

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

**Basel III, Pillar III Disclosures**

**31 December 2020**

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

## Basel III, Pillar III Disclosures

for the year ended 31 December 2020

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## Basel III, Pillar III Disclosures

for the year ended 31 December 2020

### 1 INTRODUCTION

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Commercial Registration of the Bank was renewed on 7 January 2008 to change the status from exempt closed joint stock company to closed joint stock company. The Bank operates under a Retail Bank's license number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has six commercial branches in the Kingdom of Bahrain.

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, Ijara financing and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain.

For details on the Group's subsidiary as of 31 December 2020, refer note 2 of the consolidated financial statements of the Group.

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined in its Public Disclosure Module ("PD"), Section PD-3: Public Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks.

### 2 CAPITAL ADEQUACY

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the standardised approach for its credit risk, basic indicator approach for its operational risk and standardised measurement approach for its market risk. The CBB capital adequacy requirement is minimum accepted level for capital adequacy. The credit committee of the Group identify and approve assets suitable for funding by equity of Investment Accountholders ("IAH").

For the purpose of computing the Capital Adequacy Ratio ("CAR") and preparation of the PIRI form, the Group's financial subsidiary (Al Baraka Bank (Pakistan) Limited) and significant investment Itqan Capital Company are consolidated as per the requirement of the CA Module. As a result of consolidation of Itqan Capital for regulatory purposes, the amounts in certain tables within the quantitative disclosures might not match the amounts reported in the consolidated financial statements of the Group.

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### 2 CAPITAL ADEQUACY (continued)

#### Table – 1. Capital structure

The following table summarises the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation in accordance with Basel III requirements as of:

	31 December 2020			31 December 2019		
	CET 1 US \$ '000	AT1 US \$ '000	Tier 2 US \$ '000	CET 1 US \$ '000	AT1 US \$ '000	Tier 2 US \$ '000
<b>Common Equity Tier 1 (CET1)</b>						
Issued and fully paid ordinary shares	136,458			136,458		
General reserves	8,687			8,687		
Statutory reserves	23,831			23,228		
Retained earnings	(15,844)			(17,681)		
Current cumulative net income/ (losses)	3,462			936		
Unrealized gains and losses on available for sale financial instruments	1,121			(1,645)		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(36,345)			(34,720)		
Other reserves	(94)			(59)		
<b>Total CET1 capital before minority interest</b>	<b>121,276</b>			<b>115,204</b>		
Minority interest in banking subsidiaries	13,471			13,267		
<b>Total CET1 capital prior to regulatory adjustments</b>	<b>134,747</b>			<b>128,471</b>		
Less:						
Goodwill	31,133			31,585		
Intangible other than mortgage servicing rights	6,039			4,230		
Deferred tax assets	11,575			15,314		
<b>Total CET 1 capital after the regulatory adjustments above (CET 1a)</b>	<b>86,000</b>			<b>77,342</b>		
<b>Other Capital (AT1 &amp; T 2)</b>						
Instruments issued by parent company		111,000	-		111,000	-
Instruments issued by banking subsidiaries to third parties		132	4,541		145	7,348
Expected Credit Losses (ECL) Stages 1 & 2		-	7,303		-	6,240
<b>Total Available AT1 &amp; T2 Capital</b>		<b>111,132</b>	<b>11,844</b>		<b>111,145</b>	<b>13,588</b>
<b>Total CET 1 Capital</b>	<b>86,000</b>			<b>77,342</b>		
<b>Total T1 Capital</b>		<b>197,132</b>			<b>188,487</b>	
<b>Total Capital</b>			<b>208,976</b>			<b>202,075</b>

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### 2 CAPITAL ADEQUACY (continued)

#### Table – 2. Capital requirement by type of islamic financing contracts

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

Type of islamic financing contracts	<b>31 December 2020 Capital requirements US \$ '000</b>	<i>31 December 2019 Capital requirements US \$ '000</i>
	Receivables	<b>16,954</b>
Ijara Muntahia Bittamleek & Ijara receivables	<b>8,399</b>	7,354
Musharaka	<b>15,421</b>	11,799
	<b>40,774</b>	35,500

#### Table – 3. Capital requirement for market risk

The following table summarises the amount of exposures subject to standardised approach of market risk and related capital requirements as of:

	<b>31 December 2020</b>		<i>31 December 2019</i>	
	<b>Self Financed US \$ '000</b>	<b>Financed by IAH US \$ '000</b>	<i>Self Financed US \$ '000</i>	<i>Financed by IAH US \$ '000</i>
Market risk - standardised approach				
Price risk	<b>238</b>	-	-	-
Foreign exchange risk	<b>6,337</b>	-	8,468	-
<b>Total of market risk - standardised approach</b>	<b>6,575</b>	-	8,468	-
<b>Multiplier</b>	<b>12.50</b>	<b>12.50</b>	12.50	12.50
	<b>82,188</b>	-	105,850	-
Eligible Portion for the purpose of the calculation	<b>100%</b>	<b>30%</b>	100%	100%
<b>Risk Weighted Exposures ("RWE") for CAR Calculation</b>	<b>82,188</b>	-	105,850	-
<b>Total market RWE</b>		<b>82,188</b>		105,850
		<b>12.50%</b>		12.50%
<b>Minimum capital requirement</b>		<b>10,273</b>		13,231

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#### 2 CAPITAL ADEQUACY (continued)

##### Table – 4. Capital Requirements for operational risk

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

	<i>31 December 2020</i>	<i>31 December 2019</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
<b>Indicators of operational risk</b>		
Average gross income	<b>83,314</b>	79,595
<b>Multiplier</b>	<b>12.5</b>	12.5
	<b>1,041,425</b>	994,938
Eligible Portion for the purpose of the calculation	<b>15%</b>	15%
<b>Total operational RWE</b>	<b>156,214</b>	149,241
	<b>12.50%</b>	12.50%
<b>Minimum capital requirement</b>	<b>19,527</b>	18,655

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## 2 CAPITAL ADEQUACY (continued)

**Table – 5. Capital adequacy ratios**

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

	31 December 2020			31 December 2019		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Group's Capital adequacy ratio	25.41%	23.97%	10.46%	23.86%	22.25%	9.13%
Minimum regulatory requirements*	12.50%	10.50%	9.00%	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	17.63%	15.09%	12.19%	21.42%	16.51%	13.54%
Itqan Capital Company	24.40%	24.40%	24.40%	26.91%	26.91%	26.91%

\* Minimum required by CBB regulations under Basel III

\*\*The subsidiary's Capital adequacy ratio computed in accordance with the CBB requirements.

