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

Basel III, Pillar III Disclosures

30 June 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 30 June 2019, refer note 2 of the interim consolidated financial statements of the Group.

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

2 CAPITAL ADEQUACY

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

For the purpose of computing the Capital Adequacy Ratio ("CAR") and preparation of the PIRI form, the Group's financial subsidiary (Al Baraka Bank (Pakistan) Limited) and significant investment Itqan Capital Company are consolidated, as per the requirement of the CA Module, effectively from 01 January 2015 based on the approval obtained from the CBB. As a result of consolidation of Itqan Capital for regulatory purposes, the amounts in certain tables within the quantitative disclosures might not match the amounts reported in the interim consolidated financial statements of the Group. Therefore, they might not be comparable with the interim financial statements in certain cases with respect to Bank's investment in Itqan capital.

The Bank has prepared a comprehensive capitalization plan, to sustain compliance with Minimum Capital (MCR) and Capital Adequacy requirements as prescribed by CBB, and commenced its implementation during the current financial period. In this regards:
- Existing AT-1 Capital amounted to USD 15 million was write down against retained earnings;
- Further AT-1 Capital amounted to USD 30 million is injected by Parent Company;
- A "Wa'ad" agreement is entered, with parent company, to protect the bank against impacts of any downfall in equity of subsidiary other than dividend distribution; and
- The Bank is in process of issuance of 140 thousand common shares (at par value of USD 100) and awaiting for completion of certain legal formalities. Upon issuance of shares the AT1 Capital amounted to USD 14 million will be released to parent company.

2 CAPITAL ADEQUACY (continued)

Table – 1. Capital structure

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

	30 June 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	122,458			122,458		
General reserves	8,687			8,687		
Statutory reserves	22,699			22,699		
Accumulated losses	(16,006)			(6,347)		
Current interim cumulative net income / losses	1,087			(22,936)		
Unrealized gains and losses on available for sale	-			-		
financial instruments	647			595		
Gains and losses resulting from converting foreign currency	-			-		
subsidiaries to the parent currency	(36,548)			(28,312)		
Other reserves	(30)			(30)		
Total CET1 capital before minority interest	102,994			96,814		
Minority interest	11,970			16,898		
Total CET1 capital prior to regulatory adjustments	114,964			113,712		
Less:						
Goodwill	31,114			33,255		
Intangible other than mortgage servicing rights	4,601			4,158		
Deferred tax assets	15,319			18,576		
Total CET 1 capital after the regulatory adjustments above (CET 1)	63,930			57,723		
Other Capital (AT1 & T 2)						
Instruments issued by parent company		125,000	-		110,000	-
Instruments issued by subsidiaries to third parties		153	7,006		139	10,041
Assets revaluation reserve - property, plant, and equipment		-	714		-	714
Expected Credit Losses (ECL) Stages 1 & 2		-	1,493		-	2,921
Regulatory adjustment due to breach in CET1		(111,736)	-		(97,405)	-
Total Available AT1 & T2 Capital		13,417	9,213		12,734	13,676
Total CET 1 Capital	63,930			57,723		
Total T1 Capital		77,347			70,457	
Total Capital			86,560			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:

	***30 June 2019* Capital requirements US $ '000**	*31 December 2018 Capital requirements US $ '000*
Type of islamic financing contracts		
Receivables	**17,342**	22,043
Ijara Muntahia Bittamleek & ijara receivables	**7,184**	7,437
Musharaka	**11,364**	13,859
	35,890	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:

	30 June 2019		*31 December 2018*	
	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	**7,737**	-	7,741	-
Total of market risk - standardised approach	**7,737.00**	**-**	7,741	-
Multiplier	**12.50**	**12.50**	12.50	12.50
	96,713	**-**	96,763	-
Eligible Portion for the purpose of the calculation	**100%**	**30%**	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	**96,713**	**-**	96,763	-
Total market RWE		**96,713**		96,763
		12.50%		12.50%
Minimum capital requirement		**12,089**		12,095

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:

