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

Basel III, Pillar III Disclosures

31 December 2018

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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 eight 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 2018, 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, 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 consolidated financial statements of the Group. Therefore, they might not be comparable with the financial statements in certain cases with respect to Bank's investment in Itqan capital.

The Group is in breach of minimum capital and capital adequacy requriements as prescribed by Central Bank of Bahrain as at 31 December 2018. In this regards, the Group in collaboration with parent and holding company " Al Baraka Banking Group" working on a certain initiatives to restore the capital and capital adequacy ratios above the minimum prescribed requirements.

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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 2018			31 December 2017		
	CET 1	AT1	Tier 2	CET 1	AT1	Tier 2
	US $ '000	US $ '000	US $ '000	US $ '000	US $ '000	US $ '000
Common Equity Tier 1 (CET1)						
Issued and fully paid ordinary shares	122,458			122,458		
General reserves	8,687			8,687		
Statutory reserves	22,699			22,699		
Retained earnings	(6,347)			(2,841)		
Current cumulative net losses	(22,936)			-		
Unrealized gains and losses on available for sale financial instruments	595			525		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(28,312)			(13,914)		
Other reserves	(30)			(117)		
Total CET1 capital before minority interest	96,814			137,497		
Minority interest in banking subsidiaries	16,898			27,257		
Total CET1 capital prior to regulatory adjustments	113,712			164,754		
Less:						
Goodwill	33,255			37,421		
Intangible other than mortgage servicing rights	4,158			4,411		
Deferred tax assets	18,576			19,731		
Total CET 1 capital after the regulatory adjustments above (CET 1a)	57,723			103,191		
Other Capital (AT1 & T 2)						
Instruments issued by parent company		110,000	-		25,000 0	6,000
Instruments issued by banking subsidiaries to third parties		139	10,041		1,725 0	16,773
Assets revaluation reserve - property, plant, and equipment		-	714		-	1,193
Expected Credit Losses (ECL) Stages 1 & 2		-	2,921		- 0	4,134
Regulatory adjustment due to breach in CET1		(97,405)	-			
Total Available AT1 & T2 Capital		12,734	13,676		26,725	28,100
Total CET 1 Capital	57,723			103,191		
Total T1 Capital		70,457			129,916	
Total Capital			84,133			158,016

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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	31 December 2018 Capital requirements US $ '000	31 December 2017 Capital requirements US $ '000
Receivables	22,043	22,875
Ijara Muntahia Bittamleek & Ijara receivables	7,437	11,747
Musharaka	13,859	17,393
	43,339	52,015

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:

	31 December 2018		31 December 2017	
	Self Financed US $ '000	Financed by IAH US $ '000	Self Financed US $ '000	Financed by IAH US $ '000
Market risk - standardised approach				
Foreign exchange risk	7,741	-	6,930	-
Total of market risk - standardised approach	7,741	-	6,930	-
Multiplier	12.50	12.50	12.50	12.50
	96,763	-	86,625	-
Eligible Portion for the purpose of the calculation	100%	30%	100%	30%
Risk Weighted Exposures ("RWE")				
for CAR Calculation	96,763	-	86,625	-
Total market RWE		96,763		86,625
		12.50%		12.50%
Minimum capital requirement		12,095		10,828

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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:

	31 December 2018 ***US $ '000***	*31 December 2017* *US $ '000*
Indicators of operational risk		
Average gross income	**72,416**	118,387
Multiplier	**12.5**	12.5
	905,200	1,479,838
Eligible Portion for the purpose of the calculation	**15%**	15%
Total operational RWE	**135,780**	221,976
	12.50%	12.50%
Minimum capital requirement	**16,973**	27,747

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 2018			*31 December 2017*		
	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	**9.91%**	**8.30%**	**6.80%**	15.06%	12.38%	9.84%
Minimum regulatory requirements*	**12.50%**	**10.50%**	**9.00%**	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	**22.82%**	**16.66%**	**13.60%**	21.85%	16.18%	16.18%
Itqan Capital Company	**31.06%**	**31.06%**	**31.06%**	33.43%	33.43%	33.43%

** 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:

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	31 December 2018			*31 December 2017*		
	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	**11.73%**	**9.23%**	**9.23%**	10.36%	7.69%	8.66%
Minimum regulatory requirements*	**11.90%**	**7.50%**	**6.00%**	11.28%	7.50%	6.00%

