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

Basel III, Pillar III Disclosures

31 December 2019

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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 31 December 2019, refer note 2 of the consolidated financial statements of the Group.

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

2 CAPITAL ADEQUACY

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

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

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 2019			*31 December 2018*		
	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	**136,458**			122,458		
General reserves	**8,687**			8,687		
Statutory reserves	**23,228**			22,699		
Retained earnings	**(17,681)**			(6,347)		
Current cumulative net income/ (losses)	**936**			(22,936)		
Unrealized gains and losses on available for sale financial instruments	**(1,645)**			595		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	**(34,717)**			(28,312)		
Other reserves	**(58)**			(30)		
Total CET1 capital before minority interest	**115,208**			96,814		
Minority interest in banking subsidiaries	**13,267**			16,898		
Total CET1 capital prior to regulatory adjustments	**128,475**			113,712		
Less:						
Goodwill	**31,585**			33,255		
Intangible other than mortgage servicing rights	**4,230**			4,158		
Deferred tax assets	**15,314**			18,576		
Total CET 1 capital after the regulatory adjustments above (CET 1a)	**77,346**			57,723		
Other Capital (AT1 & T 2)						
Instruments issued by parent company		**111,000**	**-**		110,000 0	-
Instruments issued by banking subsidiaries to third parties		**145**	**7,348**		139 0	10,041
Assets revaluation reserve - property, plant, and equipment		**-**	**-**		-	714
Expected Credit Losses (ECL) Stages 1 & 2		**-**	**6,240**		- 0	2,921
Regulatory adjustment due to breach in CET1		**-**	**-**		(97,405)	-
Total Available AT1 & T2 Capital		**111,145**	**13,588**		12,734	13,676
Total CET 1 Capital	**77,346**			57,723		
Total T1 Capital		**188,491**			70,457	
Total Capital			**202,079**			84,133

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:

	31 December 2019 Capital requirements US $ '000	31 December 2018 Capital requirements US $ '000
Type of islamic financing contracts		
Receivables	**16,347**	22,043
Ijara Muntahia Bittamleek & Ijara receivables	**7,354**	7,437
Musharaka	**11,799**	13,859
	35,500	43,339

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 2019		31 December 2018	
	Self Financed US $ '000	Financed by IAH US $ '000	Self Financed US $ '000	US $ '000
Market risk - standardised approach				
Foreign exchange risk	**8,468**	-	7,741	-
Total of market risk - standardised approach	**8,468**	-	7,741	-
Multiplier	**12.50**	**12.50**	12.50	12.50
	105,850	-	96,763	-
Eligible Portion for the purpose of the calculation	**100%**	**100%**	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	**105,850**	-	96,763	-
Total market RWE		**105,850**		96,763
		12.50%		12.50%
Minimum capital requirement		**13,231**		12,095

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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 2019 US $ '000	*31 December 2018 US $ '000*
Indicators of operational risk		
Average gross income	**79,595**	72,416
Multiplier	**12.5**	12.5
	994,938	905,200
Eligible Portion for the purpose of the calculation	**15%**	15%
Total operational RWE	**149,241**	135,780
	12.50%	12.50%
Minimum capital requirement	**18,655**	16,973

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2 CAPITAL ADEQUACY (continued)

Table – 5. Capital adequacy ratios

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

	31 December 2019			*31 December 2018*		
	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	**23.86%**	**22.25%**	**9.13%**	9.91%	8.30%	6.80%
Minimum regulatory requirements*	**12.50%**	**10.50%**	**9.00%**	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	**21.42%**	**16.51%**	**13.54%**	22.82%	16.66%	13.60%
Itqan Capital Company	**26.91%**	**26.91%**	**26.91%**	31.06%	31.06%	31.06%