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

2 CAPITAL ADEQUACY (continued)

Table – 5. Capital adequacy ratios

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

	30 June 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	**9.68%**	**8.65%**	**7.15%**	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 **	**21.46%**	**15.83%**	**12.51%**	22.82%	16.66%	13.16%
Itqan Capital Company	**29.40%**	**29.40%**	**29.40%**	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

	30 June 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	**11.93%**	**9.43%**	**9.23%**	11.73%	9.33%	9.23%
Minimum regulatory requirements*	**11.90%**	**7.50%**	**6.00%**	11.90%	7.50%	6.00%

3 RISK MANAGEMENT

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

a) Credit risk

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

Table – 7. Credit risk exposure

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

	30 June 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	**106,882**	**108,287**	**107,988**	**92,570**	94,148	122,234	93,598	74,106
Receivables	**1,788**	**1,948**	**571,596**	**641,876**	6,758	17,448	705,616	713,568
Ijara Muntahia Bittamleek and ijara receivables	**36,254**	**34,673**	**241,195**	**243,071**	33,937	32,158	250,759	259,405
Musharaka	**37,078**	**40,941**	**191,991**	**204,932**	48,178	55,876	223,711	247,452
Investments	**411,357**	**400,858**	**242,227**	**205,316**	412,486	421,271	108,593	119,645
Investment in real estate	**7,205**	**7,188**	**-**	**-**	7,754	7,691	-	-
Premises and equipment	**53,490**	**54,639**	**-**	**-**	56,668	61,128	-	-
Other assets	**63,624**	**63,954**	**27,486**	**30,731**	61,799	71,714	28,503	28,583
Unfunded exposure								
Contingencies and commitments	**159,456**	**172,954**	**-**	**-**	177,684	200,107	-	-
	877,135	**885,440**	**1,382,483**	**1,418,496**	899,413	989,627	1,410,782	1,442,758

*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:

	30 June 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	**34,665**	**72,218**	**41,402**	**66,586**	-	129,030	56,436	2,280
Receivables	**1,788**	**-**	**341,474**	**230,122**	6,758	-	458,162	247,455
Ijara Muntahia Bittamleek and Ijara receivables	**36,254**	**-**	**233,474**	**7,721**	33,937	-	237,749	13,010
Musharaka	**-**	**37,078**	**-**	**191,991**	-	48,178	-	223,711
Investments	**267,811**	**143,546**	**229,832**	**12,395**	307,650	104,835	78,225	30,369
Investment in real estate	**7,205**	**-**	**-**	**-**	7,754	-	-	-
Other assets	**44,674**	**72,440**	**7,248**	**20,238**	10,950	72,635	44,697	18,688
	392,397	**325,282**	**853,430**	**529,053**	367,050	354,678	875,268	535,514

* 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:

	30 June 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	16,959	-	22,905	-	35,171	-	0	-
Claims on Sovereigns	350,435	-	222,269	-	313,916	-	191,774	-
Claims on Public Sector Entities	142,742	-	22,764	-	169,867	-	41,870	-
Claims on banks	18,703	42,069	316,428	-	26,548	45,217	281,814	-
Claims on corporate	20,567	117,381	424,365	-	20,699	132,272	506,376	-
Mortgages	-	-	212,315	-	-	-	220,996	-
Past dues receivables	2,196	6	71,538	-	2,515	196	51,323	-
Regulatory Retail Portfolio	-	-	64,214	-	-	-	89,997	-
Equity investment	34,421	-	411	-	8,957	-	1,048	-
Investment in Funds	1,176	-	-	-	2,840	-	-	-
Holding of Real Estate	61,226	-	5,038	-	72,763	-	6,538	-
Other assets	69,254	-	20,238	-	68,452	-	19,047	-
	717,679	159,456	1,382,483	-	721,728	177,684	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.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 10. Credit risk – related party transactions

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

	30 June 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	**-**	**226**	-	224
Receivable	**-**	**8,415**	-	8,034
Musharaka	**-**	**1,665**	-	2,119
Ijara Muntahia Bittamleek and Ijara receivable	**-**	**154**	-	257
Investments	**44,709**	**17,698**	14,671	17,826
Other Assets	**2,673**	**-**	814	-
Contingencies and commitments	**5,553**	**-**	3,826	-
	52,935	**28,157**	19,310	28,460