**There are no capital conversion buffer required as per SBP requirements.*

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 2018				*31 December 2017*			
	Self financed		*Financed by IAH*		*Self financed*		*Financed by IAH*	
	Total gross credit exposure US $ '000	****Average gross exposure over the period US $ '000***	***Total gross credit exposure US $ '000***	****Average gross credit risk exposure over the period US $ '000***	*Total gross credit exposure US $ '000*	**Average gross credit exposure over the period US $ '000*	*Total gross credit exposure US $ '000*	**Average gross credit exposure over the period US $ '000*
Funded								
Cash and balances with banks and financial institutions	**94,148**	**122,234**	**93,598**	**74,106**	171,060	155,083	48,393	50,410
Receivables	**6,758**	**17,448**	**705,617**	**713,568**	4,766	10,780	723,820	767,951
Ijara Muntahia Bittamleek and Ijara receivables	**33,938**	**32,158**	**250,758**	**259,405**	29,503	26,532	279,392	284,191
Musharaka	**48,178**	**55,876**	**223,712**	**247,452**	64,128	54,629	275,513	268,991
Investments	**412,486**	**421,271**	**108,593**	**119,645**	385,234	403,366	114,126	115,582
Investment in real estate	**7,754**	**7,691**	**-**	**-**	6,782	6,788	-	-
Premises and equipment	**56,668**	**61,128**	**-**	**-**	38,530	36,196	-	-
Other assets	**61,799**	**71,714**	**28,504**	**28,582**	76,060	79,898	32,956	32,646
Unfunded exposure								
Contingencies and commitments	**177,684**	**200,107**	**-**	**-**	224,666	223,601	-	-
	899,413	**989,627**	**1,410,782**	**1,442,758**	1,000,729	996,873	1,474,200	1,519,771

*Average balances are computed based on quarter end balances.

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 2018				*31 December 2017*			
	Self financed* *geographic area		***Financed by IAH* *geographic area***		*Self financed* *geographic area		*Financed by IAH* *geographic area	
	Middle East US $ '000	***Other Asian countries US $ '000***	***Middle East US $ '000***	***Other Asian countries US $ '000***	*Middle East US $ '000*	*Other Asian countries US $ '000*	*Middle East US $ '000*	*Other Asian countries US $ '000*
Cash and balances with banks	**-**	**129,030**	**56,436**	**2,280**	36,797	134,263	29,210	19,183
Receivables	**6,758**	**-**	**458,162**	**247,455**	4,766	-	459,761	264,059
Ijara Muntahia Bittamleek and Ijarareceivables	**33,937**	**-**	**237,749**	**13,010**	29,503	-	252,429	26,963
Musharaka	**-**	**48,178**	**-**	**223,711**	-	64,128	49	275,464
Investments	**307,650**	**104,835**	**78,225**	**30,369**	257,922	127,312	63,587	50,539
Investment in real estate	**7,754**	**-**	**-**	**-**	6,782	-	-	-
Ijara income receivables	**-**	**-**	**-**	**-**		-		
Other assets	**10,952**	**72,635**	**44,697**	**18,688**	21,963	92,627	3,346	29,610
	367,051	**354,678**	**875,269**	**535,513**	357,733	418,330	808,382	665,818

* 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.

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 2018				*31 December 2017*			
	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	**35,171**	-	-	-	31,146	-	8,164	-
Claims on Sovereigns	**313,916**	-	**191,774**	-	310,330	-	70,926	-
Claims on Public Sector Entities	**169,867**	-	**41,870**	-	160,981	27	38,484	-
Claims on banks	**26,548**	**45,217**	**281,814**	-	97,719	51,657	301,390	-
Claims on corporate	**20,699**	**132,272**	**506,376**	-	18,833	172,970	622,569	-
Mortgage	-	-	**220,996**	-	-	-	221,323	-
Past dues receivables	**2,515**	**196**	**51,323**	-	2,479	12	71,704	-
Regulatory Retail Portfolio	-	-	**89,997**	-	-	-	99,451	-
Equity investment	**8,957**	-	**1,048**	-	11,429	-	604	-
Investment in Funds	**2,840**	-	-	-	5,899	-	-	-
Holding of Real Estate	**72,763**	-	**6,538**	-	48,110	-	10,763	-
Other assets	**68,453**	-	**19,046**	-	89,137	-	28,822	-
	721,729	**177,685**	**1,410,782**	-	776,063	224,666	1,474,200	-

