Kuwait Finance House (Bahrain) B.S.C.(c)

Public Disclosure

30 June 2022

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1 Group Structure {PD-1.3.6(a)}

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–1: Annual Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks. Rules concerning the disclosures under this section are applicable to Kuwait Finance House (Bahrain) B.S.C. (c) ("KFH Bahrain" or "the Bank") being a locally incorporated Bank with an Islamic retail banking license and its subsidiaries, together known as ("the Group"). All amounts presented in the document are in Bahraini Dinar and rounded off to the nearest thousand. The shareholding structure as at 30 June 2022 is as follows:

Name	Number of shares	Nominal Value	Shareholding Percentage	Nationality
Kuwait Finance House K.S.C.	1,325,169,276	132,516,928	99.999%	Kuwaiti
Khalid Mohammed Al-Maarafi	17,714	1,771	0.001%	Bahraini
Total	**1,325,186,990**	**132,518,699**	**100.00%**	

The above shareholding structure is consistent with the prior year.

The Board of Directors (the "Board") at KFH Bahrain seeks to optimise the Group's performance by enabling the business units to realise the Group's business strategy and meet agreed business performance targets by operating within the agreed capital and risk parameters and the risk policy framework.

2 Capital Adequacy {PD-1.3.11, PD-1.3.16}

The Group manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the CBB in supervising the Bank.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

Regulatory capital consists of Tier 1 capital (core capital) and Additional Tier 1 and Tier 2 capital (supplementary capital). Tier 1 comprises share capital, share premium, statutory reserve, general reserve, retained earnings (including current year's profit), foreign currency translation reserve, unrealised net gains arising from fair valuing equities and minority interest less goodwill. Additional Tier 1 and Tier 2 capital include general financing loss provisions and asset revaluation reserves. Certain adjustments are made to the financial results and reserves, as prescribed by the CBB in order to comply with Capital Adequacy (CA) Module issued by the CBB. From the regulatory perspective, the significant amount of the Group's capital is in Tier 1.

The Group's approach to assessing capital adequacy has been in line with its risk appetite in the light of its current and future activities. To assess its capital adequacy, the Group follows the Standardised Approach for the Credit and Market Risk, and the Basic Indicator Approach for the Operational Risk.

The Bank's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of expectations for each business group, expected growth in off–balance sheet facilities and future sources and uses of funds. In achieving an optimum balance between risk and return, the Bank has established an Internal Capital Adequacy Assessment Program (ICAAP) which quantifies the economic capital requirements for the key risks that the Bank is exposed to including credit risk, investment risk, liquidity risk, strategic risk, profit rate risk, reputation risk, operational risk, and concentration risk. The Bank also conducts comprehensive stress tests for various portfolios and assesses the impact on the capital and profitability. In addition, the Bank's stress testing frameworks and models allow for forward looking scenarios, which is considered for business growth strategies. The ICAAP of the Bank is driven by the Board through the Capital Adequacy Strategy and the ICAAP Policy. In case a plausible stress scenario is identified which may severely affect the capital adequacy of the Bank, the senior management decides an appropriate corrective action to be taken under such a scenario.

For the purpose of computing CAR the Bank does not consolidate any of its subsidiaries.

Investment in unconsolidated subsidiaries are risk weighted as per the requirement of CA Module.

All transfer of funds within the Group is only carried out after proper approval process.

The following is the list of key subsidiaries that are included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation:

S.No.	Name of the entity	Total assets (BD '000)	Total equity (BD '000)	Principal activities
1	Kuwait Finance House - Jordan	18,241	18,235	The company and its subsidiaries are engaged in real estate related activities.
2	Ishbiliya Village W.L.L.	21,104	21,081	The principal activity of the company is to invest in and develop real estate projects and consequently buying, selling and marketing of such properties.

2.1 Quantitative Disclosures

Table – 1. Capital Structure — **Amount in BD '000**

CAPITAL STRUCTURE	
Capital Structure (PD-1.3.11,1.3.12, 1.3.13,1.3.14, 1.3.15) *	
Components of Capital	
Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	132,519
Statutory reserve	27,941
Retained earnings	-
Accumulated other comprehensive income and losses (and other reserves)	29,887
Total CET1 capital prior to regulatory adjustments	190,347
Regulatory adjustments from CET1:	
Regulatory adjustments from CET1	- 497
Total Common Equity Tier 1 capital after the regulatory adjustments above	189,850
Other Capital (AT1 & T 2):	
General financing loss provisions	7,241
Total Available AT1 & T2 Capital	7,241
Total Capital	**197,091**

* For the purposes of guidance we have cross referenced every table with the relevant section of the CBB's Public Disclosures Module.