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

	30 June 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	**143**	2,433
Acceptances	**305**	1,265
	448	3,698

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 11. Credit risk – concentration of risk

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

The following are the balances representing the concentration of risk to individual counterparties as of 30 June 2019:

Counterparties *	***Funded*** ***US $ '000***
Counterparty # 1	**316,582**
Counterparty # 2	**89,787**
Counterparty # 3	**67,463**
Counterparty # 4	**57,446**
Counterparty # 5	**55,553**
Counterparty # 6	**45,569**
Counterparty # 7	**41,003**
Counterparty # 8	**35,823**
Counterparty # 9	**34,442**
Counterparty # 10	**33,618**
Counterparty # 11	**30,928**
Counterparty # 12	**28,133**
Counterparty # 13	**22,019**
Counterparty # 14	**21,750**
Counterparty # 15	**20,605**
Counterparty # 16	**20,049**
Counterparty # 17	**20,043**
Counterparty # 18	**19,148**
Counterparty # 19	**17,553**
Counterparty # 20	**16,295**
Counterparty # 21	**16,021**
Counterparty # 22	**16,295**
Counterparty # 23	**15,269**
Counterparty # 24	**15,047**
Counterparty # 25	**15,019**
Counterparty # 26	**14,841**
Counterparty # 27	**14,589**
Counterparty # 28	**14,012**
Counterparty # 29	**13,934**
Counterparty # 30	**13,929**
Counterparty # 31	**13,520**

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

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

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	878
Counterparty # 2	43
Counterparty # 3	878
Counterparty # 4	326

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

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown

64% of Group assets are financed by equity of IAH, while 36% are self financed. The following table summarises the residual contractual maturity breakdown of the total assets portfolio as of 30 June 2019, broken down by major types of exposure:

	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*	*3 to 5 years US $ '000*	*5 to 10 years US $ '000*	*10 to 20 years US $ '000*	*Over 20 years US $ '000*	*No fixed maturity US $ '000*	*Total US $ '000*
ASSETS										
Cash and balances with banks	186,869	-	-	-	-	-	-	-	27,546	214,415
Receivables	357,102	108,116	24,274	33,440	19,564	4,795	-	-	26,094	573,385
Ijara Muntahia Bittamleek and Ijara receivables	7,396	7,051	16,229	52,734	34,171	56,594	82,912	15,142	5,219	277,448
Musharaka	398	2,985	5,112	81,317	96,895	27,835	11,819	-	2,708	229,069
Investments*	97,135	46,231	28,202	115,302	39,484	260,210	1,000	-	93,329	680,893
Investments in real estate	-	-	-	5,241	-	-	-	-	-	5,241
Investment in Joint Venture	-	-	-	-	-	-	-	-	14,709	14,709
Premises and equipment	-	-	-	-	-	-	-	-	52,461	52,461
Goodwill	-	-	-	-	-	-	-	-	14,031	14,031
Other assets	37,157	10,718	5,025	8,097	23,514	-	-	-	3,302	87,813
Total assets	686,057	175,101	78,842	296,131	213,628	349,434	95,731	15,142	239,399	2,149,465
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY										
Due to banks and financial institutions	48,619	7,595	-	-	-	-	-	-	-	56,214
Medium term financings	742	22,000	-	38,000	-	-	-	-	-	60,742
Current accounts**	255,809	-	-	-	-	-	-	-	-	255,809
Other liabilities	108,054	1,962	690	2,890	141	-	-	-	-	113,737
Total liabilities	413,224	31,557	690	40,890	141	-	-	-	-	486,502
Equity of investment accountholders**	956,344	112,357	66,994	132,525	53,867	45,298	15,098	-	-	1,382,483
Subordinated debts	1,423	612	893	2,678	-	9,371	-	-	-	14,977
Total owners' equity	-	-	-	-	-	-	-	-	265,503	265,503
Total liabilities, Equity of investment accountholders, subordinate debt and owner's equity	1,370,991	144,526	68,577	176,093	54,008	54,669	15,098	-	265,503	2,149,465
Net gap	(684,934)	30,575	10,265	120,038	159,620	294,765	80,633	15,142	(26,104)	-
Cumulative net gap	(684,934)	(654,359)	(644,094)	(524,056)	(364,436)	(69,671)	10,962	26,104	-	-
****Off-balance sheet equity of investment accountholders***	168,750	30,387	32,674	-	19,355	-	-	-	-	251,166