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:

	31 December 2018		31 December 2017	
	Self financed Funded US $ '000	Financed by IAH Funded US $ '000	Self financed Funded US $ '000	Financed by IAH Funded US $ '000
Cash and balances with bank	-	224	-	224
Receivables	-	8,034	-	10,643
Musharaka	-	2,119	-	2,825
Ijara Muntahia Bittamleek and Ijara Receivables	-	257	-	454
Investments	14,671	17,826	14,636	18,058
Other Assets	814	-	698	-
Contingencies and commitments	3,826	-	5,396	-
	19,311	28,460	20,730	32,204

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

	31 December 2018 Self financed US $ '000	31 December 2017 Self financed US $ '000
Assets		
Investment in a subsidiary*	94,201	84,201
Equity investment in Itqan Capital	54,342	54,342
	148,543	138,543
Contingencies and commitments		
Letters of credit	2,433	91
Acceptances	1,265	324
	3,698	415

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The Bank carries investment in banking subsidiary located in Islamic Republic of Pakistan denominated in Pakistani Rupee. The gainst/ 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.

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 2018:

Counterparties *	*Funded* *US $ '000*
Counterparty # 1	**217,102**
Counterparty # 2	**76,409**
Counterparty # 3	**59,086**
Counterparty # 4	**57,939**
Counterparty # 5	**43,997**
Counterparty # 6	**42,785**
Counterparty # 7	**39,158**
Counterparty # 8	**31,774**
Counterparty # 9	**31,480**
Counterparty # 10	**29,824**
Counterparty # 11	**28,147**
Counterparty # 12	**27,032**

* 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 2017:

Counterparties *	*Funded* *US $ '000*
Counterparty # 1	137,987
Counterparty # 2	101,245
Counterparty # 3	92,709
Counterparty # 4	75,396
Counterparty # 5	49,438
Counterparty # 6	43,060
Counterparty # 7	37,952
Counterparty # 8	32,916
Counterparty # 9	28,174

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* 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.

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:

2018	
Counterparty # 1	**43,205**
Counterparty # 2	**21,053**
Counterparty # 3	**8,194**
Counterparty # 4	**7,743**

2017	
Counterparty # 1	8,156
Counterparty # 2	1,833
Counterparty # 3	1,227
Counterparty # 4	774
Counterparty # 5	49

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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 2018					31 December 2017				
			Aging of non performing facilities					Aging of non performing facilities		
	Past due but performing US $ '000	Non-performing Islamic financing contracts US $ '000	90 days to 1 year US $ '000	1 year to 3 years US $ '000	Over 3 years US $ '000	Past due but performing US $ '000	Non-performing Islamic financing contracts US $ '000	90 days to 1 year US $ '000	1 year to 3 years US $ '000	Over 3 years US $ '000
Corporates	22,355	83,280	40,176	23,835	19,269	20,737	82,838	43,949	16,977	21,912
Investment Firms	-	15,418	-	-	15,418	238	15,493	-	15,493	-
Individuals	747	12,966	6,421	5,095	1,450	878	9,358	2,849	5,563	946
Others	8,492	15,764	3,929	5,047	6,788	8,067	22,995	8,119	6,835	8,041
	31,594	127,428	50,526	33,977	42,925	29,920	130,684	54,917	44,868	30,899
		-	-	-	-					

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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 2018:

	Specific allowances								
	Opening Balance	***IFRS-9 Implement. during the period***	***Charges during the year***	***Transit in Stage3 during the year***	***Write-Back during the year***	***Write-offs during the year***	***Transferred to investment risk reserve***	***Exchange difference on opening balance***	***Balance at the end of the year***
	US $ '000	***US $ '000***	***US $ '000***	***US $ '000***	***US $ '000***	***US $ '000***	***US $ '000***	***US $ '000***	***US $ '000***
Corporates	**31,851**	**4,810**	**27,873**	**543**	**(1,645)**	-	-	**(5,947)**	**57,485**
Investment Firms	**13,382**	-	-	-	-	-	-	**(95)**	**13,287**
Individuals	**2,520**	**459**	**2,644**	**352**	**(359)**	**(35)**	-	**(374)**	**5,207**
Others	**8,794**	**1,365**	**815**	-	**(1,506)**	-	-	**(2,081)**	**7,387**
	56,547	**6,634**	**31,332**	**895**	**(3,510)**	**(35)**	-	**(8,497)**	**83,366**

