

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

Basel III, Pillar III Disclosures

30 June 2020

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

Basel III, Pillar III Disclosures

for the period ended 30 June 2020

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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 seven 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 30 June 2020, refer note 2 of the interim 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, effectively from 01 January 2015 based on the approval obtained from the CBB. 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 interim consolidated financial statements of the Group. Therefore, they might not be comparable with the interim financial statements in certain cases with respect to Bank's investment in Itqan capital.

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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:

	30 June 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
Common Equity Tier 1 (CET1)						
Issued and fully paid ordinary shares	136,458			136,458		
General reserves	8,687			8,687		
Statutory reserves	23,228			23,228		
Accumulated losses	(14,588)			(17,681)		
Current interim cumulative net income / losses	132			936		
Unrealized gains and losses on available for sale financial instruments	(3,280)			(1,645)		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(39,566)			(34,717)		
Other reserves	(58)			(58)		
Total CET1 capital before minority interest	111,013			115,208		
Minority interest	12,571			13,267		
Total CET1 capital prior to regulatory adjustments	123,584			128,475		
Less:						
Goodwill	30,446			31,585		
Intangible other than mortgage servicing rights	3,621			4,230		
Deferred tax assets	13,674			15,314		
Total CET 1 capital after the regulatory adjustments above (CET 1)	75,843			77,346		
Other Capital (AT1 & T 2)						
Instruments issued by parent company		111,000	-		111,000	-
Instruments issued by subsidiaries to third parties		137	4,940		145	7,348
Expected Credit Losses (ECL) Stages 1 & 2		-	7,119		-	6,240
Total Available AT1 & T2 Capital		111,137	12,059		111,145	13,588
Total CET 1 Capital	75,843			77,346		
Total T1 Capital		186,980			188,491	
Total Capital			199,039			202,079

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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	30 June 2020 Capital requirements US \$ '000	31 December 2019 Capital requirements US \$ '000
Receivables	16,804	16,347
Ijara Muntahia Bittamleek & ijara receivables	5,406	7,354
Musharaka	13,708	11,799
	35,918	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:

	30 June 2020		31 December 2019	
	Self Financed US \$ '000	Financed by IAH US \$ '000	Self Financed US \$ '000	Financed by IAH US \$ '000
Market risk - standardised approach				
Equity price risk	110	-	-	-
Foreign exchange risk	8,317	-	8,468	-
Total of market risk - standardised approach	8,427	-	8,468	-
Multiplier	12.50	12.50	12.50	12.50
	105,338	-	105,850	-
Eligible Portion for the purpose of the calculation	100%	30%	100%	30%
Risk Weighted Exposures ("RWE")				
for CAR Calculation	105,338	-	105,850	-
Total market RWE		105,338		105,850
		12.50%		12.50%
Minimum capital requirement		13,167		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>30 June 2020</i>	<i>31 December 2019</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
Indicators of operational risk		
Average gross income	79,595	79,595
Multiplier	12.5	12.5
	994,938	994,938
Eligible Portion for the purpose of the calculation	15%	15%
Total operational RWE	149,241	149,241
	12.50%	12.50%
Minimum capital requirement	18,655	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:

	30 June 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	24.15%	22.69%	9.20%	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 **	16.56%	13.39%	10.26%	21.42%	16.51%	13.54%
Itqan Capital Company	25.88%	25.88%	25.88%	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 of:

	30 June 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	13.47%	11.34%	9.69%	13.34%	10.63%	10.63%
Minimum regulatory requirements*	11.50%	7.50%	6.00%	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:

	30 June 2020				31 December 2019			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	<i>*Average gross credit exposure over the period</i>	<i>*Average gross credit exposure over the period</i>	<i>*Average gross credit exposure over the period</i>	<i>*Average gross credit exposure over the period</i>	<i>*Average gross credit exposure over the period</i>	<i>*Average gross credit exposure over the period</i>	<i>*Average gross credit exposure over the period</i>	<i>*Average gross credit exposure over the period</i>
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Funded								
Cash and balances with banks and financial institutions	146,693	93,914	314,664	378,023	63,986	96,670	281,217	163,984
Receivables	1,579	1,579	491,451	462,027	1,579	1,837	444,055	539,635
Ijara Muntahia Bittamleek and ijara receivables	36,571	37,331	251,477	251,484	37,662	35,413	245,047	244,486
Musharaka	32,007	32,778	274,763	228,895	39,933	40,944	197,561	201,799
Investments	499,277	501,707	232,878	223,073	464,767	431,445	254,236	222,825
Investment in real estate	17,145	17,147	-	-	17,159	12,141	-	-
Premises and equipment	45,463	45,461	-	-	48,553	56,360	-	-
Other assets	23,235	21,338	45,871	49,747	51,341	58,969	14,731	22,641
Unfunded exposure								
Contingencies and commitments	157,789	140,044	-	-	163,505	156,322	-	-
	959,759	891,299	1,611,104	1,593,249	888,485	890,101	1,436,847	1,395,370