### Legal restrictions on capital and income mobility

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

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

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

	31 December 2020			31 December 2019		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Capital adequacy ratio	12.90%	9.70%	9.70%	13.34%	10.63%	10.63%
Minimum regulatory requirements*	12.50%	10.50%	9.00%	12.50%	10.50%	9.00%

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### 3 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees, guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors. The Group risk management strategies have been effectively implemented during the year in line with the objective defined.

#### a) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

**Table – 7. Credit risk exposure**

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

	31 December 2020				31 December 2019			
	Self financed	*Average gross exposure over the period	Financed by IAH	*Average gross credit risk exposure over the period	Self financed	*Average gross credit exposure over the period	Financed by IAH	*Average gross credit exposure over the period
	Total gross credit exposure	US \$ '000	Total gross credit exposure	US \$ '000	Total gross credit exposure	US \$ '000	Total gross credit exposure	US \$ '000
<b>Funded</b>								
Cash and balances with banks and financial institutions	192,379	116,897	104,000	272,691	63,986	96,670	281,217	163,984
Receivables	992	1,359	552,018	492,310	1,579	1,837	444,055	539,635
Ijara Muntahia Bittamleek and Ijara receivables	36,307	37,032	285,202	268,347	37,662	35,413	245,047	244,486
Musharaka	33,642	32,911	316,638	249,832	39,933	40,944	197,561	201,799
Investments	575,499	518,423	386,839	300,054	464,767	431,445	254,236	222,825
Investment in real estate	11,562	15,542	-	-	17,159	12,141	-	-
Premises and equipment	47,363	45,805	-	-	48,553	56,360	-	-
Other assets	3,870	15,311	52,210	52,917	51,341	58,969	14,731	22,641
<b>Unfunded exposure</b>								
Contingencies and commitments	178,150	152,637	-	-	163,505	156,322	-	-
	<b>1,079,764</b>	<b>935,917</b>	<b>1,696,907</b>	<b>1,636,151</b>	<b>888,485</b>	<b>890,101</b>	<b>1,436,847</b>	<b>1,395,370</b>

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

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## Basel III, Pillar III Disclosures

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### 3 RISK MANAGEMENT (continued)

#### a) Credit risk (continued)

**Table – 8. Credit risk – geographic breakdown**

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

	31 December 2020				31 December 2019			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	*geographic area		*geographic area		*geographic area		*geographic area	
	Middle East	Other Asian countries	Middle East	Other Asian countries	Middle East	Other Asian countries	Middle East	Other Asian countries
US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	
Cash and balances with banks	6,390	160,177	110,435	19,377	-	92,762	62,544	189,898
Receivables	992	-	332,866	219,152	1,579	-	188,764	255,291
Ijara Muntahia Bittamleek and Ijara receivables	36,307	-	282,122	3,080	37,662	-	239,018	6,030
Musharaka	-	33,642	-	316,638	-	39,933	-	197,561
Investments	388,643	186,856	208,382	178,457	297,629	138,363	267,796	15,216
Investment in real estate	11,562	-	-	-	17,159	-	-	-
Premises and equipment	31,382	15,980	-	-	31,453	17,101	-	-
Other assets	520	29,162	14,020	12,378	4,529	46,810	14,670	59
	<b>475,796</b>	<b>425,817</b>	<b>947,825</b>	<b>749,082</b>	<b>390,011</b>	<b>334,969</b>	<b>772,792</b>	<b>664,055</b>

\* Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by management and the Board of Directors. For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries predominantly includes operations in Pakistan.

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## Basel III, Pillar III Disclosures

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### 3 RISK MANAGEMENT (continued)

#### a) Credit risk (continued)

**Table – 9. Credit risk – counterparty type breakdown**

The following table summarises the distribution of funded and unfunded exposure by counterparty type as of:

	31 December 2020				31 December 2019			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Funded US \$ '000	Unfunded US \$ '000	Funded US \$ '000	Unfunded US \$ '000	Funded US \$ '000	Unfunded US \$ '000	Funded US \$ '000	Unfunded US \$ '000
Cash items	37,901	-	6,448	-	17,351	-	19,069	-
Claims on Sovereigns	478,797	11	495,288	-	290,139	-	501,675	-
Claims on Public Sector Entities	169,627	-	27,161	-	137,613	-	11,367	-
Claims on banks	87,662	40,571	223,829	-	98,870	40,577	73,432	-
Claims on corporate	21,229	137,562	456,117	-	20,673	122,922	449,710	-
Mortgage	-	-	284,936	-	-	-	228,798	-
Past dues receivables	992	6	46,290	-	1,579	6	55,609	-
Regulatory Retail Portfolio	-	-	119,479	-	-	-	91,699	-
Equity investment	34,054	-	246	-	31,553	-	392	-
Investment in Funds	4,308	-	-	-	3,939	-	-	-
Holding of Real Estate	55,636	-	4,341	-	61,470	-	5,037	-
Other assets	11,410	-	32,772	-	61,795	-	59	-
	<b>901,616</b>	<b>178,150</b>	<b>1,696,907</b>	<b>-</b>	<b>724,982</b>	<b>163,505</b>	<b>1,436,847</b>	<b>-</b>

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

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

### Basel III, Pillar III Disclosures

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#### 3 RISK MANAGEMENT (continued)

##### a) Credit risk (continued)

#### Table – 10. Credit risk – related party transactions

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

	31 December 2020		31 December 2019	
	Self financed	Financed by IAH	Self financed	Financed by IAH
	Funded US \$ '000	Funded US \$ '000	Funded US \$ '000	Funded US \$ '000
Cash and balances with bank	-	5,110	-	5,599
Receivables	-	17,636	-	194
Musharaka	-	1,717	-	1,623
Ijara Muntahia Bittamleek and Ijara Receivables	-	-	-	85
Investments	44,891	-	42,639	-
Other Assets	6,824	-	7,945	-
Contingencies and commitments	30,914	-	2,711	-
	<b>82,629</b>	<b>24,463</b>	53,295	7,501

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

	31 December	31 December
	2020	2019
	Self financed	Self financed
	US \$ '000	US \$ '000
<b>Assets</b>		
Investment in a subsidiary*	94,201	94,201
Equity investment in Itqan Capital	54,342	54,342
	<b>148,543</b>	148,543
<b>Contingencies and commitments</b>		
Letters of credit	-	2,019
Acceptances	-	4,140
	-	6,159

The Bank carries investment in banking subsidiary located in Islamic Republic of Pakistan denominated in Pakistani Rupee. The gains/ losses on translation of such operations are duly reflected in a separate component of consolidated equity of the Group. The Bank is not using any hedging strategy to mitigate the impacts of fluctuation in Pakistani Rupee.