* Investments in 1 to 3 years are easily convertible into liquid funds.
The above table excludes the consolidation of Itqan Capital Company in its calculation. Therefore, it will not match to the remaining tables in this report.
** Wakala Investment in URIA under multilevel arrangements are duly disclosed in on balance sheet "Equity of Investment Accountholders" and respective assets financed by such pool.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

65% of Group assets are financed by equity of IAH, while 35% are self financed. The following table summarises the residual contractual maturity breakdown of the total assets portfolio as of 31 December 2018, broken down by major types of exposure:

	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*	*3 to 5 years US $ '000*	*5 to 10 years US $ '000*	*10 to 20 years US $ '000*	*Over 20 years US $ '000*	*No fixed maturity US $ '000*	*Total US $ '000*
ASSETS										
Cash and balances with banks	73,514	-	-	18,563	-	-	-	-	95,252	187,329
Receivables	397,748	177,106	57,506	40,043	15,476	5,145	-	-	19,351	712,375
Ijara Muntahia Bittamleek	1,495	7,832	16,406	61,198	36,063	54,656	79,934	15,981	11,131	284,696
Musharaka	427	1,381	13,232	92,891	113,796	34,236	13,864	-	2,063	271,890
Investments	64,859	37,649	24,664	116,042	14,681	222,175	1,000	-	63,570	544,640
Investments in real estate	-	-	-	5,238	-	-	-	-	-	5,238
Investment in Joint Venture	-	-	-	-	-	14,671	-	-	-	14,671
Premises and equipment	-	-	-	-	-	-	-	-	55,611	55,611
Goodwill	-	-	-	-	-	-	-	-	16,172	16,172
Other assets	30,865	9,064	4,962	11,693	27,465	-	-	-	3,751	87,800
Total assets	568,908	233,032	116,770	345,668	207,481	330,883	94,798	15,981	266,901	2,180,422
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY										
Due to banks and financial institutions	40,960	16,664	-	-	-	-	-	-	-	57,624
Current accounts	275,588	-	-	-	-	-	-	-	-	275,588
Medium term financing	1,076	-	22,000	38,000	-	-	-	-	-	61,076
Other liabilities	106,235	498	3,078	3,766	160	-	-	-	-	113,737
Total liabilities	423,859	17,162	25,078	41,766	160	-	-	-	-	508,025
Equity of investment accountholders	795,252	142,481	188,939	138,793	70,091	56,419	18,807	-	-	1,410,782
Subordinated debts	1,555	-	1,002	4,119	-	10,802	-	-	-	17,478
Total owners' equity	-	-	-	-	-	-	-	-	244,137	244,137
Total liabilities, Equity of investment accountholders, subordinate debt and owner's equity	1,220,666	159,643	215,019	184,678	70,251	67,221	18,807	-	244,137	2,180,422
Net gap	(651,758)	73,389	(98,249)	160,990	137,230	263,662	75,991	15,981	22,764	-
Cumulative net gap	(651,758)	(578,369)	(676,618)	(515,628)	(378,398)	(114,736)	(38,745)	(22,764)	-	-
****Off-balance sheet equity of investment accountholders**	41,923	35,313	9,522	-	-	-	-	-	-	86,758

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

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

** Wakala Investment in URIA under multilevel arrangements are duly disclosed in on balance sheet "Equity of Investment Accountholders" and respective assets financed by such pool.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