*Average balances are computed based on quarter end balances.

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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:

	30 June 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	-	157,608	250,519	53,230	-	92,762	62,544	189,898
Receivables	1,579	-	292,396	199,055	1,579	-	188,764	255,291
Ijara Muntahia Bittamleek and Ijara receivables	36,571	-	247,245	4,232	37,662	-	239,018	6,030
Musharaka	-	32,007	-	274,763	-	39,933	-	197,561
Investments	384,591	114,686	118,522	114,356	297,629	138,363	267,796	15,216
Investment in real estate	17,145	-	-	-	17,159	-	-	-
Other assets	9,714	48,069	47,586	9,200	4,529	46,810	14,670	59
	449,600	352,370	956,268	654,836	390,011	334,969	772,792	664,055

* 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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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:

	30 June 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	39,830	-	-	-	17,351	-	19,069	-
Claims on Sovereigns	382,989	-	458,903	-	290,139	-	501,675	-
Claims on Public Sector Entities	156,048	-	46,229	-	137,613	-	11,367	-
Claims on banks	81,214	17,698	204,749	-	98,870	40,577	73,432	-
Claims on corporate	23,399	140,084	487,001	-	20,673	122,922	449,710	-
Mortgages	-	-	228,911	-	-	-	228,798	-
Past dues receivables	1,579	6	56,840	-	1,579	6	55,609	-
Regulatory Retail Portfolio	-	-	88,505	-	-	-	91,699	-
Equity investment	27,346	-	3,324	-	31,553	-	392	-
Investment in Funds	2,405	-	-	-	3,939	-	-	-
Holding of Real Estate	43,229	-	4,373	-	61,470	-	5,038	-
Other assets	43,931	-	32,270	-	61,795	-	59	-
	801,970	157,788	1,611,105	-	724,982	163,505	1,436,848	-

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.

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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:

	30 June 2020		31 December 2019	
	Self financed	Financed by IAH	Self financed	Financed by IAH
	Funded US \$ '000		Funded US \$ '000	
Cash and balances with bank	-	4,998	-	5,599
Receivable	-	13,325	-	194
Musharaka	-	1,397	-	1,623
Ijara Muntahia Bittamleek and Ijara receivable	-	21	-	85
Investments	40,954	-	42,471	168
Other Assets	11,204	139	7,945	-
Contingencies and commitments	10,547	-	2,711	-
	62,705	19,880	53,127	7,669

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

	30 June	31 December
	2020	2019
	Self financed	Self financed
	US \$ '000	US \$ '000
Assets		
Investment in a subsidiary	94,201	94,201
Equity investment in Itqan Capital	54,342	54,342
	148,543	148,543
Contingencies and commitments		
Letters of credit	529	2,433
Acceptances	-	1,265
	529	3,698

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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 30 June 2020:

Counterparties *	<i>Funded</i>
	<i>US \$ '000</i>
Counterparty # 1	330,102
Counterparty # 2	158,217
Counterparty # 3	125,191
Counterparty # 4	103,818
Counterparty # 5	100,000
Counterparty # 6	61,239
Counterparty # 7	60,094
Counterparty # 8	48,599
Counterparty # 9	47,593
Counterparty # 10	46,196
Counterparty # 11	33,639
Counterparty # 12	32,166
Counterparty # 13	32,007

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 11. Credit risk – concentration of risk (continued)

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

Counterparties *	<i>Funded</i>
	<i>US \$ '000</i>
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

