation Risk Measurement policy

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events (such as natural disasters, changes in regulation or outsourcing of operations). Bank includes in this definition legal risk but excludes reputational and strategic risks. While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout Bank. Contingency arrangements, which are tested from time to time, are also in place to support operations in the event of a range of possible disaster scenarios. In addition, Bank takes out insurance against legal risks arising from 'Errors and Omissions' on the part of officers of Bank. As a part of Basel II compliance, Bank applies the Basic Indicator Approach ('BIA') to measure operational risk and also is implementing a Board of Directors approved operational risk management framework. Under the BIA approach, Bank's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient which has been set at 15% in the CBB's Basel II capital adequacy framework. The operational risk management framework consists of the following:

I. 'Risk Control and Self-Assessment': Self-assess operational risks by going through key business processes end-to-end;
II. Evaluate the adequacy of existing process controls;
III. Implement control modifications to reduce operational risks and determine residual risks; and
IV. Monitor and report operational risk events to senior management and the Board.

18. Qualitative disclosure relating to Counterparty Credit Risk ("CCR")

This risk refers to the market pressure to pay returns that exceeds 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. Currently the Bank is not providing more credits to any new counterparties and managing the current exposure.

19. Bank Approach to Capital Adequacy monitor

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) as adopted by the Central Bank of Bahrain.

The bank applies the Basel II framework regulations, as adopted by the CBB, on a consolidated basis to dar Bank B.S.C. which is the entity licensed and regulated by the CBB.
For the assessment of the adequacy of regulatory capital, the Group has chosen the following approaches:

- standardized approach for credit risk and market risk;
- basic indicator approach for operational risk.

20. Other disclosures

Audit and other services fees

	USD
Audit fees and other related services	68,966

Sensitivity analysis on rate of returns on quoted equity investments:

	Change in Profit rate	Effect on profit 2016 USD	Effect on equity 2016 USD	Effect on profit 2015 USD	Effect on equity 2015 USD
Listed investment security	+10%	202,031	202,031	159,666	159,666

Financial Penalty

In 2016, the Central Bank of Bahrain imposed financial penalties of BD350 and BD50 on the Bank for 7 days late submission of Agreed Upon Procedures relating to the Quarterly Prudential Information Report - BR-3.1.4 and for 1 day late publishing the financial statements in the daily newspaper and Bank's website, respectively.

	USD
Quarterly Prudential Information Report - BR-3.1.4	930
Public Disclosure - PD-3.1.4	133
	1,063

Employment of relatives of approved persons

- As a policy, the recruitment of "next of kin" is not encouraged. In the event where this is permitted, these are not to be recruited to positions that interact directly with each other. In no circumstances is an employee to report indirectly or directly to a family member.

- The chief executive/general manager of the Islamic bank licensees must disclose to the board of directors on an annual basis relatives of any approved persons occupying controlled functions within the Islamic bank licensee.