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#### 3 RISK MANAGEMENT (continued)

##### a) Credit risk (continued)

###### Table – 11. Credit risk – concentration of risk

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

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2020:

	<u>Funded</u> US \$ '000
Counterparties *	
Counterparty # 1	438,919
Counterparty # 2	200,154
Counterparty # 3	124,365
Counterparty # 4	100,000
Counterparty # 5	63,708
Counterparty # 6	60,889
Counterparty # 7	58,454
Counterparty # 8	52,922
Counterparty # 9	35,308
Counterparty # 10	33,658
Counterparty # 11	33,642

\* These exposures are in excess of individual obligor limits. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2019:

	<u>Funded</u> US \$ '000
Counterparties *	
Counterparty # 1	563,298
Counterparty # 2	140,396
Counterparty # 3	100,000
Counterparty # 4	64,167
Counterparty # 5	59,996
Counterparty # 6	56,050
Counterparty # 7	43,145
Counterparty # 8	39,936
Counterparty # 9	39,460
Counterparty # 10	33,634
Counterparty # 11	32,001
Counterparty # 12	32,884

\* These exposures are in excess of individual obligor limits. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

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#### 3 RISK MANAGEMENT (continued)

##### a) Credit risk (continued)

###### Past due and non-performing facilities

Past due represents installments that are not received on the contractual repayments date. The Group defines non-performing facilities as the facilities that are overdue for period of 90 days or more. These exposures are placed on a non-accrual status with income being recognised to the extent that it is actually received/distributed. It is the Group's policy, except for the subsidiary which is following their local regulations, that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due.

###### Highly leveraged counter parties

Highly leveraged counter parties are determined by the Credit Department on case by case basis according to industry types and credit policies and procedures of the Group. Each industry has clear established leverage ratios set in place internally which are considered threshold for measuring how leveraged is our counterpart (Low, Medium/Acceptable or High). Any excess over such determined ratios, the customer is classified as highly leveraged with high risk. This ratio will have a big impact on Internal Rating / Grading of the customer. In this respect, the high risk exposure classified by the bank is as follows:

<u>2020</u>	<i>US \$ '000</i>
Counterparty # 1	10,000
Counterparty # 2	8,036
Counterparty # 3	3,243
Counterparty # 4	1,855
Counterparty # 5	1,331
Counterparty # 6	358
Counterparty # 7	311
Counterparty # 8	234
Counterparty # 9	176
Counterparty # 10	167
Counterparty # 11	121
Counterparty # 12	99
Counterparty # 13	83
Counterparty # 13	55
Counterparty # 15	71
Counterparty # 16	43
Counterparty # 17	7
Counterparty # 18	4
Counterparty # 19	1
<u>2019</u>	<i>US \$ '000</i>
Counterparty # 1	12,999
Counterparty # 2	38
Counterparty # 3	7
Counterparty # 4	221

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 13. Credit risk – credit quality of Islamic financing contracts by counterparty type

The following table summarises the aging of non performing facilities disclosed by counterparty type as of:

	31 December 2020					31 December 2019				
	Past due but performing US \$ '000	Non- performing Islamic financing contracts US \$ '000	Aging of non performing facilities			Past due but performing US \$ '000	Non- performing Islamic financing contracts US \$ '000	Aging of non performing facilities		
			90 days to 1 year US \$ '000	1 year to 3 years US \$ '000	Over 3 years US \$ '000			90 days to 1 year US \$ '000	1 year to 3 years US \$ '000	Over 3 years US \$ '000
Banks	-	-	-	-	-	262	-	-	-	-
Corporates	19,423	93,285	12,571	46,098	34,616	31,203	68,793	36,337	16,844	15,612
Individuals	538	13,317	2,107	5,944	5,266	3,746	30,360	12,802	12,079	5,479
Others	-	21,893	21,893	-	-	6,593	10,954	5,741	1,591	3,622
	<b>19,961</b>	<b>128,495</b>	<b>36,571</b>	<b>52,042</b>	<b>39,882</b>	<b>41,804</b>	<b>110,107</b>	<b>54,880</b>	<b>30,514</b>	<b>24,713</b>

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 14. Credit Risk – provision against financing facilities by counterparty type

The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 31 December 2020:

	<i>Specific allowances</i>						<i>Balance at the end of the year</i>
	<i>Opening Balance</i>	<i>Charges during the year</i>	<i>Transit in Stage3 during the year</i>	<i>Write-Back during the year</i>	<i>Write-offs during the year</i>	<i>Exchange difference on opening balance</i>	
	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>
Corporates	40,142	8,606	(286)	(103)	(4,690)	(841)	42,828
Individuals	4,444	3,432	(35)	(355)	(2)	(84)	7,400
Others	8,118	2,727	-	(449)	-	(253)	10,143
	<b>52,704</b>	<b>14,765</b>	<b>(321)</b>	<b>(907)</b>	<b>(4,692)</b>	<b>(1,178)</b>	<b>60,371</b>

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 2019:

	<i>Specific allowances</i>						<i>Balance at the end of the year</i>
	<i>Opening Balance</i>	<i>Charges during the year</i>	<i>Transit in Stage3 during the year</i>	<i>Write-Back during the year</i>	<i>Write-offs during the year</i>	<i>Exchange difference on opening balance</i>	
	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>
Corporates	57,485	11,060	117	(2,121)	(23,887)	(2,512)	40,142
Investment Firms	13,287	2,130	-	-	(15,410)	(7)	-
Individual	5,207	2,180	157	(286)	(2,658)	(156)	4,444
Others	7,387	1,912	-	(418)	-	(763)	8,118
	<b>83,366</b>	<b>17,282</b>	<b>274</b>	<b>(2,825)</b>	<b>(41,955)</b>	<b>(3,438)</b>	<b>52,704</b>

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

Basel III, Pillar III Disclosures  
for the year ended 31 December 2020

### 3 RISK MANAGEMENT (continued)

#### a) Credit risk (continued)

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

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

	<b>31 December 2020</b>		<b>31 December 2019</b>	
	<i>Non-performing Islamic financing contracts</i> <i>US \$ '000</i>	<i>ECL for Stage 3</i> <i>US \$ '000</i>	<i>Non-performing Islamic financing contracts</i> <i>US \$ '000</i>	<i>ECL for stage 3</i> <i>US \$ '000</i>
Middle East	65,714	17,096	50,147	16,044
Other Asian countries	62,780	44,372	59,960	36,660
	<b>128,494</b>	<b>61,468</b>	110,107	52,704

#### Table – 16. Credit risk – restructured Islamic financing contracts

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

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<i>Total</i> <i>US \$ '000</i>	<i>Total</i> <i>US \$ '000</i>
Restructured Islamic financing contracts	<b>8,141</b>	96,388

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

The Bank provides support to its customer facing financial difficulties in the form of waiver of profits, extension of repayment dates and even in certain cases discount upon settlement of the financing facilities.