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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>	
Counterparty # 1	10,079
Counterparty # 2	9,709
Counterparty # 3	8,180
Counterparty # 4	3,771
Counterparty # 5	2,244
Counterparty # 6	1,936
Counterparty # 7	513
Counterparty # 8	316
Counterparty # 9	304
Counterparty # 10	186
Counterparty # 11	178
Counterparty # 12	97
Counterparty # 13	39
Counterparty # 14	36
Counterparty # 15	7
Counterparty # 16	5
Counterparty # 17	1
<u>2019</u>	
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 – 12. Credit Risk – Residual Contractual Maturity Breakdown

65% of Group assets are financed by equity of IAH, while 35% are self financed. The following table summarises the residual contractual maturity breakdown of the total assets portfolio as of 30 June 2020, broken down by major types of exposure:

	<i>Up to 3 months US \$ '000</i>	<i>3 to 6 months US \$ '000</i>	<i>6 months to 1 year US \$ '000</i>	<i>1 to 3 years US \$ '000</i>	<i>3 to 5 years US \$ '000</i>	<i>5 to 10 years US \$ '000</i>	<i>10 to 20 years US \$ '000</i>	<i>Over 20 years US \$ '000</i>	<i>No fixed maturity US \$ '000</i>	<i>Total US \$ '000</i>
ASSETS										
Cash and balances with banks	376,623	-	-	-	-	-	-	-	84,130	460,753
Receivables	223,914	96,345	52,798	32,055	24,705	5,472	-	-	57,741	493,030
Ijara Muntahia Bittamleek and Ijara receivables	3,121	29,089	14,084	40,989	33,030	56,811	92,870	17,597	457	288,048
Musharaka	93,749	971	6,925	67,446	85,895	35,904	10,275	-	5,604	306,769
Investments*	76,060	5,028	9,321	89,479	132,341	363,764	601	1,000	81,744	759,338
Investments in real estate	-	-	-	15,373	-	-	-	-	-	15,373
Investment in Joint Venture	-	-	-	-	-	-	-	-	14,672	14,672
Premises and equipment	-	-	-	-	-	-	-	-	46,461	46,461
Goodwill	-	-	-	-	-	-	-	-	13,363	13,363
Other assets	34,503	1,303	10,610	2,863	14,195	106	-	-	-	63,580
Total assets	807,970	132,736	93,738	248,205	290,166	462,057	103,746	18,597	304,172	2,461,387
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY										
Due to banks and financial institutions	33,248	70,828	-	-	-	-	-	-	-	104,076
Medium term financings	-	19,044	39,383	-	-	-	-	-	-	58,427
Current accounts**	318,676	-	-	-	-	-	-	-	-	318,676
Other liabilities	100,109	1,877	1,371	562	28	-	-	-	-	103,947
Total liabilities	452,033	91,749	40,754	562	28	-	-	-	-	585,126
Equity of investment accountholders	763,327	188,357	362,492	153,191	68,675	56,296	18,766	-	-	1,611,104
Subordinated debts	1,406	677	850	850	8,927	-	-	-	-	12,710
Total owners' equity	-	-	-	-	-	-	-	-	252,447	252,447
Total liabilities, Equity of investment accountholders, subordinate debt and owner's equity	1,216,766	280,783	404,096	154,603	77,630	56,296	18,766	-	252,447	2,461,387
Net gap	(408,796)	(148,047)	(310,358)	93,602	212,536	405,761	84,980	18,597	51,725	-
Cumulative net gap	(408,796)	(556,843)	(867,201)	(773,599)	(561,063)	(155,302)	(70,322)	(51,725)	-	-
**Off-balance sheet equity of investment accountholders*	88,750	20,387	29,816	-	19,355	-	-	-	-	158,308

* Investments in 1 to 3 years are easily convertible into liquid funds.

The above table excludes the consolidation of Itqan Capital Company in its calculation. Therefore, it will not match to the remaining tables in this report.

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown (continued)

65% of Group assets are financed by equity of IAH, while 35% are self financed. The following table summarises the residual contractual maturity breakdown of the total assets portfolio as of 31 December 2019, broken down by major types of exposure:

	<i>Up to 3 months US \$ '000</i>	<i>3 to 6 months US \$ '000</i>	<i>6 months to 1 year US \$ '000</i>	<i>1 to 3 years US \$ '000</i>	<i>3 to 5 years US \$ '000</i>	<i>5 to 10 years US \$ '000</i>	<i>10 to 20 years US \$ '000</i>	<i>Over 20 years US \$ '000</i>	<i>No fixed maturity US \$ '000</i>	<i>Total US \$ '000</i>
ASSETS										
Cash and balances with banks	164,742	20,302	-	-	-	-	-	-	159,703	344,747
Receivables	172,065	145,032	35,954	37,176	18,695	4,486	-	-	36,321	449,729
Ijara Muntahia Bittamleek and Ijara receivables	8,273	30,639	13,893	42,483	24,762	57,046	87,268	14,781	3,564	282,709
Musharaka	1,092	3,936	8,938	97,814	79,192	29,189	11,782	-	5,550	237,493
Investments	106,057	60,843	34,679	97,909	39,318	315,176	1,000	-	89,087	744,069
Investments in real estate	-	-	-	15,358	-	-	-	-	-	15,358
Investment in Joint Venture	-	-	-	-	-	14,715	-	-	-	14,715
Premises and equipment	-	-	-	-	-	-	-	-	47,295	47,295
Goodwill	-	-	-	-	-	-	-	-	14,502	14,502
Other assets	19,154	3,326	12,097	3,225	23,076	404	-	-	2,335	63,617
Total assets	471,383	264,078	105,561	293,965	185,043	421,016	100,050	14,781	358,357	2,214,234
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY										
Due to banks and financial institutions	70,515	15,918	-	-	-	-	-	-	-	86,433
Current accounts	276,882	-	-	-	-	-	-	-	-	276,882
Medium term financing	1,029	-	-	38,000	-	-	-	-	-	39,029
Other liabilities	89,031	2,119	770	2,050	35	-	-	-	-	94,005
Total liabilities	437,457	18,037	770	40,050	35	-	-	-	-	496,349
Equity of investment accountholders	730,100	136,653	172,006	155,759	68,359	155,478	18,492	-	-	1,436,847
Subordinated debts	1,590	-	1,545	1,845	-	9,687	-	-	-	14,667
Total owners' equity	-	-	-	-	-	-	-	-	266,371	266,371
Total liabilities, Equity of investment accountholders, subordinate debt and owner's equity	1,169,147	154,690	174,321	197,654	68,394	165,165	18,492	-	266,371	2,214,234
Net gap	(697,764)	109,388	(68,760)	96,311	116,649	255,851	81,558	14,781	91,986	-
Cumulative net gap	(697,764)	(588,376)	(657,136)	(560,825)	(444,176)	(188,325)	(106,767)	(91,986)	-	-
**Off-balance sheet equity of investment accountholders	41,923	35,313	9,522	-	-	-	-	-	-	86,758

* Investments in 1 to 3 years are easily convertible into liquid funds.

The above table excludes the consolidation of Itqan Capital Company in its calculation. Therefore, it will not match to the remaining tables in this report.

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

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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:

	30 June 2020					31 December 2019				
	<i>Past due but performing US \$ '000</i>	<i>Non-performing Islamic financing contracts US \$ '000</i>	<i>Aging of non performing facilities</i>			<i>Past due but performing US \$ '000</i>	<i>Non-performing Islamic financing contracts US \$ '000</i>	<i>Aging of non performing facilities</i>		
			<i>90 days to 1 year US \$ '000</i>	<i>1 year to 3 years US \$ '000</i>	<i>Over 3 years US \$ '000</i>			<i>90 days to 1 year US \$ '000</i>	<i>1 year to 3 years US \$ '000</i>	<i>Over 3 years US \$ '000</i>
Banks	99	-	-	-	-	262	-	-	-	-
Corporates	14,358	96,254	27,263	39,925	29,066	31,203	68,793	36,337	16,844	15,611
Individuals	1,546	13,142	7,523	3,127	2,492	3,746	30,360	12,802	12,079	5,478
Others	16,790	3,133	2,538	595	-	6,593	10,954	5,741	1,591	3,621
	32,793	112,529	37,324	43,647	31,558	41,804	110,107	54,880	30,514	24,710

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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 30 June 2020:

	<i>Specific allowances</i>						
	<i>Opening Balance</i>	<i>Charges during the year</i>	<i>Net transition 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>Balance at the end of the year</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	41,883	3,166	(231)	(75)	-	(2,117)	42,626
Individuals	2,702	832	37	(67)	-	(125)	3,379
Others	8,118	1,199	-	(159)	-	(638)	8,520
	52,703	5,197	(194)	(301)	-	(2,880)	54,525