Table – 2. Capital Requirement by Type of Islamic Financing Contract. **Amount in BD '000**

CAPITAL ADEQUACY		
Regulatory Capital Requirements (PD-1.3.17) by Each Type of Islamic Financing Contracts		
Type of Islamic Financing Contracts	**Capital Requirement**	
Murabaha and Wakala contracts with Banks		1,395
Investments in sukuk		475
Financing contracts with customers		
-Murabaha		46,249
-Ijarah		9,400
Total		**57,519**

Table – 3. Capital Requirement for Market and Operational Risk **Amount in BD '000**

CAPITAL ADEQUACY				
Capital Requirements for Market Risk (PD-1.3.18) & Operational Risk (PD-1.3.19) & 1.3.30(a)				
Particulars	**Risk Weighted Assets**		**Capital Requirement**	
Market Risk - Standardised Approach		23,170		2,897
Operational Risk - Basic indicator approach		122,363		15,295

Table – 4. Capital Ratios **Amount in BD '000**

CAPITAL ADEQUACY				
Capital Adequacy Ratios (PD-1.3.20)				
Particulars	**Total Capital Ratio**		**Tier 1 Capital Ratio**	
		%		**%**
Consolidated Ratios		27.2%		26.2%

Table – 5. Three Step Approach to Reconciliation (Appendix PD - 2)

(PD-A.2.10, A.2.10A,)	Balance Sheet as Published in Financial Statements	Consolidated PIRI Data	Reference - Common Disclosure Template for Capital
	As at Period End	As at Period End	
	(BD '000)	(BD '000)	
Assets			
Cash and balances with banks and Central Bank of Bahrain	70,976	70,976	
Due from banks	102,082	102,534	
Financing contracts	1,004,693	1,021,570	
Investments in equity	6,023	6,023	
Investment Properties	-	21,487	
Investment in sukuk	330,729	330,731	
Receivables and other assets	143,884	122,412	
Premises and equipments	3,592	3,592	
- of which other intangibles	-	497	9
Total assets	**1,661,979**	**1,679,325**	
Liabilities			
Customers' current accounts	138,486	138,485	
Due to banks	682	682	
Due to non-banks	186,959	186,959	
Other liabilities	23,244	23,222	
Equity of Investment Account Holders	1,136,450	1,136,450	
Total liabilities	**1,485,821**	**1,485,799**	
Shareholders' Equity			
Share capital *	132,519	132,519	1
Retained earnings and unrealized gains *	15,697	1,064	2, 3
Other reserves *	27,942	42,576	2, 3
Expected Credit Losses (ECL) Stages 1 & 2	-	17,367	
- of which cap on inclusion of provision in Tier 2	-	7,241	50, 77
Total Shareholders' Equity	**176,158**	**193,526**	

* These amounts are eligible for CET1

Table – 6. Main Features of Regulatory Capital Instruments (Appendix PD - 3)

S.No.	Description	Tier 1
1	Issuer	Kuwait Finance House (Bahrain) B.S.C. (c)
2	Unique identifier (e.g. CUSP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	1. Central Bank of Bahrain; and 2. Ministry of Industry, Commerce and Tourism
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Paid Up Capital, Reserves and Retained Earning
8	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	BD 189,851 (thousands)
9	Par value of instrument	BD 0.100
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	January-02
12	Perpetual or date	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Based on the performance of the Bank and approval of the AGM.
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully Discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non - Cumulative

Table – 6. Main Features of Regulatory Capital Instruments (Appendix PD - 3) (Continued)

S.No.	Description	Tier 1
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of intrument it converts into	N/A
30	Write-down feature	No
31	If write-down, write-down trigger(s)	No
32	If write-down, full or partial	No
33	If write-down, permanent or temporary	No
34	If temporary write-down, description of write-up mechanism	No
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Residual Claim. All Liabilities (including Tier 2 instrument) and Equity of Investment Account Holders are senior to this instrument. Equity of Investment Account holders are senior to Common Equity Tier 1 in cases where the Bank is proven to be negligent to the Equity of Investment Account holders' rights. In other circumstances, Equity of Investment Account holders are pari-passu with Common Equity Tier 1. this is all subject to the actual application of relevant laws upon residual claim being made.
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Table – 7. Capital disclosures (Appendix PD - 1)