**3 RISK MANAGEMENT (continued)****a) Credit risk (continued)****Table – 17. Counterparty credit risk exposure**

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

	31 December 2020		31 December 2019	
	Gross positive FV of contracts US \$ '000	* Collateral held US \$ '000	Gross positive FV of contracts US \$ '000	* Collateral held US \$ '000
Cash and balances with banks and financial institutions	296,380	-	345,203	-
Receivables	553,010	416,523	445,634	405,612
Ijara Muntahia Bittamleek and Ijara receivables	321,509	176,214	282,709	295,976
Musharaka	350,280	350,280	237,494	237,494
Investments	962,338	-	719,003	-
Investment in real estate	11,562	-	17,159	-
Premises and equipment	47,363	-	48,553	-
Other assets	56,080	-	66,072	-
	<b>2,598,522</b>	<b>943,017</b>	<b>2,161,827</b>	<b>939,082</b>

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

**Table – 18. Counterparty credit risk exposure**

The following table summarises exposure by type of Islamic financing contract that is covered by eligible collateral after the application of haircuts as of:

	31 December 2020		31 December 2019	
	Gross positive FV of contracts US \$ '000	Collateral held US \$ '000	Gross positive FV of contracts US \$ '000	Collateral held US \$ '000
Receivables	553,010	38,310	282,710	24,577
Ijara Muntahia Bittamleek & Ijara income receivable	321,509	12,149	445,635	35,809

The Bank has obtained the insurance coverage/ guarantee received from a multilateral insurance company against a financing exposure which has been used as credit risk mitigant (CRM) during the year ending 31 December 2020. As at 01 January 2020, the CRM applied was USD 38 million which was reduced to nil as at 31 December 2020, in lieu of settlement of underlying exposure.

**b) Market risk**

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

**Table – 19. Market risk capital requirements**

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

	'31 December 2020	'31 December 2020	'31 December 2019	'31 December 2019
	Price risk US \$ '000	Foreign exchange risk US \$ '000	Price risk US \$ '000	Foreign exchange risk US \$ '000
RWE	2,973	79,213	-	105,848
Capital requirements (12.5%)	372	9,902	-	13,231
Maximum value of RWE	2,973	104,057	-	105,848
Minimum value of RWE	1,717	79,213	-	96,711

**3 RISK MANAGEMENT (continued)****b) Market Risk (continued)****Table – 20. Equity position risk in Banking Book**

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2020:

	<i>Total gross exposure US \$ '000</i>	<i>Average gross exposure over the period US \$ '000</i>	<i>Publicly held US \$ '000</i>	<i>Privately held US \$ '000</i>	<i>Capital requirement US \$ '000</i>
Managed funds	1,000	1,076	-	1,000	25
Private equity	49,706	49,982	34,422	15,284	10,021
Real estate related	19,137	15,711	-	19,137	6,968
	<b>69,843</b>	<b>66,769</b>	<b>34,422</b>	<b>35,421</b>	<b>17,014</b>

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2019:

	<i>Total gross exposure US \$ '000</i>	<i>Average gross exposure over the period US \$ '000</i>	<i>Publicly held US \$ '000</i>	<i>Privately held US \$ '000</i>	<i>Capital requirement US \$ '000</i>
Managed funds	1,000	1,000	-	1,000	25
Private equity	48,556	43,646	28,648	19,908	10,838
Real estate related	15,056	17,323	-	15,056	6,897
	<b>64,612</b>	<b>61,969</b>	<b>28,648</b>	<b>35,964</b>	<b>17,760</b>

The Bank carries a diversified portfolio of equity investments containing the securities held for trading or short-term capital gains and stakes in a few entities to secure strategic objectives like entrance in certain market or business segment. More specifically, the securities amounted to USD 3.9 million (2019: USD 4.1 million), in such portfolio, were held to generate capital gains.

**Table – 21. Equity gains or losses in Banking Book**

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

	<b>2020 US \$ '000</b>	<b>2019 US \$ '000</b>
Cummulative realised gains arising from sale or liquidation	<b>15,951</b>	10,383
Total unrealised gains recognised in the balance sheet but not through P&L	<b>1,121</b>	(1,645)
Unrealised gross gains included in Tier One Capital	<b>1,121</b>	(1,645)

**3 RISK MANAGEMENT (continued)**

**b) Market Risk (continued)**

**Table – 21. Equity gains or losses in Banking Book (continued)**

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

*Profit rate risk*

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

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

**Table – 22. Profit rate mismatch**

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

	<i>2020</i>				
	<i>Up to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 3 years</i>	<i>Over 3 years</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>
Receivables	273,687	120,568	38,518	38,184	86,479
Ijara Muntahia Bittamleek and Ijara Income Receivables	6,264	27,960	14,337	42,396	230,553
Musharaka	-	76,596	9,446	106,106	158,132
Investments-Sukuk	65,768	-	78,108	22,253	722,978
<b>Profit rate sensitive assets</b>	<b>345,719</b>	<b>225,124</b>	<b>140,409</b>	<b>208,939</b>	<b>1,198,142</b>
Murabaha and other payables	28,380	87,097	28,332	41,400	-
Equity of investment accountholders	895,910	151,958	318,639	161,664	168,736
Subordinated debt	2,605	-	894	-	9,384
<b>Profit rate sensitive liabilities</b>	<b>926,895</b>	<b>239,055</b>	<b>347,865</b>	<b>203,064</b>	<b>178,120</b>
<b>Profit rate gap</b>	<b>(581,176)</b>	<b>(13,931)</b>	<b>(207,456)</b>	<b>5,875</b>	<b>1,020,022</b>
<b>Profit rate sensitivity (200bps)</b>	<b>(11,624)</b>	<b>(279)</b>	<b>(4,149)</b>	<b>118</b>	<b>20,400</b>