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>Opening Balance</i>	<i>Charges during the year</i>	<i>Net transition 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>Balance at the end of the year</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	59,226	11,060	117	(2,121)	(23,887)	(2,512)	41,883
Investment Firms	13,287	2,130	-	-	(15,410)	(7)	-
Individual	3,465	2,180	157	(286)	(2,658)	(156)	2,702
Others	7,387	1,912	-	(418)	-	(763)	8,118
	83,365	17,282	274	(2,825)	(41,955)	(3,438)	52,703

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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:

	30 June 2020			31 December 2019		
	<i>Non-performing Islamic financing contracts</i> US \$ '000	<i>ECL for Stage 3</i> US \$ '000	<i>ECL for Stage 1 and 2</i> US \$ '000	<i>Non-performing Islamic financing contracts</i> US \$ '000	<i>Specific provision</i> US \$ '000	<i>Collective provision</i> US \$ '000
Middle East	54,530	18,515	12,575	50,147	16,044	10,636
Other Asian countries	57,999	36,011	7,652	59,960	36,660	4,993
	112,529	54,526	20,227	110,107	52,704	15,629

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:

	30 June 2020 <i>Total</i> US \$ '000	<i>31 December 2019</i> <i>Total</i> US \$ '000
Restructured Islamic financing contracts	1,936	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.

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:

	<i>30 June 2020</i>		<i>31 December 2019</i>	
	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	461,357	-	345,203	-
Receivables	493,030	346,653	445,634	405,612
Ijara Muntahia Bittamleek and ijara receivables	288,048	294,178	282,709	295,976
Musharaka	306,770	306,770	237,494	237,494
Investments	732,155	-	719,003	-
Investment in real estate	17,145	-	17,159	-
Premises and equipment	45,463	-	48,553	-
Other assets	69,105	-	66,072	-
	2,413,073	947,601	2,161,827	939,082

* 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:

	<i>30 June 2020</i>		<i>31 December 2019</i>	
	Gross positive FV of contracts US \$ '000	Collateral held US \$ '000	Gross positive FV of contracts US \$ '000	Collateral held US \$ '000
Ijara Muntahia Bittamleek & Ijara income receivable	288,048	21,952	282,709	24,577

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:

	<i>30 June 2020</i>		<i>31 December 2019</i>	
	Equity Price risk US \$	Foreign exchange risk US \$	Equity Price risk US \$	Foreign exchange risk US \$
RWE	1,376	103,967	-	105,848
Capital requirements (12.5%)	172	12,996	-	13,231
Maximum value of RWE	1,717	104,057	-	105,848
Minimum value of RWE	1,376	103,967	-	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 30 June 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	1,153	-	1,000	25
Equity shares	43,984	52,286	28,254	15,729	9,254
Real estate related	19,386	12,182	-	19,386	7,280
	64,370	65,621	28,254	36,115	16,559

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
Equity shares	48,556	43,646	28,648	19,908	10,838
Real estate related	15,056	17,323	-	15,056	6,897
	64,612	61,969	28,648	35,964	17,760

Table – 21. Equity gains or losses in Banking Book

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

	<i>30 June 2020 US \$ '000</i>	<i>31 December 2019 US \$ '000</i>
Cummulative realised gains arising from sale or liquidation	2,798	10,383
Total unrealised gains recognised in the balance sheet but not through P&L	(3,280)	(1,645)
Unrealised gross gains included in Tier One Capital	(3,280)	(1,645)

3 RISK MANAGEMENT (continued)

b) Market Risk (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:

	30 June 2020				
	<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	223,914	96,345	52,798	32,055	87,918
Ijara Muntahia Bittamleek and Ijara Income Receivables	3,121	29,089	14,084	40,989	200,765
Musharaka	93,749	971	6,925	67,446	137,679
Investments-Sukuk	50,449	21,830	9,321	89,479	496,707
Profit rate sensitive assets	371,233	148,235	83,128	229,969	923,069
Medium term financing	-	19,044	39,383	-	-
Equity of					
investment accountholders	763,327	188,357	362,492	153,191	143,737
Subordinated debt	1,406	677	850	850	8,926
Profit rate sensitive liabilities	764,733	208,078	402,725	154,041	152,663
Profit rate gap	(393,500)	(59,843)	(319,597)	75,928	770,406
Profit rate sensitivity (50bps)	(1,968)	(299)	(1,598)	380	3,852
	31 December 2019				
	<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	172,065	145,032	35,954	37,176	59,502
Ijara Muntahia Bittamleek and Ijara 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
Profit rate sensitive assets	220,726	307,910	93,464	275,382	726,841
Medium term financing	1,029	-	-	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
Profit rate sensitive liabilities	732,719	136,653	173,551	195,604	252,016
Profit rate gap	(511,993)	171,257	(80,087)	79,778	474,825
Profit rate sensitivity (50bps)	(2,560)	856	(400)	399	2,374