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 2017:

	Specific allowances							
	Opening Balance	*Charges during the year*	*Amalgamation during the year*	*Write-Back during the year*	*Write-offs during the year*	*Transferred from investment risk reserve*	*Exchange difference on opening balance*	*Balance at the end of the year*
	US $ '000	*US $ '000*	*US $ '000*	*US $ '000*	*US $ '000*	*US $ '000*	*US $ '000*	*US $ '000*
Corporates	37,220	5,283	-	(5,690)	-	478	(1,866)	35,425
Investment Firms	13,187	-	-	-	-	-	195	13,382
Individual	1,958	611	-	(222)	-	161	(77)	2,431
Others	3,446	2,167	-	(123)	-	-	(182)	5,308
	55,811	8,061	-	(6,035)	-	639	(1,930)	56,546

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:

	31 December 2018			*31 December 2017*		
	Non-performing Islamic financing contracts US $ '000	**ECL for Stage 3 US $ '000**	**ECL for Stage 1 and 2 US $ '000**	*Non-performing Islamic financing contracts US $ '000*	*Specific provision US $ '000*	*Collective provision US $ '000*
Middle East	**77,762**	**50,138**	**9,206**	61,390	18,489	3,345
Other Asian countries	**49,666**	**33,228**	**5,039**	69,294	38,057	789
	127,428	**83,366**	**14,245**	130,684	56,546	4,134

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:

	31 December 2018 Total US $ '000	*31 December 2017 Total US $ '000*
Restructured Islamic financing contracts	**13,735**	46,603

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.

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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 2018		31 December 2017	
	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	187,746	-	219,453	-
Receivables	712,375	406,318	728,586	421,509
Ijara Muntahia Bittamleek	284,696	299,066	265,610	76,892
Musharaka	271,890	271,889	339,641	339,593
Investments	521,079	-	499,360	-
Investment in real estate	7,754	-	6,782	-
Ijara income receivables	-	-	43,285	-
Premises and equipment	56,668	-	38,530	-
Other assets	90,303	-	109,016	-
	2,132,511	977,273	2,250,263	837,994

* 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 2018		31 December 2017	
	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	284,696	35,817	308,895	52,924

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 2018	31 December 2017
	Foreign exchange risk US $ '000	Foreign exchange risk US $ '000
RWE	96,764	86,625
Capital requirements (12.5%)	12,095	10,828
Maximum value of RWE	96,764	89,152
Minimum value of RWE	86,708	86,619

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 2018:

	Total gross exposure US $ '000	***Average gross exposure over the period US $ '000***	***Publicly held US $ '000***	***Privately held US $ '000***	***Capital requirement US $ '000***
Managed funds	**1,000**	**1,000**	**-**	**1,000**	**25**
Private equity	**28,145**	**32,711**	**9,401**	**18,743**	**2,582**
Real estate related	**24,312**	**24,285**	**-**	**24,312**	**12,198**
	53,457	**57,996**	**9,401**	**44,055**	**14,805**

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 2017:

	Total gross exposure US $ '000	*Average gross exposure over the period US $ '000*	*Publicly held US $ '000*	*Privately held US $ '000*	*Capital requirement US $ '000*
Managed funds	1,000	4,750	-	1,000	25
Private equity	36,048	35,439	13,304	22,743	3,661
Real estate related	23,853	30,319	-	23,853	12,293
	60,901	70,508	13,304	47,596	15,979

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 6.8million (2017: USD 9.0 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:

	31 December 2018 US $ '000	*31 December 2017 US $ '000*
Cummulative realised gains arising from sale or liquidation	**1,422**	2,055
Total unrealised gains recognised in the balance sheet but not through P&L	**595**	525
Unrealised gross gains included in Tier One Capital	**595**	525
Assets revaluation reserve - property, plant, and equipment	**714**	1,193