**3 RISK MANAGEMENT (continued)****b) Market Risk (continued)****Table – 22. Profit rate mismatch (continued)**

	2019				
	Up to 3 months US \$ '000	3 to 6 months US \$ '000	6 months to 1 year US \$ '000	1 to 3 years US \$ '000	Over 3 years US \$ '000
Receivables	172,065	145,032	35,954	37,176	59,502
ljarah Muntahia Bittamleek and ljarah Income Receivables	8,273	30,639	13,893	42,483	187,421
Musharaka	1,092	3,936	8,938	97,814	125,713
Investments-Sukuk	39,296	128,303	34,679	97,909	354,205
<b>Profit rate sensitive assets</b>	<b>220,726</b>	<b>307,910</b>	<b>93,464</b>	<b>275,382</b>	<b>726,841</b>
Murabaha and other payables	71,544	15,918	-	38,000	-
Equity of investment accountholders	730,100	136,653	172,006	155,759	242,329
Subordinated debt	1,590	-	1,545	1,845	9,687
<b>Profit rate sensitive liabilities</b>	<b>803,234</b>	<b>152,571</b>	<b>173,551</b>	<b>195,604</b>	<b>252,016</b>
<b>Profit rate gap</b>	<b>(582,508)</b>	<b>155,339</b>	<b>(80,087)</b>	<b>79,778</b>	<b>474,825</b>
<b>Profit rate sensitivity (200bps)</b>	<b>(11,650)</b>	<b>3,107</b>	<b>(1,602)</b>	<b>1,596</b>	<b>9,497</b>

This table contains the mismatch amongst profit bearing assets and liabilities to ensure compliance with public disclosure requirements. However, in lieu of inherent nature of Islamic Banking, such mismatches does not exist amongst assets and liabilities carried by the Bank as the bank has profit and loss sharing mudaraba agreement with Investment accountholders. Whereby in case of any decrease in profit rates the corresponding impact has to be shared with the customers as per the mudaraba arrangement. It's hereby elaborated that the assets base represents receivable against various modes of sales/ deployment of funds under wakala and mudaraba arrangements, assets and receivables against ljarah and participations in ventures under Musharaka arrangements. While these assets are finance through capital, current accounts, funds received under mudaraba contract, payables against purchase and predominantly through funds received under profit sharing or Mudarba contracts. Therefore, the table given is just indicative of profit mismatches amongst assets and liabilities under various contracts.

*Foreign exchange risk*

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

**Table – 23. Foreign currency translation risk**

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

	2020 Total equivalent US \$ '000
Pakistani Rupees	68,607
Euro	(2,706)
Kuwaiti Dinars	53
Pound Sterling	(3,832)
Egyptian Pound	4,063
Algerian Dinar	6,000
Others	490

**3 RISK MANAGEMENT (continued)**

**b) Market Risk (continued)**

**Table – 23. Foreign currency translation risk (continued)**

	<u>2019</u>
	Total equivalent US \$ '000
Pakistani rupees	86,528
Euro	(1,798)
Kuwaiti dinars	2,258
Pound sterling	(5,229)
Egyptian Pound	3,396
Algerian Dinar	6,000

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

*Foreign currency risk sensitivity analysis*

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

**Table – 24. Foreign currency risk sensitivity analysis**

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

At 31 December 2020

Currency	Particular	Change	Exposures in US \$ '000	Effect on profit and loss/Equity US \$ '000
Pakistani rupees	Net long Position	20%	68,607	13,721
Euro	Net short Position	20%	(2,706)	(541)
Kuwaiti dinars	Net long Position	20%	53	11
Pound sterling	Net short Position	20%	(3,832)	(766)
Egyptian Pound	Net long Position	20%	4,063	813
Algerian Dinar	Net long Position	20%	6,000	1,200
Others	Net long Position	20%	490	98

At 31 December 2019

Currency	Particular	Change	Exposures in US \$ '000	Effect on profit and loss/Equity US \$ '000
Pakistani Rupees	Net long Position	20%	86,528	17,306
Euro	Net short Position	20%	(1,798)	(360)
Kuwaiti Dinars	Net long Position	20%	2,258	452
Pound Sterling	Net short Position	20%	(5,229)	(1,046)
Egyptian Pound	Net long Position	20%	3,396	679
Algerian Dinar	Net long Position	20%	6,000	1,200

**3 RISK MANAGEMENT (continued)**

**c) Equity of Investment Accountholders (IAH)**

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Bank invests its own funds separately or jointly with amount received from Equity of IAH. These funds received are managed in accordance with Shari' a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Group to exercise its fiduciary responsibilities. The Group is authorised by Equity of IAH to invest the funds on the basis of Mudaraba, Murabaha, Salam, Ijara transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in the Group's credit risk, liquidity risk, and other risks policies of the group. The strategic objectives of the investments of the funds are:

- a) Investment in Shari' a compliant opportunities;
- b) Targeted returns;
- c) Compliance with credit and Investment policy and overall business plan; and
- d) Diversified portfolio.

Funds are invested in Shari' a compliant commercial or consumer financing as well as short, medium, and long term investments excluding strategic investments. A due diligence process is in place which is consistent with business and risk policy guidelines of the Group after deduction of mandatory reserves and making allowance for short-term liquidity requirements.

Under all the aforesaid arrangement the Group can commingle the IAH funds with funds generated from various sources (Self-Financed). In this regards, the Bank at inception designate each asset separately as "Self" and "Jointly" financed, except liquid assets which are managed collectively. Further, the jointly financed assets are segregated proportionately based on amounts of funds contributed by each category of investors.

The Group's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These funds are invested in Islamic modes of financing and investments including murabaha, salam, istisna, wakala, musharaka, mudaraba and ijara. The Group is offering these accounts for saving and term accounts ranging from 1 months to 5 years. There are no separate designations for portfolio managers, investment advisors and trustee. IAH accounts are managed at Head Office and subsidiary levels by relevant departments.

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income. In some cases, equity of IAH withdrawn before maturity and without completing agreed period are entitled to income available for tenor completed by the Investor and after deducting some charges.

The basis applied by the Group in arriving at the investment accountholders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and equity of investment accountholders) times average funds of equity of IAH].

The Bank constantly update its investment strategies to maintain progress with latest development in markets. In lieu of prevailing market conditions, the Bank focused on sovereigns and segments carrying relatively lower risk and avoided the segment deeply affected by spread of Covid 19 pandemic.

**3 RISK MANAGEMENT (continued)**

**c) Equity of Investment Accountholders (continued)**

**Investment risk reserve**

The Group deducts investment risk reserve as per approved policy from time to time from the profit distributable to equity of investment accountholders of its Bahrain operations, after allocating the Mudarib share in order to cater against future losses for equity of IAH.