Common Equity Tier 1 Capital: Instruments and Reserves		
S.No.	**Description**	**(BD '000)**
1	Directly issued qualifying common share capital plus related stock surplus	132,519
2	Retained earnings including current period profits	14,633
3	Accumulated other comprehensive income (and other reserves)	43,195
4	*Not applicable*	
6	**Common Equity Tier 1 Capital Before Regulatory Adjustments**	**190,347**
	Common Equity Tier 1 Capital: Regulatory Adjustments	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	497
28	**Total Regulatory Adjustments to Common Equity Tier 1**	497
29	**Common Equity Tier 1 Capital (CET1)**	**189,850**
	Additional Tier 1 Capital: Instruments	
36	**Additional Tier 1 Capital Before Regulatory Adjustments**	-

Table – 7. Capital disclosures (Appendix PD - 1) (Continued)

Common Equity Tier 1 Capital: Instruments and Reserves		
S.No.	**Description**	**(BD '000)**
	Additional Tier 1 Capital: Regulatory Adjustments	
43	**Total Regulatory Adjustments to Additional Tier 1 Capital**	-
44	**Additional Tier 1 Capital (AT1)**	-
45	**Tier 1 Capital (T1 = CET1 + AT1)**	**189,850**
	Tier 2 Capital: Instruments and Provisions	
50	Provisions	7,241
51	**Tier 2 Capital Before Regulatory Adjustments**	**7,241**
	Tier 2 Capital: Regulatory Adjustments	
58	**Tier 2 Capital (T2)**	**7,241**
59	**Total Capital (TC = T1 + T2)**	**197,091**
60	**Total Risk Weighted Assets**	**724,784**
	Capital Ratios and Buffers	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	26.19%
62	Tier 1 (as a percentage of risk weighted assets)	26.19%
63	Total capital (as a percentage of risk weighted assets)	27.19%
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)	2.50%
65	of which: capital conservation buffer requirement	2.50%
66	of which: bank specific countercyclical buffer requirement	N/A
67	of which: D-SIB buffer requirement	N/A
68	(Common Equity Tier 1 available to meet buffers [as a percentage of risk weighted assets] Note 61 less note 65 less 6.5% (minimum CET1 requirement without buffer))	17.19%

Table – 7. Capital disclosures (Appendix PD - 1) (Continued)

Common Equity Tier 1 Capital: Instruments and Reserves		
S.No.	**Description**	**(BD '000)**
	National Minima Including CCB (Where Different from Basel III)	
69	CBB Common Equity Tier 1 minimum ratio	9%
70	CBB Tier 1 minimum ratio	10.50%
71	CBB total capital minimum ratio	12.50%
	Amounts Below the Thresholds for Deduction (Before Risk Weighting)	
72	Non-significant investments in the capital of other financials	3,465
	Applicable Caps on the Inclusion of Provisions in Tier 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	17,367
77	Cap on inclusion of provisions in Tier 2 under standardised approach	7,241

3 Risk Management

3.1 Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from financing, trade finance and treasury activities. The Bank controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by collateral in the form of mortgage on real estate properties or other tangible securities.

3.1.1 Highly Leveraged and Other High Risk Counterparties

The Bank defines “Highly Leveraged Institutions” in line with the definitions of Basel in its papers detailed “Review of issues relating to Highly Leveraged Institutions (HLIs)”, “Sound Practices for Banks’ Interactions with Highly Leveraged Institutions”, “Banks’ Interactions with Highly Leveraged Institutions” as follows:

- Large financial institutions
- Are subject to little or no regulatory oversight.
- Are generally subject to very limited disclosure requirements and are not subject to rating by credit reference agencies.
- Take on significant leverage, where leverage is the ratio between risk, expressed in some common denominator, and capital.

The Bank will not provide financing facilities to HLIs. On a case by case basis, if required, all financing deals to HLIs will be approved by the board of directors.