** 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 2019			*31 December 2018*		
	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	**13.34%**	**10.63%**	**10.63%**	11.73%	9.23%	9.23%
Minimum regulatory requirements*	12.50%	10.50%	9.00%	11.90%	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 2019				31 December 2018			
	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	63,986	96,670	281,217	163,984	94,148	122,234	93,598	74,106
Receivables	1,579	1,837	444,055	539,635	6,758	17,448	705,617	713,568
Ijara Muntahia Bittamleek and Ijara receivables	37,662	35,413	245,047	244,486	33,938	32,158	250,758	259,405
Musharaka	39,933	40,944	197,561	201,799	48,178	55,876	223,712	247,452
Investments	464,767	431,445	254,236	222,825	412,486	421,271	108,593	119,645
Investment in real estate	17,159	12,141	-	-	7,754	7,691	-	-
Premises and equipment	48,553	56,360	-	-	56,668	61,128	-	-
Other assets	51,341	58,969	14,731	22,641	61,799	71,714	28,504	28,582
Unfunded exposure								
Contingencies and commitments	163,505	156,322	-	-	177,684	200,107	-	-
	888,485	890,101	1,436,847	1,395,370	899,413	989,627	1,410,782	1,442,758

*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:

	31 December 2019				31 December 2018			
	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	-	92,762	62,544	189,898	-	129,030	56,436	2,280
Receivables	1,579	-	188,764	255,291	6,758	-	458,162	247,455
Ijara Muntahia Bittamleek and Ijara receivables	37,662	-	239,018	6,030	33,937	-	237,749	13,010
Musharaka	-	39,933	-	197,561	-	48,178	-	223,711
Investments	297,629	138,363	267,796	15,216	307,650	104,835	78,225	30,369
Investment in real estate	17,159	-	-	-	7,754	-	-	-
Premises and equipment	31,453	17,101	-	-	-	-	-	-
Other assets	4,529	46,810	14,670	59	10,952	72,635	44,697	18,688
	390,011	334,969	772,792	664,055	367,051	354,678	875,269	535,513

* 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:

	31 December 2019				31 December 2018			
	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	17,351	-	19,069	-	35,171	-	-	-
Claims on Sovereigns	290,139	-	501,675	-	313,916	-	191,774	-
Claims on Public Sector Entities	137,613	-	11,367	-	169,867	-	41,870	-
Claims on banks	98,870	40,577	73,432	-	26,548	45,217	281,814	-
Claims on corporate	20,673	122,922	449,710	-	20,699	132,272	506,376	-
Mortgage	-	-	228,798	-	-	-	220,996	-
Past dues receivables	1,579	6	55,609	-	2,515	196	51,323	-
Regulatory Retail Portfolio	-	-	91,699	-	-	-	89,997	-
Equity investment	31,553	-	392	-	8,957	-	1,048	-
Investment in Funds	3,939	-	-	-	2,840	-	-	-
Holding of Real Estate	61,470	-	5,038	-	72,763	-	6,538	-
Other assets	61,795	-	59	-	68,453	-	19,046	-
	724,982	163,505	1,436,848	-	721,729	177,685	1,410,782	-

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 2019		31 December 2018	
	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	-	5,599	-	224
Receivables	-	194	-	8,034
Musharaka	-	1,623	-	2,119
Ijara Muntahia Bittamleek and Ijara Receivables	-	85	-	257
Investments	42,471	168	14,671	17,826
Other Assets	7,945	-	814	-
Contingencies and commitments	2,711	-	3,826	-
	53,127	7,669	19,311	28,460

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

	31 December 2019 Self financed US $ '000	31 December 2018 Self financed 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	2,019	2,433
Acceptances	4,140	1,265
	6,159	3,698

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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 2019:

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

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

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2018:

	Funded
Counterparties *	*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.

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:

2019	
Counterparty # 1	**12,999**
Counterparty # 2	**38**
Counterparty # 3	**7**
Counterparty # 4	**221**

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

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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 2019					31 December 2018				
			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
Banks	262	-	-	-	-	-	-	-	-	-
Corporates	31,203	68,793	36,337	16,844	15,611	22,355	83,280	40,176	23,835	19,269
Investment Firms	-	-	-	-	-	-	15,418	-	-	15,418
Individuals	3,746	30,360	12,802	12,079	5,478	747	12,966	6,421	5,095	1,450
Others	6,593	10,954	5,741	1,591	3,621	8,492	15,764	3,929	5,047	6,788
	41,804	110,107	54,880	30,514	24,710	31,594	127,428	50,526	33,977	42,925

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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 2019:

	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	57,485	-	11,060	117	(2,121)	(23,887)	-	(2,512)	40,142
Investment Firms	13,287	-	2,130	-	-	(15,410)	-	(7)	-
Individuals	5,207	-	2,180	157	(286)	(2,658)	-	(156)	4,444
Others	7,387	-	1,912	-	(418)	-	-	(763)	8,118
	83,366	-	17,282	274	(2,825)	(41,955)	-	(3,438)	52,704

The following table summarises the total provisions against non performing 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
Individual	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

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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:

	31 December 2019			*31 December 2018*		
	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*	*ECL for stage 3 US $ '000*	*ECL for Stage 1 and 2 US $ '000*
Middle East	**50,147**	**16,044**	**10,636**	77,762	50,138	9,206
Other Asian countries	**59,960**	**36,660**	**4,993**	49,666	33,228	5,039
	110,107	**52,704**	**15,629**	127,428	83,366	14,245

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 2019 Total US $ '000	*31 December 2018 Total US $ '000*
Restructured Islamic financing contracts	**96,388**	13,735

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:

	31 December 2019		*31 December 2018*	
	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	**345,203**	-	187,746	-
Receivables	**445,634**	**405,612**	712,375	406,318
Ijara Muntahia Bittamleek	**282,709**	**295,976**	284,696	299,066
Musharaka	**237,494**	**237,494**	271,890	271,889
Investments	**719,003**	-	521,079	-
Investment in real estate	**17,159**	-	7,754	-
Ijara income receivables	-	-	-	-
Premises and equipment	**48,553**	-	56,668	-
Other assets	**66,072**	-	90,303	-
	2,161,827	**939,082**	2,132,511	977,273

* 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 2019		*31 December 2018*	
	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	**282,709**	**24,577**	284,696	35,817

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 2019	*31 December 2018*
	Foreign exchange risk *US $ '000*	*Foreign exchange risk* *US $ '000*
RWE	**105,848**	96,764
Capital requirements (12.5%)	**13,231**	12,095
Maximum value of RWE	**105,848**	96,764
Minimum value of RWE	**96,711**	86,708

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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 2019:

	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	**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**

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 Bank carries a diversified portfolio of equity investments containing the securities held for trading or short-term capital gains and stakes in a few entities to secure strategic objectives like entrance in certain market or business segment. More specifically, the securities amounted to USD 3.9 million (2018: USD 6.8 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 2019* US $ '000**	*31 December 2018 US $ '000*
Cummulative realised gains arising from sale or liquidation	**10,383**	1,422
Total unrealised gains recognised in the balance sheet but not through P&L	**(1,645)**	595
Unrealised gross gains included in Tier One Capital	**(1,645)**	595
Assets revaluation reserve - property, plant, and equipment	**-**	714

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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 2019				
	Up to 3 months US $ '000	*3 to 6 months US $ '000*	*6 months to 1 year US $ '000*	*1 to 3 years US $ '000*	*Over 3 years US $ '000*
Receivables	172,065	145,032	35,954	37,176	59,502
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 (200bps)	**(10,240)**	**3,425**	**(1,602)**	**1,596**	**9,497**

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3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 22. Profit rate mismatch (continued)

	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	8,239	7,271	14,771	56,724	176,534
Ijara Income Receivables	427	1,381	13,232	92,891	163,960
Musharaka	4,468	97,082	21,420	113,072	231,578
Investments-Sukuk					
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

This table contains the mismatch amongst profit bearing assets and liabilities to ensure compliance with public disclosure requirements. However, in lieu of inherent nature of Islamic Banking, such mismatches does not 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 2019
	Total equivalent US $ '000
Pakistani rupees	**103,201**
Euro	**(1,798)**
Kuwaiti dinars	**2,258**
Pound sterling	**(5,229)**
Others	**388**

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 23. Foreign currency translation risk (continued)

	31 December 2018
	Total equivalent US $ '000
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 31 December 2019

Currency	**Particular**	***Change***	***Exposures in US $ '000***	***Effect on profit and loss/Equity US $ '000***
Pakistani rupees	Net long Position	**20%**	**103,201**	**20,640**
Euro	Net short Position	**20%**	**(1,798)**	**(360)**
Kuwaiti dinars	Net long Position	**20%**	**2,258**	**452**
Pound sterling	Net short Position	**20%**	**(5,229)**	**(1,046)**

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)

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH)

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

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

a) Investment in Shari' a compliant opportunities;

b) Targeted returns;

c) Compliance with credit and Investment policy and overall business plan; and

d) Diversified portfolio.