**Profit equalisation reserve**

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

**Displaced commercial risk**

The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Group has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the segment level (Pakistan and Bahrain).

**Complaint procedure / awareness programs**

A complaint management system is established; procedures on handling complaints have been developed, new Complaints form has been introduced, a number of complaints channels are available where customers can communicate through branches, call centre, email, dedicated staff number and web-site. Monitoring procedures have been developed as well.

The Group uses its website, print and electronic media for consumer awareness program and to inform about new products.

**Penalty charges**

	<i>31 December</i>	<i>31 December</i>
	<i>2020</i>	<i>2019</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
<b><u>Central Bank of Bahrain</u></b>		
Discrepancies in credit, risk and compliance procedures		
Discrepancies in corporate governance disclosure	-	1
Anomalies in standing orders, EFTS and other electronic channels	35	5
	<u>35</u>	<u>6</u>
<b><u>State Bank of Pakistan</u></b>		
Various non-compliances with domestic laws and regulations	<u>560</u>	<u>189</u>

**3 RISK MANAGEMENT (continued)**

**c) Equity of Investment Accountholders (continued)**

\*There was a penalty amounted to USD 1 thousand related to certain discrepancies in Corporate Governance paid subsequent to year 2018.

**Non-Shari'a complaint income**

The Group has received US \$ 596 thousand (2019: US \$ 115 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

**Table – 25. Equity of Investment Accountholders**

The following table summarises the breakdown of equity of IAH and the analysis of profit equalisation reserve, investment risk reserve and return on equity of IAH as of:

	<b>31 December</b>	<b>31 December</b>
	<b>2020</b>	<b>2019</b>
	<b>US \$ '000</b>	<b>US \$ '000</b>
IAH - Non-banks	<b>367,695</b>	267,266
IAH - Banks	<b>1,328,868</b>	1,169,352
Profit equalisation reserve	<b>344</b>	229
	<b>1,696,907</b>	<b>1,436,847</b>

**Table – 26. Ratio of reserves to total IAH**

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

	<b>31 December</b>	<b>31 December</b>
	<b>2020</b>	<b>2019</b>
PER to IAH (%)	<b>0.02%</b>	0.02%
IRR to IAH (%)	Nil	Nil

**Table – 27. Equity of Investment Accountholders by Islamic financing product type**

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

	<b>31 December</b>	<b>31 December</b>
	<b>2020</b>	<b>2019</b>
Receivables	<b>32.53%</b>	30.90%
Musharaka	<b>18.66%</b>	13.75%
Ijara Muntahia Bittamleek & Ijara income receivable	<b>16.81%</b>	17.05%
Investments	<b>22.80%</b>	17.69%
Other assets	<b>9.21%</b>	20.60%

**3 RISK MANAGEMENT (continued)**

**c) Equity of Investment Accountholders (continued)**

**Table – 28. Equity of Investment Accountholders by Counterparty Type**

The following table summarises the percentage of equity of investment accountholders for each category of counterparty to total equity as of:

Counterparty type	31 December 2020	31 December 2019
Banks	21.69%	18.60%
Investment Firms	4.22%	3.34%
Corporates	23.79%	20.78%
Residentials	42.97%	48.93%
Others	7.33%	8.34%

**Table – 29. Investment Accountholders share of profit**

The following table summarises the share of profits earned by and paid out to equity of IAH and the Group as Mudarib for the year ended:

	31 December 2020	31 December 2019	31 December 2018	31 December 2017	31 December 2016
Administrative expenses charged to equity of investment accountholders	14,061	8,863	10,577	7,079	5,755
Share of profits earned by IAH, before transfers to/from reserves	87,437	84,531	69,629	71,861	61,137
Percentage share of profit earned by IAH before transfer to/from reserves	5.37%	6.06%	4.83%	4.73%	4.53%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	63,761	75,287	53,151	53,553	44,558
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	3.91%	5.40%	3.68%	3.52%	3.30%
Share of profit paid out to Bank as mudarib	23,676	9,244	16,477	18,308	16,579
Mudarib Fee to total Investment Profits	27.08%	10.94%	23.66%	25.48%	27.12%

The Bank included the service charges/ fees from credit card operations on a proportionate basis in accordance with instructions and approvals Sharia department for distribution to equity of investment account

**Table – 30. Movement in profit equalisation reserve**

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

	31 December 2020 US \$ '000	31 December 2019 US \$ '000	31 December 2018 US \$ '000	31 December 2017 US \$ '000	31 December 2016 US \$ '000
Balance at 1 January	229	115	572	551	558
Amount utilized on initial implementation of FAS 30	-	-	(572)	-	-
Restated balances as on 01 January	229	115	-	551	558
Amount apportioned from income	115	114	115	-	-
Foreign exchange gain / (loss)	-	-	-	21	(7)
	<b>344</b>	<b>229</b>	<b>115</b>	<b>572</b>	<b>551</b>
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	0.13%	0.13%	0.17%	0.00%	0.00%

**3 RISK MANAGEMENT (continued)**

**c) Equity of Investment Accountholders (continued)**

**Table – 31. Movement in investment risk reserve**

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

	<b>31 December 2020 US \$ '000</b>	<i>31 December 2019 US \$ '000</i>	<i>31 December 2018 US \$ '000</i>	<i>31 December 2017 US \$ '000</i>	<i>31 December 2016 US \$ '000</i>
Balance at 1 January	-	-	1,701	2,339	2,339
Amount utilized on initial implementation of FAS 30	-	-	(1,701)	-	<b>(2,339)</b>
Restated balances as on 01 January	-	-	-	2,339	-
Exchange difference	-	-	-	1	-
Amount apportioned to provision	-	-	-	(639)	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,701</b>	<b>-</b>
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	<b>Nil</b>	Nil	Nil	Nil	Nil

The profit equalisation reserve and investment risk reserve will revert to IAH as per terms and conditions of the Mudaraba contract.

As IAH funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of IAH is up to a maximum of 70% (31 December 2019: up to 70%) as per the terms of IAH agreements.