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 continously 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:

	31 December 2018				
	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	390,400	177,106	57,506	40,043	47,319
Ijara Muntahia Bittamleek and Ijara Income Receivables	8,239	7,271	14,771	56,724	176,534
Musharaka	427	1,381	13,232	92,891	163,960
Investments-Sukuk	4,468	97,082	21,420	113,072	231,578
Profit rate sensitive assets	**403,534**	**282,840**	**106,929**	**302,730**	**619,391**
Medium term financing	1,076	-	22,000	38,000	-
Equity of investment accountholders	795,252	142,481	188,939	138,793	145,317
Subordinated debt	1,555	-	1,002	4,115	10,807
Profit rate sensitive liabilities	**797,883**	**142,481**	**211,941**	**180,908**	**156,124**
Profit rate gap	**(394,349)**	**140,359**	**(105,012)**	**121,822**	**463,267**
Profit rate sensitivity (200bps)	**(7,887)**	**2,807**	**(2,100)**	**2,436**	**9,265**

	31 December 2017				
	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	446,530	137,608	59,946	66,883	17,619
Ijara Muntahia Bittamleek and Ijara Income Receivables	30,964	9,827	15,516	64,396	188,193
Musharaka	28,327	1,172	9,300	80,519	220,323
Investments-Sukuk	7,470	5,212	46,780	185,400	192,976
Profit rate sensitive assets	513,291	153,819	131,542	397,198	619,111
Medium term financing	48,601	29,214	-	22,000	-
Equity of investment accountholders	678,361	201,721	215,846	189,447	188,826
Subordinated debt	1,837	-	1,294	5,175	48,727
Profit rate sensitive liabilities	728,799	230,935	217,140	216,622	237,553
Profit rate gap	(215,508)	(77,116)	(85,598)	180,576	381,558
Profit rate sensitivity (200bps)	(4,310)	(1,542)	(1,712)	3,612	7,631

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 22. Profit rate mismatch (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:

	31 December 2018
	Total equivalent US $ '000
Pakistani rupees	**94,201**
Euro	**(2,744)**
Kuwaiti dinars	**2,317**
Pound sterling	**(6,001)**
Others	**245**

	31 December 2017
	Total equivalent US $ '000
Pakistani rupees	84,201
Euro	(13,402)
Kuwaiti dinars	2,306
Pound sterling	(4,172)
Others	112

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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:

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)

At 31 December 2017

Currency	Particular	Change	Exposures in US $ '000	Effect on profit and loss/Equity US $ '000
Pakistani Rupees	Net long Position	20%	84,201	16,840
Euro	Net short Position	20%	(13,402)	(2,680)
Kuwaiti Dinars	Net long Position	20%	2,306	461
Pound Sterling	Net short Position	20%	(4,172)	(834)

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.

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3 **RISK MANAGEMENT (continued)**

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

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 three months are not entitled to any income. Equity of IAH held for more than three months and withdrawn before their maturity are entitled to income only after deducting a penalty charge equivalent to three months income.

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 it's website, print and electronic media for consumer awareness program and to inform about new products.

Penalty charges

	31 December 2018 US $ '000	*31 December 2017 US $ '000*
Central Bank of Bahrain		
Discrepancies in credit, risk and compliance procedures and reporting of past dues	**265**	-
Delays in settlement of ATM balances*	**29**	-
Wrong disclosure of penalties in prior periods	**13**	-
Delays in submission of financial statements	**-**	1
Delays in submission of information in CBB Institutional System Panel		1
Anomalies in standing orders, EFTS and other electronic channels	**2**	9
	310	10
State Bank of Pakistan		
Various non-compliances with domestic laws and regulations	49	230

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

* This penalty was paid in year 2018 but was waived off subsequent to yearend.
*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 $ 326 thousand (2017: US $ 999 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:

	31 December 2018 US $ '000	*31 December 2017 US $ '000*
IAH - Non-banks	**1,044,687**	1,230,387
IAH - Banks	**365,980**	241,540
Profit equalisation reserve	**115**	572
Investment risk reserve	**-**	1,701
	1,410,782	1,474,200

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:

	31 December 2018	*31 December 2017*
PER to IAH (%)	**0.01%**	0.04%
IRR to IAH (%)	**Nil**	0.12%

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:

	31 December 2018	*31 December 2017*
Receivables	**50.02%**	**49.10%**
Musharaka	**15.86%**	**18.69%**
Ijara Muntahia Bittamleek & Ijara income receivable	**17.77%**	**18.95%**
Investments	**7.70%**	**7.74%**
Other assets	**8.65%**	**5.52%**

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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 2018	*31 December 2017*
Banks	**26.09%**	16.56%
Investment Firms	**3.83%**	3.79%
Corporates	**16.93%**	19.65%
Residentials	**44.90%**	47.33%
Others	**8.26%**	12.67%

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 2018	*31 December 2017*
Administrative expenses charged to equity of investment accountholders	**10,577**	7,079
Share of profits earned by IAH, before transfers to/from reserves	**69,629**	71,861
Percentage share of profit earned by IAH before transfer to/from reserves	**4.83%**	4.73%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**53,151**	53,553
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**3.68%**	3.52%
Share of profit paid out to Bank as mudarib	**16,477**	18,308
Mudarib Fee to total Investment Profits	**23.66%**	25.48%

Table – 30. Movement in profit equalisation reserve

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

	31 December 2018 US $ '000	*31 December 2017 US $ '000*
Balance at 1 January	**572**	551
Amount utilized on initial implementation of FAS 30	**(572)**	-
Restated balances as on 01 January	-	551
Amount apportioned from income	**115**	
Foreign exchange gain / (loss)	-	21
	115	572
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	**0.17%**	**Nil**

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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:

	31 December 2018 US $ '000	*31 December 2017 US $ '000*
Balance at 1 January	**1,701**	2,339
Amount utilized on initial implementation of FAS 30	**(1,701)**	-
Restated balances as on 01 January	-	2,339
Exchange difference	-	1
Amount apportioned to provision	-	(639)
	-	1,701
Percentage of the profit earned on equity of investment accountholders appropriated to investment risk reserve	**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 2017: 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 2018 Rate of return %		
	Bahrain		***Pakistan***
	BD	**US $**	
Saving Accounts	**0.11%**	**0.08%**	**4.27%**
One Month Term Deposits	**0.56%**	**0.49%**	**3.74%**
Three Months Term Deposits	**0.65%**	**0.53%**	**4.24%**
Six Months Term Deposits	**0.77%**	**0.62%**	**4.27%**
Nine Months Term Deposits	**0.81%**	**0.69%**	-
1 Year Term Deposits	**0.89%**	**0.72%**	**5.75%**
2 Years Term Deposits	**1.00%**	**0.78%**	**6.08%**
3 Year Term Deposits	**1.55%**	-	**6.65%**
4 Years Term Deposits	-	-	**6.15%**
5Years Term Deposits	-	**1.00%**	**7.01%**

	Average 31 Dec 2017 Rate of return %		
	Bahrain		*Pakistan*
	BD	US $	
Saving Accounts	0.11%	0.08%	2.62%
One Month Term Deposits	0.56%	-	2.96%
Three Months Term Deposits	0.66%	0.89%	3.78%
Six Months Term Deposits	0.77%	0.96%	3.56%
Nine Months Term Deposits	0.81%	-	-
1 Year Term Deposits	0.89%	1.03%	4.09%
2 Years Term Deposits	1.00%	1.15%	2.94%
3 Year Term Deposits	1.52%	-	4.46%
4 Years Term Deposits	-	-	4.95%
5Years Term Deposits	-	-	4.64%

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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 2018:

	Opening Actual Allocation US $ '000	*Movement US $ '000*	*Closing Actual Allocation US $ '000*
Cash and balances with banks	**48,393**	**45,205**	**93,598**
Receivables	**723,820**	**(18,203)**	**705,617**
Ijara Muntahia Bittamleek	**279,392**	**(28,634)**	**250,758**
Musharaka	**275,513**	**(51,801)**	**223,712**
Investments	**114,126**	**(5,533)**	**108,593**
Ijara income receivables	**-**	**-**	**0**
Other assets	**32,956**	**(4,452)**	**28,504**
	1,474,200	**(63,418)**	**1,410,782**

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 2017:

	Opening actual allocation US $ '000	*Movement US $ '000*	*Closing actual allocation US $ '000*
Cash and balances with banks	50,243	(1,850)	48,393
Receivables	739,582	(15,762)	723,820
Mudaraba	776	(776)	-
Ijara Muntahia Bittamleek	261,466	(22,147)	239,319
Musharaka	316,728	(41,215)	275,513
Investments	174,517	(60,391)	114,126
Ijara income receivables	28,892	11,181	40,073
Other assets	26,041	6,915	32,956
	1,598,245	(124,045)	1,474,200

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:

	Profit earned		*Profit paid to IAH*	
	US $ '000	*%age*	*US $ '000*	*%age*
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%
2014	72,635	6.05%	58,786	4.90%

* 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 2018:

	RWA US$ '000	*RWA for capital adequacy purposes US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	**77,345**	**23,204**	**2,901**
Claims on PSEs	**6,085**	**1,826**	**228**
Claims on Banks	**150,052**	**45,016**	**5,627**
Claims on Corporates	**439,298**	**131,789**	**16,474**
Mortgage	**155,870**	**46,761**	**5,845**
Regulatory Retail Portfolio	**62,196**	**18,659**	**2,332**
Past due facilities	**53,408**	**16,022**	**2,003**
Investment in securities	**1,368**	**410**	**51**
Holding of Real Estates	**26,150**	**7,845**	**981**
Other Assets	**19,047**	**5,714**	**714**
	990,819	**297,246**	**37,156**

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 2017:

	RWA US$ '000	*RWA for capital adequacy purposes US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	27,383	8,215	1,027
Claims on PSEs	6,099	1,830	229
Claims on Banks	167,905	50,372	6,297
Claims on Corporates	590,506	177,152	22,144
Mortgage	228,989	68,697	8,587
Regulatory Retail Portfolio	68,174	20,452	2,557
Past due facilities	94,841	28,452	3,557
Investment in securities	1,046	314	39
Holding of Real Estates	43,054	12,916	1,615
Other Assets	28,822	8,647	1,081
	1,256,819	377,047	47,133

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.

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

3 RISK MANAGEMENT (continued)

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

(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	***31 December 2018***	*31 December 2017*
Receivables	**89.02%**	88.79%
Investments	**10.98%**	11.21%

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	***31 December 2018***	*31 December 2017*
Banks	**84.42%**	89.44%
Corporate	**15.58%**	10.56%

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 2018:

	Opening actual allocation US$ '000	***Movement US$ '000***	***Closing actual allocation US$ '000***
Receivables	**76,009**	**1,227**	**77,236**
Investments	**9,594**	**(72)**	**9,522**
	85,603	**1,155**	**86,758**

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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 (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 year ended 31 December 2017:

	Opening actual allocation US$ '000	*Movement US$ '000*	*Closing actual allocation US$ '000*
Receivables	66,585	9,424	76,009
Investments	9,405	189	9,594
	75,990	9,613	85,603

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

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

	December 2018 US$ '000	*Dec 2017 US$ '000*	*Dec 2016 US$ '000*	*Dec 2015 US$ '000*	*Dec 2014 US$ '000*
Gross Income	**1,175**	1,491	1,810	1,782	1,772
Mudarib Fee	**91**	105	118	77	99

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.

Table – 40. Off-balance sheet equity of Investment Accountholders Foreign currency translation risk

At 31 December 2018

Currency	*Exposure*	*Sensitivity*	*Amount*
Euro	**6,195**	**20%**	**1,239**

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At 31 December 2017

Currency			
Euro	6,195	20%	1,239

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.

3 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

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-

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 – 41. Liquidity ratios

The following table summarises the liquidity ratios as of:

	31 December 2018	*31 December 2017*
Liquid assets to total assets	**16.98%**	17.15%
Short term assets to short term liabilities	**57.59%**	57.14%

Table – 42. Quantitative indicators of financial performance and position

	Dec 2018*	*Dec 2017*	*Dec 2016*	*Dec 2015*	*Dec 2014*
Return on average equity	**-8.2%**	-2.7%	1.2%	3.5%	1.2%
Return on average assets	**-0.8%**	-0.2%	0.1%	0.3%	0.1%
Cost to Income Ratio	**82.8%**	103.1%	82.5%	88.5%	92.7%

* 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.

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