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

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

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

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

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

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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

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

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

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

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

Penalty charges

	31 December 2019 US $ '000	*31 December 2018 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
Discrepancies in corporate governance disclosure	1	
Anomalies in standing orders, EFTS and other electronic channels	5	2
	6	310
State Bank of Pakistan		
Various non-compliances with domestic laws and regulations	189	49

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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 $ 115 thousand (2018: US $ 326 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 2019 US $ '000	*31 December 2018 US $ '000*
IAH - Non-banks	**267,266**	1,044,687
IAH - Banks	**1,169,352**	365,980
Profit equalisation reserve	**229**	115
Investment risk reserve	**-**	-
	1,436,847	1,410,782

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 2019	*31 December 2018*
PER to IAH (%)	**0.02%**	0.01%
IRR to IAH (%)	**Nil**	0.00%

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 2019	*31 December 2018*
Receivables	**30.90%**	**50.02%**
Musharaka	**13.75%**	**15.86%**
Ijara Muntahia Bittamleek & Ijara income receivable	**17.05%**	**17.77%**
Investments	**17.69%**	**7.70%**
Other assets	**20.60%**	**8.65%**

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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 2019	31 December 2018
Banks	**18.60%**	26.09%
Investment Firms	**3.34%**	3.83%
Corporates	**20.78%**	16.93%
Residentials	**48.93%**	44.90%
Others	**8.34%**	8.26%

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 2019	31 December 2018	31 December 2017	31 December 2016	31 December 2015
Administrative expenses charged to equity of investment accountholders	**8,863**	10,577	7,079	5,755	3,405
Share of profits earned by IAH, before transfers to/from reserves	**84,531**	69,629	71,861	61,137	69,244
Percentage share of profit earned by IAH before transfer to/from reserves	**6.06%**	4.83%	4.73%	4.53%	5.40%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**75,287**	53,151	53,553	44,558	51,696
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**5.40%**	3.68%	3.52%	3.30%	4.03%
Share of profit paid out to Bank as mudarib	**9,244**	16,477	18,308	16,579	17,547
Mudarib Fee to total Investment Profits	**10.94%**	23.66%	25.48%	27.12%	25.34%

Table – 30. Movement in profit equalisation reserve

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

	31 December 2019 US $ '000	31 December 2018 US $ '000	31 December 2017 US $ '000	31 December 2016 US $ '000	31 December 2015 US $ '000
Balance at 1 January	**115**	572	551	558	575
Amount utilized on initial implementation of FAS 30		(572)			-
Restated balances as on 01 January	**115**	-	551	558	575
Amount apportioned from income	**114**	115		-	-
Foreign exchange gain / (loss)	**-**	-	21	(7)	(17)
	229	115	572	551	558
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	**0.13%**	0.17%	0.00%	0.00%	0.00%

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 31. Movement in investment risk reserve

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

	31 December 2019 US $ '000	*31 December 2018 US $ '000*	*31 December 2017 US $ '000*	*31 December 2016 US $ '000*	*31 December 2015 US $ '000*
Balance at 1 January	-	1,701	2,339	2,339	2,338
Amount utilized on initial implementation of FAS 30	-	(1,701)	-	(2,339)	-
Restated balances as on 01 January	-	-	2,339	-	2,338
Exchange difference	-	-	1	-	(1)
Amount apportioned to provision	-	-	(639)	-	2
	-	-	1,701	-	2,339
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	Nil	Nil	Nil	Nil	Nil

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

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

The Group's share, as Mudarib, in the profits of IAH is up to a maximum of 70% (31 December 2018: 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:

	31 December 2019 Average 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	**0.00%**	**0.00%**	**11.26%**
5Years Term Deposits	**2.37%**	**1.66%**	**11.97%**