**Table – 32. Equity of Investment Accountholders rate of return**

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

	Average		
	31 December 2020 Rate of return %		
	<i>Bahrain</i>		<i>Pakistan</i>
	BD	US \$	
Saving Accounts	0.10%	0.10%	3.25-%
One Month Term Deposits	0.91%	0.70%	2.24-%
Three Months Term Deposits	1.61%	1.34%	2.38-%
Six Months Term Deposits	1.91%	1.52%	2.46-%
Nine Months Term Deposits	2.23%	1.82%	-
1 Year Term Deposits	2.48%	2.07%	4.05-%
2 Years Term Deposits	2.53%	2.11%	5.61-%
3 Year Term Deposits	2.58%	2.21%	5.73-%
4 Years Term Deposits	2.63%	2.30%	5.58-%
5Years Term Deposits	2.68%	2.39%	6.11-%

**3 RISK MANAGEMENT (continued)**

**c) Equity of Investment Accountholders (continued)**

	Average		
	31 Dec 2019 Rate of return %		
	<i>Bahrain</i>		<i>Pakistan</i>
	BD	US \$	
Saving Accounts	0.11%	0.09%	7.02%
One Month Term Deposits	0.70%	0.73%	4.98%
Three Months Term Deposits	0.88%	0.64%	5.77%
Six Months Term Deposits	1.00%	0.75%	6.01%
Nine Months Term Deposits	1.50%	0.84%	-
1 Year Term Deposits	1.21%	0.91%	9.03%
2 Years Term Deposits	1.30%	0.94%	11.43%
3 Year Term Deposits	1.92%	1.93%	11.68%
4 Years Term Deposits	-	-	11.26%
5Years Term Deposits	2.37%	1.66%	11.97%

**Table – 33. Equity of Investment Accountholders by type of assets**

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2020:

	<i>Opening Actual Allocation US \$ '000</i>	<i>Movement US \$ '000</i>	<i>Closing Actual Allocation US \$ '000</i>
Cash and balances with banks	281,217	(177,217)	104,000
Receivables	444,055	107,962	552,018
Ijara Muntahia Bittamleek	245,047	40,155	285,202
Musharaka	197,561	119,077	316,638
Investments	254,236	132,603	386,839
Other assets	14,731	37,479	52,210
	<b>1,436,847</b>	<b>260,059</b>	<b>1,696,907</b>

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2019:

	<i>Opening actual allocation US \$ '000</i>	<i>Movement US \$ '000</i>	<i>Closing actual allocation US \$ '000</i>
Cash and balances with banks	93,598	187,619	281,217
Receivables	705,617	(261,562)	444,055
Ijara Muntahia Bittamleek	250,758	(5,711)	245,047
Musharaka	223,712	(26,151)	197,561
Investments	108,593	145,643	254,236
Other assets	28,504	(13,773)	14,731
	<b>1,410,782</b>	<b>26,065</b>	<b>1,436,847</b>

**3 RISK MANAGEMENT (continued)**

**c) Equity of Investment Accountholders (continued)**

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the six months period ended 30 December 2020:

	<i>Opening Actual Allocation US \$ '000</i>	<i>Movement US \$ '000</i>	<i>Closing Actual Allocation US \$ '000</i>
Cash and balances with banks	314,664	(210,664)	104,000
Receivables	491,451	60,567	552,018
Ijara Muntahia Bittamleek	251,477	33,725	285,202
Musharaka	274,763	41,875	316,638
Investments	232,878	153,961	386,839
Other assets	45,871	6,339	52,210
	<b>1,611,104</b>	<b>85,803</b>	<b>1,696,907</b>

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the six months period ended 30 December 2019:

	<i>Opening actual allocation US \$ '000</i>	<i>Movement US \$ '000</i>	<i>Closing actual allocation US \$ '000</i>
Cash and balances with banks	107,988	173,229	281,217
Receivables	571,596	(127,541)	444,055
Ijara Muntahia Bittamleek	241,195	3,852	245,047
Musharaka	191,991	5,570	197,561
Investments	242,227	12,009	254,236
Other assets	27,486	(12,755)	14,731
	<b>1,382,483</b>	<b>54,364</b>	<b>1,436,847</b>

**Table – 34. Equity of Investment Accountholders profit earned and paid**

The following table summarises the amount and percentage of profits earned and paid out to profit sharing investment accounts over the past five years:

	<i>Profit earned</i>		<i>Profit paid to IAH</i>	
	<i>US \$ '000</i>	<i>%age</i>	<i>US \$ '000</i>	<i>%age</i>
<b>2020</b>	<b>87,437</b>	<b>5.37%</b>	<b>63,761</b>	<b>3.91%</b>
2019	84,531	6.06%	75,287	5.40%
2018	69,629	4.83%	53,151	3.68%
2017	71,861	4.73%	53,553	3.52%
2016	61,137	4.53%	44,558	3.30%
2015	69,244	5.40%	51,696	4.03%

\* Annualised

**3 RISK MANAGEMENT (continued)****c) Equity of Investment Accountholders (continued)****Table - 35. Treatment of assets financed by Equity of Investment Accountholders**

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2020:

Type of Claims	<i>RWA</i> <i>US\$ '000</i>	<i>RWA for</i> <i>capital</i> <i>adequacy</i> <i>purposes</i> <i>US\$ '000</i>	<i>Capital</i> <i>charges</i> <i>US\$ '000</i>
Claims on Sovereign	1,745	524	66
Claims on PSEs	2,276	683	85
Claims on Banks	122,123	36,637	4,580
Claims on Corporates	399,323	119,797	14,975
Mortgage	168,718	50,615	6,327
Regulatory Retail Portfolio	89,337	26,801	3,350
Past due facilities	44,969	13,491	1,686
Investment in securities	464	139	17
Holding of Real Estates	17,368	5,210	651
Other Assets	28,346	8,504	1,063
	<b>874,669</b>	<b>262,401</b>	<b>32,800</b>

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2019:

Type of Claims	<i>RWA</i> <i>US\$ '000</i>	<i>RWA for</i> <i>capital</i> <i>adequacy</i> <i>purposes</i> <i>US\$ '000</i>	<i>Capital</i> <i>charges</i> <i>US\$ '000</i>
Claims on Sovereign	51,130	15,339	1,917
Claims on PSEs	715	215	27
Claims on Banks	29,389	8,817	1,102
Claims on Corporates	369,431	110,829	13,854
Mortgage	133,956	40,187	5,023
Regulatory Retail Portfolio	67,724	20,317	2,540
Past due facilities	56,439	16,932	2,117
Investment in securities	644	193	24
Holding of Real Estates	20,150	6,045	756
Other Assets	59	18	2
	<b>729,637</b>	<b>218,892</b>	<b>27,362</b>

**d) Off-balance sheet equity of Investment Accountholders**

Off-balance sheet equity of Investment accountholders is invested and managed in accordance with Shari'a requirements.