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

	30 June 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*
Corporates	**18,711**	**70,300**	**26,085**	**23,563**	**20,652**	22,355	83,280	40,176	23,835	19,269
Investment Firms	**-**	**15,455**	**-**	**-**	**15,455**	-	15,418	-	-	15,418
Individuals	**900**	**23,004**	**15,808**	**5,307**	**1,889**	747	12,966	6,421	5,095	1,450
Others	**14,469**	**17,040**	**5,771**	**5,114**	**6,154**	8,492	15,764	3,928	5,048	6,788
	34,081	**125,798**	**47,664**	**33,984**	**44,149**	31,594	127,428	50,525	33,978	42,925

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 30 June 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**	**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	**57,485**	**-**	**2,090**	**2**	**(1,587)**	**(5,797)**	**(3,221)**	**48,971**
Investment Firms	**13,286**	**-**	**-**	**-**	**-**	**-**	**32**	**13,318**
Individuals	**5,207**	**-**	**1,713**	**120**	**(195)**	**(1)**	**(200)**	**6,644**
Others	**7,387**	**-**	**1,281**	**-**	**(168)**	**-**	**(978)**	**7,522**
	83,365	**-**	**5,085**	**121**	**(1,951)**	**(5,798)**	**(4,368)**	**76,455**

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*	*Amalgamation during the year*	*Write-Back during the year*	*Write-offs during the year*	*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	31,851	4,810	27,873	543	(1,645)	-	(5,947)	57,485
Investment Firms	13,382	-	-	-	-	-	(95)	13,286
Individual	2,520	459	2,644	352	(359)	(35)	(374)	5,207
Others	8,794	1,365	815	-	(1,506)	-	(2,081)	7,387
	56,546	6,634	31,332	895	(3,510)	(35)	(8,497)	83,365

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

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

	30 June 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*	*Specific provision US $ '000*	*Collective provision US $ '000*
Middle East	**77,827**	**46,426**	**7,255**	77,762	50,138	9,206
Other Asian countries	**47,971**	**30,479**	**5,173**	49,666	33,228	5,039
	125,798	**76,905**	**12,428**	127,428	83,365	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:

	30 June 2019 Total US $ '000	*31 December 2018 Total US $ '000*
Restructured Islamic financing contracts	**35,321**	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:

	30 June 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	**214,870**	**-**	187,747	-
Receivables	**573,384**	**406,318**	712,375	406,318
Ijara Muntahia Bittamleek and ijara receivables	**277,449**	**299,066**	284,696	299,066
Musharaka	**229,069**	**271,889**	271,889	271,889
Investments	**653,583**	**-**	521,079	-
Investment in real estate	**7,205**	**-**	7,754	-
Premises and equipment	**53,490**	**-**	56,668	-
Other assets	**91,111**	**-**	90,302	-
	2,100,163	**977,274**	2,132,510	977,274

* 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:

	30 June 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*
Ijara Muntahia Bittamleek & Ijara income receivable	**277,449**	**9,107**	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:

	30 June 2019 ***Foreign exchange risk US $***	*31 December 2018* *Foreign exchange risk US $*
RWE	**96,711**	96,764
Capital requirements (12.5%)	**12,089**	12,095
Maximum value of RWE	**96,711**	96,764
Minimum value of RWE	**96,711**	86,708

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 20. Equity position risk in Banking Book

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 30 June 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**
Equity shares	**49,185**	**38,010**	**31,204**	**17,981**	**10,671**
Real estate related	**15,050**	**19,594**	**-**	**15,050**	**7,159**
	65,235	**58,604**	**31,204**	**34,031**	**17,855**

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
Equity shares	28,145	32,711	9,401	18,743	2,582
Real estate related	24,312	24,285	-	24,312	12,198
	53,457	57,997	9,401	44,055	14,804

Table – 21. Equity gains or losses in Banking Book

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

	30 June 2019 US $ '000	*31 December 2018 US $ '000*
Cummulative realised gains arising from sale or liquidation	**2,678**	1,422
Total unrealised gains recognised in the balance sheet but not through P&L	**647**	595
Unrealised gross gains included in Tier One Capital	**647**	595
Assets revaluation reserve - property, plant, and equipment	**714**	714

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

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

Profit rate risk
The Bank generates funds mainly through profit sharing arrangements or agency modes. The Bank 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:

	30 June 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	357,102	108,116	24,274	33,440	50,453
Ijara Muntahia Bittamleek and Ijara Income Receivables	7,396	7,051	16,229	52,734	194,040
Musharaka	398	2,985	5,112	81,317	139,257
Investments-Sukuk	24,027	120,490	28,202	115,302	300,326
Profit rate sensitive assets	**388,924**	**238,642**	**73,817**	**282,793**	**684,076**
Medium term financing	742	22,000	-	38,000	-
Equity of investment accountholders	956,344	112,357	66,994	132,525	114,264
Subordinated debt	1,422.52	612	893	2,678	9,372
Profit rate sensitive liabilities	**958,508**	**134,969**	**67,887**	**173,203**	**123,636**
Profit rate gap	**(569,584)**	**103,674**	**5,931**	**109,590**	**560,440**
Profit rate sensitivity (50bps)	**(2,848)**	**518**	**30**	**548**	**2,802**

	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	106,928	302,731	619,391
Medium term financing	1,076.22	-	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	797,884	142,481	211,941	180,908	156,124
Profit rate gap	(394,350)	140,359	(105,012)	121,823	463,267
Profit rate sensitivity (50bps)	(1,972)	702	(525)	609	2,316

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

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

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

Table – 23. Foreign currency translation risk

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

	30 June 2019 Total equivalent US $ '000
Pakistani rupees	**94,201**
Euro	**(2,751)**
Kuwaiti dinars	**2,282**
Pound sterling	**(5,983)**
Others	**246**

	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 30 June 2019

Currency	Particular	Change	Exposures in US $ '000	Effect on profit and loss/Equity US $ '000
Pakistani rupees	Net long Position	20%	**94,201**	**18,840.28**
Euro	Net short Position	20%	**(2,751)**	**(550.16)**
Kuwaiti dinars	Net long Position	20%	**2,282**	**456.41**
Pound sterling	Net short Position	20%	**(5,983)**	**(1,196.70)**
Others	Net long Position	20%	**246**	**49.11**

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 24. Foreign currency risk sensitivity analysis (continued)

At 31 December 2018

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

c) Equity of Investment Accountholders (IAH)

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

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

a) Investment in Shari' a compliant opportunities;

b) Targeted returns;

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

d) Diversified portfolio.

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

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

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

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income. Equity of IAH withdrawn before their maturity are entitled to income only after deducting a penalty charge equivalent to three months income.

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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

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

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

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

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

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

Penalty charges

Penalty charges

	30 June 2019 US $ '000	*30 June 2018 US $ '000*
<u>Central Bank of Bahrain</u>		
Anomalies in standing orders, EFTS and other electronic channels	**4**	**1**
	4	1

* A penalty amounted to US$ 29 thousand paid by end of year 2018 for ATM anomalies was waived off during the current financial period.

<u>State Bank of Pakistan</u>		
Various non-compliances with domestic laws and regulations	5	51

Non-Shari'a complaint income
The Group has received US $ 225 thousand (2018: US $ 326 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 25. Equity of Investment Accountholders

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

	30 June 2019 US $ '000	*31 December 2018 US $ '000*
IAH - Banks	**321,219**	365,979
IAH - Non-banks	**1,061,092**	1,044,687
Profit equalisation reserve	**173**	115
	1,382,483	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:

	30 June 2019	*31 December 2018*
PER to IAH (%)	**0.01%**	0.01%
IRR to IAH (%)	**-**	-

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

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

	30 June 2019	*31 December 2018*
Receivable	**56.89%**	59.79%
Musharaka	**19.11%**	18.96%
Ijara Muntahia Bittamleek & ijara receivables	**24.00%**	21.25%

Table – 28. Equity of Investment Accountholders by Counterparty Type

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

Counterparty type	***30 June 2019***	*31 December 2018*
Banks	**32.17%**	26.09%
Investment Firms	**3.09%**	3.83%
Corporates	**13.57%**	16.93%
Residentials	**44.84%**	44.90%
Others	**6.33%**	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:

	30 June 2019	*31 December 2018*
Administrative expenses charged to equity of investment accountholders	**4,006**	10,577
Share of profits earned by IAH, before transfers to/from reserves	**38,577**	69,629
Percentage share of profit earned by IAH before transfer to/from reserves	**2.72%**	4.83%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**33,199**	53,151
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**2.34%**	3.68%
Share of profit paid out to Bank as mudarib	**5,378**	16,477
Mudarib Fee to total Investment Profits	**13.94%**	23.66%

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 30. Movement in profit equalisation reserve

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

	30 June 2019 US $ '000	*31 December 2018 US $ '000*
Balance at 1 January	**115**	572
Amount apportioned from income allocable to equity of	**57**	115
Investment Accountholders	**-**	(572)
	173	**115**
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	**0.15%**	0.17%

Table – 31. Movement in investment risk reserve

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

	30 June 2019 US $ '000	*31 December 2018 US $ '000*
Balance at 1 January	**-**	1,701
Amount apportioned to provision	**-**	(1,701)
	-	**-**
Percentage of the profit earned on equity of investment accountholders appropriated to investment risk reserve	**-**	-

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

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

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

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 32. Equity of Investment Accountholders rate of return

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

	Average 30 June 2019 Rate of return %		
	Bahrain		***Pakistan***
	BD	**US $**	
Saving Accounts	**0.11%**	**0.08%**	**6.41%**
One Month Term Deposits	**0.56%**	**-**	**4.41%**
Three Months Term Deposits	**0.66%**	**0.63%**	**5.34%**
Six Months Term Deposits	**0.77%**	**0.71%**	**5.63%**
Nine Months Term Deposits	**0.81%**	**0.68%**	**-**
1 Year Term Deposits	**0.89%**	**0.78%**	**7.91%**
2 Years Term Deposits	**0.99%**	**0.78%**	**9.92%**
3 Year Term Deposits	**1.55%**	**0.95%**	**10.59%**
4 Years Term Deposits	**-**	**-**	**9.90%**
5Years Term Deposits	**-**	**1.00%**	**10.61%**

	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%	-
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%

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

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

	Opening Actual Allocation US $ '000	***Movement US $ '000***	***Closing Actual Allocation US $ '000***
Cash and balances with banks	**93,598**	**14,390**	**107,988**
Sales receivable	**705,616**	**(134,020)**	**571,596**
Ijara Muntahia Bittamleek	**235,362**	**(6,650)**	**228,712**
Musharaka	**223,711**	**(31,721)**	**191,991**
Investments	**108,593**	**133,633**	**242,227**
Ijara income receivables	**15,397**	**(2,914)**	**12,483**
Other assets	**28,503**	**(1,017)**	**27,486**
	1,410,782	**(28,298)**	**1,382,483**

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 33. Equity of Investment Accountholders by type of assets (continued)

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 30 June 2018:

	Opening actual allocation US $ '000	*Movement US $ '000*	*Closing actual allocation US $ '000*
Cash and balances with banks	48,393	46,265	94,658
Sales receivable	723,821	(9,071)	714,750
Ijara Muntahia Bittamleek	239,320	(13,364)	225,956
Musharaka	275,513	(22,948)	252,565
Investments	114,126	8,077	122,203
Ijara income receivables	40,074	(6,380)	33,694
Other assets	32,955	(4,104)	28,851
	1,474,202	(1,525)	1,472,677

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*	***77,155***	***5.44%***	***66,399***	***4.68%***
2018	*69,629*	*4.83%*	*53,151*	*3.68%*
2017	71,861	4.73%	53,552	3.52%
2016	61,137	4.53%	44,557	3.30%
2015	69,244	5.40%	51,696	4.03%

* Annualised

Table - 35. Treatment of assets financed by Equity of Investment Accountholders

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 30 June 2019:

	RWA US$ '000	***RWA for capital adequacy purposes US$ '000***	***Capital charges US$ '000***
Type of Claims			
Claims on Sovereign	**8,568**	**2,571**	**321**
Claims on PSEs	**2,059**	**618**	**77**
Claims on Banks	**241,724**	**72,517**	**9,065**
Claims on Corporates	**398,565**	**119,569**	**14,946**
Regulatory Retail Portfolio	**47,260**	**14,178**	**1,772**
Mortgage	**153,819**	**46,146**	**5,768**
Past due facilities	**81,566**	**24,470**	**3,059**
Investment in securities	**661**	**198**	**25**
Holding of Real Estates	**20,150**	**6,045**	**756**
Other Assets	**20,238**	**6,072**	**759**
	974,612	**292,384**	**36,548**

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table - 35. Treatment of assets financed by Equity of Investment Accountholders (continued)

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 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	2,900
Claims on PSEs	6,085	1,825	228
Claims on Banks	150,052	45,016	5,627
Claims on Corporates	439,298	131,789	16,474
Mortgage	155,870	18,659	2,332
Regulatory Retail Portfolio	62,196	46,761	5,845
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

3 RISK MANAGEMENT (continued)

d) Off-balance sheet equity of Investment Accountholders

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

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

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

(a) Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;

(b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and

(c) Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

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

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

Islamic products		***Restated***
	30 June 2019	*31 December 2018*
Wakala Bi Al-Istithmar Pool		
Receivables	**35.18%**	-
Investments	**1.83%**	-
On balance sheet equity of investment accountholders	**62.99%**	100.00%
Others		
Receivables	**71.40%**	89.02%
Investments	**28.60%**	10.98%
Total		

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

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

Counterparty type	***30 June 2019***	*31 December 2018*
****Wakala Bi Al-Istithmar Pool***		
Banks	**28.12%**	-
Corporate	**17.49%**	-
Sovereigns	**54.39%**	-
Othe		
Banks	**65.30%**	84.42%
Corporate	**14.57%**	15.58%
Sovereigns	**20.14%**	-

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

3 RISK MANAGEMENT (continued)

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

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

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

	Opening actual allocation US $	Movement US $	Closing actual allocation US $
Wakala Bi Al-Istithmar			
Off Balance Sheet Wakala Pool			
Receivables	-	147,372	147,372
Investments	-	7,675	7,675
	-	155,047	155,047
On balance sheet equity of investment accountholders	325,763	(61,851)	263,912
	325,763	93,196	418,959
Others			
Sales receivables	77,236	(8,603)	68,633
Investments	9,522	17,963	27,485
	86,758	9,360	96,118
	412,521	102,556	515,077

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 $	Movement US $	Closing actual allocation US $
Wakala Bi Al-Istithmar Pool			
On balance sheet equity of investment accountholders	236,313	89,450	325,763
Sales receivables	76,009	1,227	77,236
Investments	9,594	(72)	9,522
	321,915	90,606	412,521

Table – 39. Off-balance sheet equity of Investment Accountholders Foreign currency translation risk

At 30 June 2019

Currency	Exposure	Sensitivity	Amount
Euro	(2,614)	20%	(523)

At 31 December 2018

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

3 RISK MANAGEMENT (continued)

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

Table – 40. Off-balance sheet equity of Investment Accountholders historical returns

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

	June 2019 US $	*Dec 2018 US $*	*Dec 2017 US $*	*Dec 2016 US $*	*Dec 2015 US $*
Gross Income	**13,916**	1,175	1,491	1,810	1,782
Mudarib Fee	**(8,436)**	91	105	118	77

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

e) Liquidity risk

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

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

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

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

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

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

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

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

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

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

h. Establish a framework for the composition of assets.

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

3 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

Table – 41. Liquidity ratios

The following table summarises the liquidity ratios as of:

	30 June 2019	***31 December 2018***
Liquid assets to total assets	**21.11%**	16.98%
Short term assets to short term liabilities	**59.34%**	57.59%

Table – 42. Quantitative indicators of financial performance and position

	June 2019*	*Dec 2018*	*Dec 2017*	*Dec 2016*	*Dec 2015*
Return on average equity	**3.1%**	-8.2%	-2.7%	1.2%	3.5%
Return on average assets	**0.4%**	-0.8%	-0.2%	0.1%	0.3%
Cost to Income Ratio	**75.7%**	82.8%	103.1%	82.5%	88.5%

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

** Annualised

4 OTHERS

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