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

	Average 31 Dec 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%	0.00%
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%	0.00%	6.65%
4 Years Term Deposits	-	0.00%	6.15%
5Years Term Deposits	-	1.00%	7.01%

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 2019:

	Opening Actual Allocation US $ '000	***Movement US $ '000***	***Closing Actual Allocation US $ '000***
Cash and balances with banks	**93,598**	**187,619**	**281,217**
Receivables	**705,617**	**(261,562)**	**444,055**
Ijara Muntahia Bittamleek	**250,758**	**(5,711)**	**245,047**
Musharaka	**223,712**	**(26,151)**	**197,561**
Investments	**108,593**	**145,643**	**254,236**
Ijara income receivables	**-**	**-**	**0**
Other assets	**28,504**	**(13,773)**	**14,731**
	1,410,782	**26,065**	**1,436,847**

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 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	-	0
Other assets	32,956	(4,452)	28,504
	1,474,200	(63,418)	1,410,782

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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*
2019	***61,137***	***4.53%***	***44,558***	***3.30%***
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

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 2019:

	RWA US$ '000	*RWA for capital adequacy purposes US$ '000*	*Capital charges US$ '000*
Type of Claims			
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**
	729,637	**218,892**	**27,362**

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3 RISK MANAGEMENT (continued)

c) 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 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

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:

(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.

3 RISK MANAGEMENT (continued)

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

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 2019***	*31 December 2018*
Wakala Bi Al-Istithmar		
Pool		
Receivables	***97.11%***	-
Investments	***2.89%***	-
On balance sheet jointly finanaced assets*		
Others		
Receivables	**46.83%**	89.02%
Investments	**53.17%**	10.98%

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

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

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

Counterparty type	***31 December 2019***	*31 December 2018*
Wakala Bi Al-Istithmar		
Pool		
Banks	***91.34%***	-
Corporate	***8.66%***	-
On balance sheet jointly finanaced assets*		
Others		
Banks	**49.51%**	84.42%
Corporate	-	15.58%
Sovereigns	**50.49%**	-

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

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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

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:

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

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*
Wakala Bi Al-Istithmar			
On balance sheet jointly finanaced assets	236,313	89,450	325,763
Receivables	76,009	1,227	77,236
Investments	9,594	(72)	9,522
	85,603	1,155	86,758
	321,916	90,605	412,521

3 RISK MANAGEMENT (continued)

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

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

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

	December 2019	*Dec 2018*	*Dec 2017*	*Dec 2016*	*Dec 2015*	*Dec 2014*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Gross Income	**23,830**	1,175	1,491	1,810	1,782	1,772
Mudarib Fee	**(11,563)**	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 2019			
Currency	*Exposure*	*Sensitivity*	*Amount*
Euro	**30,107**	**20%**	**6,021**
At 31 December 2018			
Currency			
Euro	6,195	20%	1,239

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e) Liquidity risk

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

a. Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.

b. Establish approval processes to ensure adherence to liquidity risk management processes.

c. Require periodic calculations to determine the extent to which the segments are funding long-term assets with short-term liabilities.

d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.

e. Establish limits on the degree of concentrations that are deemed acceptable. This should:

i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the segments manage their assets and liquidity profile to mitigate the risk; and

ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the segments conduct an impact analysis on its dependency on any such concentrations.

f. Provide for periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident

3 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

g. Provide for the review of alternate funding sources including stand-by facilities and lines of credit.

h. Establish a framework for the composition of assets.

i. Assess the acceptable mismatch in combination with currency commitments. The segments undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

Table – 41. Liquidity ratios

The following table summarises the liquidity ratios as of:

	31 December 2019	*31 December 2018*
Liquid assets to total assets	**16.09%**	16.98%
Short term assets to short term liabilities	**56.14%**	57.59%

Table – 42. Quantitative indicators of financial performance and position

	Dec 2019	*Dec 2018**	*Dec 2017*	*Dec 2016*	*Dec 2015*	*Dec 2014*
Return on average equity	**2.0%**	-8.2%	-2.7%	1.2%	3.5%	1.2%
Return on average assets	**0.2%**	-0.8%	-0.2%	0.1%	0.3%	0.1%
Cost to Income Ratio	**75.6%**	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.

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