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

**3 RISK MANAGEMENT (continued)**

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

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

- (a) Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;
- (b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and
- (c) Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

**Table – 36. Off-balance sheet equity of Investment Accountholders by Islamic product type**

The following table summarises the breakdown of Off-balance sheet equity of IAH by type of Islamic financing contracts as of:

**Islamic products**

	<i>31 December 2020</i>	<i>31 December 2019</i>
<b>Wakala Bi Al-Istithmar</b>		
<b>Pool</b>		
Receivables	-	97.11%
Investments	-	2.89%
<b>On balance sheet jointly financed assets*</b>		
<b>Others</b>		
Receivables	85.73%	46.83%
Investments	14.27%	53.17%

\* Funds received under "Wakala" contracts are commingled or invested under multi level arrangements in " On Balance Sheet Equity of Investment Accountholders. In this regards, the distribution of such assets is duly given in section "C".

**Table – 37. Off-balance sheet equity of Investment Accountholders by counterparty type**

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

**Counterparty type**

	<i>31 December 2020</i>	<i>31 December 2019</i>
<b>Wakala Bi Al-Istithmar</b>		
<b>Pool</b>		
Banks	-	91.34%
Corporate	-	8.66%
<b>On balance sheet jointly financed assets*</b>		
<b>Others</b>		
Banks	22.86%	16.59%
Corporate	62.87%	32.92%
Sovereigns	14.27%	50.49%

\* Funds received under "Wakala" contracts are commingled or invested under multi level arrangements in " On Balance Sheet Equity of Investment Accountholders. In this regards, the distribution of such assets is duly given in section "C".

**3 RISK MANAGEMENT (continued)**

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

**Table – 38. Off-balance sheet equity of Investment Accountholders by type of assets**

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the period ended 31 December 2020:

	<i>Opening actual allocation US\$ '000</i>	<i>Movement US\$ '000</i>	<i>Closing actual allocation US\$ '000</i>
<b>Wakala Bi Al-Istithmar</b>			
<b>Pool</b>			
Receivables	156,650	(156,650)	-
Investments	4,655	(4,655)	-
	161,305	(161,305)	-
<b>On balance sheet jointly financed assets</b>			
	177,397	186,747	364,143
	177,397	186,747	364,143
<b>Others</b>			
Receivables	142,262	(5,904)	136,357
Investments	161,509	(138,803)	22,705
	303,771	(144,707)	159,062
	642,473	(119,265)	523,205

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2019:

	<i>Opening actual allocation US\$ '000</i>	<i>Movement US\$ '000</i>	<i>Closing actual allocation US\$ '000</i>
<b>Wakala Bi Al-Istithmar</b>			
<b>Pool</b>			
Receivables	-	156,650	156,650
Investments	-	4,655	4,655
	-	161,304	161,304
<b>On balance sheet jointly financed assets</b>			
	325,763	(148,366)	177,397
	325,763	(148,366)	177,397
<b>Others</b>			
Receivables	77,236	65,026	142,262
Investments	9,522	151,987	161,509
	86,758	217,013	303,771
	412,521	229,951	642,472

**3 RISK MANAGEMENT (continued)**

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

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

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

	<i>December 2020</i>	<i>December 2019</i>	<i>December 2018</i>	<i>December 2017</i>	<i>December 2016</i>	<i>December 2015</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Gross Income	<b>17,153</b>	23,830	1,175	1,491	1,810	1,782
Mudarib Fee	<b>(3,821)</b>	(11,563)	91	105	118	77

The Group's share of profit as a Mudarib for managing Off-balance sheet equity of Investment accountholders and their share of income is based on the terms and conditions of the related mudarib agreements. These mudarib agreements are done at the individual Counter party level.

**e) Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on regular basis. The liquidity management policy at a minimum includes the following:

- a. Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.
- b. Establish approval processes to ensure adherence to liquidity risk management processes.
- c. Require periodic calculations to determine the extent to which the segments are funding long-term assets with short-term liabilities.
- d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.
- e. Establish limits on the degree of concentrations that are deemed acceptable. This should:
  - i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the segments manage their assets and liquidity profile to mitigate the risk; and
  - ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the segments conduct an impact analysis on its dependency on any such concentrations.
- f. Provide for periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident

**3 RISK MANAGEMENT (continued)**

**e) Liquidity risk (continued)**

- g. Provide for the review of alternate funding sources including stand-by facilities and lines of credit.
- h. Establish a framework for the composition of assets.
- i. Assess the acceptable mismatch in combination with currency commitments. The segments undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

**Table – 40. Liquidity ratios**

The following table summarises the liquidity ratios as of:

	<b>31 December 2020</b>	<i>31 December 2019</i>
Liquid assets to total assets	<b>17.19%</b>	16.09%
Short term assets to short term liabilities	<b>48.00%</b>	56.14%

**Table – 41. Quantitative indicators of financial performance and position**

	<i>December</i> <b>2020*</b>	<i>December</i> 2019	<i>December</i> 2018	<i>December</i> 2017	<i>December</i> 2016	<i>December</i> 2015
Return on average equity	<b>2.8%</b>	2.0%	-8.2%	-2.7%	1.2%	3.5%
Return on average assets	<b>0.3%</b>	0.2%	-0.8%	-0.2%	0.1%	0.3%
Cost to Income Ratio	<b>67.7%</b>	75.6%	82.8%	103.1%	82.5%	88.5%

\* Return based on total income and equity (including non-controlling interest)

**4 OTHERS**

The responsibility for payment of Zakat is on individual shareholders and investment accountholders. However, in Pakistan, Zakah is deducted at source from the Equity of Investment accountholders as required by local laws.

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

Subject to the provisions thereof, deposits held with the Bahrain office of Al Baraka Islamic Bank B.S.C.(c) are covered by the Deposit Protection Scheme established by the Central Bank of Bahrain regulation concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

**External Auditors**

The Board Audit Committee has continued to review the work carried out by the external auditors during the year, in particular timeliness of reporting, quality of work and related fees. Overall the Audit Committee believes that the work of the external auditors has been of a sufficiently high standard and that the fees are reasonable and therefore recommended to the Board and accordingly to the annual general meeting (AGM) to re-appoint the external auditors as auditor for the 2020 financial year. The AGM has approved the reappointment of the external auditor for the year 2020 on 24 February 2020 and the related regulatory approval were taken.

For the year 2020, annual audit and quarterly review services amounted to US\$ 176,658 and other non-audit services amounted to US\$ 54,775.