3 RISK MANAGEMENT (continued)**b) Market Risk (continued)**

This table contains the mismatch amongst profit bearing assets and liabilities to ensure compliance with financial reporting framework public disclosure requirements. However, in lieu of inherent nature of Islamic Banking, such mismatches does not exists amongst assets and liabilities carried by the Bank as the bank has profit and loss sharing mudarba 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 Ijara 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:

	<u>30 June 2020</u>
	<i>Total equivalent US \$ '000</i>
Pakistani rupees	103,475
Euro	(1,772)
Kuwaiti dinars	10
Pound sterling	(4,661)
Others	482
	<u>31 December 2019</u>
	<i>Total equivalent US \$ '000</i>
Pakistani rupees	94,201
Euro	(2,744)
Kuwaiti dinars	2,317
Pound sterling	(6,001)
Others	245

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 30 June 2019

Currency	Particular	Change	Exposures in US \$ '000	Effect on profit and loss/Equity US \$ '000
Pakistani rupees	Net long Position	20%	103,475	20,695
Euro	Net short Position	20%	(1,772)	(354)
Kuwaiti dinars	Net long Position	20%	10	2
Pound sterling	Net short Position	20%	(4,661)	(932)
Others	Net long Position	20%	482	96

3 RISK MANAGEMENT (continued)**b) Market Risk (continued)****Table – 24. Foreign currency risk sensitivity analysis (continued)***At 31 December 2018*

Currency	Particular	Change	Exposures in US \$ '000	Effect on profit and loss/Equity US \$ '000
Pakistani Rupees	Net long Position	20%	94,201	18,840
Euro	Net short Position	20%	(2,744)	(549)
Kuwaiti Dinars	Net long Position	20%	2,317	463
Pound Sterling	Net short Position	20%	(6,001)	(1,200)

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. Equity of IAH withdrawn before their maturity are entitled to income only after deducting a penalty charge equivalent to three months income.

3 RISK MANAGEMENT (continued)**c) Equity of Investment Accountholders (continued)**

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].

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**Penalty charges**

	<i>30 June</i>	<i>31 December</i>
	<i>2020</i>	<i>2019</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
<u>Central Bank of Bahrain</u>		
Discrepancies in corporate governance disclosure	4	1
Anomalies in standing orders, EFTS and other electronic channels*	23	5
	<u>27</u>	<u>6</u>
<u>State Bank of Pakistan</u>		
Various non-compliances with domestic laws and regulations	120	189

* In current financial period, the total penalties charged for electronic funds transferred were USD 92 thousand but such charges amounted to USD 69 thousands were waived off.

Further, a penalty of USD 0.3 thousand was charged by Credit Bureau due to delays in update of data of a few customers during the current financial period.

Non-Shari'a complaint income

The Group has received US \$ 80 thousand (2019: US \$ 115 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

3 RISK MANAGEMENT (continued)**c) Equity of Investment Accountholders (continued)****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:

	30 June 2020 US \$ '000	31 December 2019 US \$ '000
IAH - Banks	396,928	267,266
IAH - Non-banks	1,213,889	1,169,352
Profit equalisation reserve	287	229
	1,611,104	1,436,847

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:

	30 June 2020	31 December 2019
PER to IAH (%)	0.02%	0.02%
IRR to IAH (%)	-	-

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

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

	30 June 2020	31 December 2019
Receivable	30.50%	30.90%
Musharaka	17.05%	13.75%
Ijara Muntahia Bittamleek & ijara receivables	15.61%	17.05%
Investments	14.45%	17.69%
Other assets	22.38%	20.60%

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

	30 June 2020	31 December 2019
Banks	24.65%	18.60%
Investment Firms	3.90%	3.34%
Corporates	20.47%	20.78%
Residential	43.88%	48.93%
Others	7.09%	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:

	30 June 2020	31 December 2019
Administrative expenses charged to equity of investment accountholders	6,578	8,863
Share of profits earned by IAH, before transfers to/from reserves	48,002	84,531
Percentage share of profit earned by IAH before transfer to/from reserves	3.01%	6.06%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	38,987	75,287
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	2.45%	5.40%
Share of profit paid out to Bank as mudarib	9,015	9,244
Mudarib Fee to total Investment Profits	18.78%	21.87%

3 RISK MANAGEMENT (continued)**c) Equity of Investment Accountholders (continued)****Table – 30. Movement in profit equalisation reserve**

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

	30 June	<i>31 December</i>
	2020	<i>2019</i>
	US \$ '000	<i>US \$ '000</i>
Balance at 1 January	229	115
Amount apportioned from income allocable to equity of Investment Accountholders	58	114
	287	<i>229</i>

Percentage of the profit earned on equity of investment accountholders appropriated to
profit equalisation reserve

0.15% 0.17%

Table – 31. Movement in investment risk reserve

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

	30 June	<i>31 December</i>
	2020	<i>2019</i>
	US \$ '000	<i>US \$ '000</i>
Balance at 1 January	-	-
Amount apportioned to provision	-	-
	-	<i>-</i>

Percentage of the profit earned on equity of investment accountholders appropriated to
investment risk reserve

- -

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.

3 RISK MANAGEMENT (continued)**c) Equity of Investment Accountholders (continued)****Table – 32. Equity of Investment Accountholders rate of return**

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

	Average		
	30 June 2020 Rate of return %		
	Bahrain		Pakistan
	BD	US \$	
Saving Accounts	0.10%	0.10%	3.95%
One Month Term Deposits	0.91%	0.70%	4.40%
Three Months Term Deposits	1.64%	1.39%	5.30%
Six Months Term Deposits	2.03%	1.54%	5.73%
Nine Months Term Deposits	2.35%	1.74%	-
1 Year Term Deposits	2.60%	1.93%	6.44%
2 Years Term Deposits	2.65%	1.92%	7.04%
3 Year Term Deposits	2.70%	2.01%	7.17%
4 Years Term Deposits	2.75%	2.10%	0.00%
5Years Term Deposits	2.80%	2.23%	7.54%

	Average		
	31 Dec 2019 Rate of return %		
	Bahrain		Pakistan
	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 30 June 2020:

	Opening		Closing
	Actual		Actual
	Allocation	Movement	Allocation
	US \$ '000	US \$ '000	US \$ '000
Cash and balances with banks	281,217	33,447	314,664
Receivables	444,055	47,396	491,451
Ijara Muntahia Bittamleek and Ijara receivables	245,047	6,430	251,477
Musharaka	197,561	77,202	274,763
Investments	254,236	(21,358)	232,878
Other assets	14,731	31,140	45,871
	1,436,847	174,257	1,611,104

3 RISK MANAGEMENT (continued)**c) Equity of Investment Accountholders (continued)****Table – 33. Equity of Investment Accountholders by type of assets (continued)**

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 30 June 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	14,390	107,988
Receivables	705,616	(134,020)	571,596
Ijara Muntahia Bittamleek and Ijara receivables	235,362	(6,650)	228,712
Musharaka	223,711	(31,721)	191,991
Investments	108,593	133,633	242,227
Ijara income receivables	15,397	(2,914)	12,483
Other assets	28,503	(1,017)	27,486
	<u>1,410,782</u>	<u>(28,298)</u>	<u>1,382,483</u>

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>
2020*	48,002	6.03%	38,987	4.89%
2019	77,155	5.44%	66,399	4.68%
2018	69,629	4.83%	53,151	3.68%
2017	71,861	4.73%	53,552	3.52%
2016	61,137	4.53%	44,557	3.30%

* Annualised

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 30 June 2020:

	<i>RWA US\$ '000</i>	<i>RWA for capital adequacy purposes US\$ '000</i>	<i>Capital charges US\$ '000</i>
Type of Claims			
Claims on Sovereign	10,807	3,242	405
Claims on PSEs	31,932	9,580	1,197
Claims on Banks	125,890	37,767	4,721
Claims on Corporates	349,201	104,760	13,095
Regulatory Retail Portfolio	65,515	19,654	2,457
Mortgage	104,950	31,485	3,936
Past due facilities	55,147	16,544	2,068
Investment in securities	3,571	1,071	134
Holding of Real Estates	17,491	5,247	656
Other Assets	32,270	9,681	1,210
	<u>796,774</u>	<u>239,031</u>	<u>29,879</u>

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

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
	<u>729,637</u>	<u>218,892</u>	<u>27,362</u>

3 RISK MANAGEMENT (continued)

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 as fund manager will manage and administer the investment account in a proper, diligent and efficient manner in accordance with applicable laws and local regulations.

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>Restated</i>	
	<i>30 June 2020</i>	<i>31 December 2019</i>
<i>Wakala Bi Al-Istithmar Pool</i>		
Receivables	-	97.11%
Investments	-	2.89%
On balance sheet equity of investment accountholders*		
<i>Others</i>		
Receivables	91.44%	46.83%
Investments	8.56%	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 assets for each category of counterparty to total assets as of:

Counterparty type		
	<i>30 June 2020</i>	<i>31 December 2019</i>
<i>*Wakala Bi Al-Istithmar Pool</i>		
Banks	-	91.34%
Corporate	-	8.66%
<i>Others</i>		
Banks	91.44%	49.51%
Sovereigns	8.56%	50.49%

* Such table represents the direct investments in "Wakala Pool" while the assets composition of multilevel investments in Mudaraba is duly provided in "On Balance Sheet Equity of Investment Accountholders".

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 30 June 2020:

	<i>Opening actual allocation US \$</i>	<i>Movement US \$</i>	<i>Closing actual allocation US \$</i>
Wakala Bi Al-Istithmar			
Off Balance Sheet Wakala Pool			
Receivables	156,650	(156,650)	-
Investments	4,655	(4,655)	-
	161,305	(161,305)	-
On balance sheet equity of investment accountholders	177,397	172,950	350,347
	177,397	172,950	350,347
Others			
Sales receivables	142,262	2,495	144,755
Investments	161,509	(147,956)	13,553
	303,771	(145,461)	158,308
	642,473	(133,816)	508,655

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 2019:

	<i>Opening actual allocation US \$</i>	<i>Movement US \$</i>	<i>Closing actual allocation US \$</i>
Off Balance Sheet Wakala Pool			
Receivables	-	156,650	156,650
Investments	-	4,655	4,655
	-	161,304	161,305
On balance sheet equity of investment accountholders	325,763	(148,366)	177,397
	325,763	(148,366)	177,397
Others			
Sales receivables	77,236	65,026	142,262
Investments	9,522	151,987	161,509
	86,758	217,013	303,771
	412,521	229,951	642,473

Table – 39. Off-balance sheet equity of Investment Accountholders Foreign currency translation risk**At 30 June 2020**

Currency	<i>Exposure</i>	<i>Sensitivity</i>	<i>Amount</i>
Euro	-	20%	(523)

At 31 December 2019

Currency	<i>Exposure</i>	<i>Sensitivity</i>	<i>Amount</i>
Euro	30,107	20%	6,021

3 RISK MANAGEMENT (continued)**d) Off-balance sheet equity of Investment Accountholders (continued)****Table – 40. Off-balance sheet equity of Investment Accountholders historical returns**

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

	<i>June</i> 2020 <i>US \$</i>	<i>Dec</i> <i>2019</i> <i>US \$</i>	<i>Dec</i> <i>2018</i> <i>US \$</i>	<i>Dec</i> <i>2017</i> <i>US \$</i>	<i>Dec</i> <i>2016</i> <i>US \$</i>
Gross Income	4,970	23,830	1,175	1,491	1,810
Mudarib Fee	(1,605)	(11,563)	91	105	118

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 deposits.
- 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.

3 RISK MANAGEMENT (continued)**e) Liquidity risk (continued)****Table – 41. Liquidity ratios**

The following table summarises the liquidity ratios as of:

	30 June 2020	31 December 2019
Liquid assets to total assets	22.13%	16.09%
Short term assets to short term liabilities	54.40%	56.14%

Table – 42. Quantitative indicators of financial performance and position

	June 2020*	<i>Dec 2019</i>	<i>Dec 2018*</i>	<i>Dec 2017</i>	<i>Dec 2016</i>
Return on average equity	1.7%	2.0%	-8.2%	-2.7%	1.2%
Return on average assets	0.2%	0.2%	-0.8%	-0.2%	0.1%
Cost to Income Ratio	73.0%	75.6%	82.8%	103.1%	82.5%

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

** Annualised

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.