3.1.2 Displaced Commercial Risk (DCR)

DCR refers to the market pressure to pay returns to Unrestricted Investment Account (URIA) holders that exceeds the rate that has been earned on the assets financed by the URIA, when the return on assets is under performing as compared with competitor’s rates.

The Bank manages DCR through the Profit Sharing Investment Account (PSIA) policy approved by the Board according to which the Bank can forego its mudarib share to manage DCR for Mudarabah based PSIA. The Bank compares its rates with the rates offered by peer Islamic banks in the market along with performing analysis of its profitability and studies of other market indicators. The Group does not use a fixed market benchmark rate for comparison to the returns paid to URIA holders.

3.1.2 Quantitative disclosures

Table – 8. Average and Gross Credit Risk Exposure **Amount in BD '000**

CREDIT RISK: QUANTITATIVE DISCLOSURES				
Credit Risk Exposure (PD-1.3.23(a))				
	Self-Financed		**Financed by Unrestricted Investment Accounts**	
Portfolios	*** Total Gross Credit Exposure**	**** Average Gross Credit Exposure Over the Period**	*** Total Gross Credit Exposure**	**** Average Gross Credit Exposure Over the Period**
Funded				
Balances with central banks	1,448	3,744	48,575	52,493
Due from banks	19,856	25,146	92,320	101,379
Financing contracts***	300,448	298,358	721,121	745,237
Investment in sukuk	64,138	75,778	266,593	277,332
Receivables and other assets	91,192	91,764	-	-
Total	**477,082**	**494,790**	**1,128,609**	**1,176,441**
Un-funded				
Contingent liabilities and commitments	65,220	62,823	-	-
Grand Total	**542,302**	**557,613**	**1,128,609**	**1,176,441**

* Gross credit exposure is reflected net of stage 3 expected credit loss (ECL) and gross of stage 1 and 2 expected credit loss (ECL).

** Average credit exposure has been calculated using quarterly consolidated financial statements and PIRI forms submitted to the CBB.

*** Financing contracts include Musharka contracts which are all self financed.

Table – 9. Portfolio Geographic Breakdown. **Amount in BD '000**

CREDIT RISK: QUANTITATIVE DISCLOSURES										
Geographic Breakdown (PD-1.3.23(b)										
	Self-Financed					**Financed by Unrestricted Investment Accounts**				
Portfolios	**Geographic Area**					**Geographic Area**				
	Bahrain	**Other GCC**	**North America**	**Other countries**	**Total**	**Bahrain**	**Other GCC**	**North America**	**Other countries**	**Total**
Funded										
Balances with central banks	1,448	-	-	-	1,448	48,575	-	-	-	48,575
Due from banks	7,972	10,555	1,137	192	19,856	37,065	49,076	5,286	893	92,320
Financing contracts	293,709	6,739	-	-	300,448	704,946	16,175	-	-	721,121
Investment in sukuk	64,138	-	-	-	64,138	266,593	-	-	-	266,593
Receivables and other assets	2,844	88,348	-	-	91,192	-	-	-	-	-
Total	**370,111**	**105,642**	**1,137**	**192**	**477,082**	**1,057,179**	**65,251**	**5,286**	**893**	**1,128,609**
Un-funded										
Contingent liabilities and commitments	65,220	-	-	-	65,220	-	-	-	-	-
Grand Total	**435,331**	**105,642**	**1,137**	**192**	**542,302**	**1,057,179**	**65,251**	**5,286**	**893**	**1,128,609**

Note: The Bank's classification of geographical area is according to the distribution of its portfolios across material geographies.

Table – 10. Industrial Sector Breakdown by Portfolio **Amount in BD '000**

CREDIT RISK: QUANTITATIVE DISCLOSURES										
Industry Sector Breakdown (PD-1.3.23(c))										
	Self-Financed					**Financed by Unrestricted Investment Accounts**				
Portfolios	**Industry Sector**					**Industry sector**				
	Trading and Manufacturing	**Banking and Financial**	**Construction and Real Estate**	**Others**	**Total**	**Trading and Manufacturing**	**Banking and Financial**	**Construction and Real Estate**	**Others**	**Total**
Funded										
Balances with central banks	-	1,448	-	-	1,448	-	48,575	-	-	48,575
Due from banks	-	19,856	-	-	19,856	-	92,320	-	-	92,320
Financing contracts	19,515	1,115	156,692	123,126	300,448	46,838	2,677	376,084	295,522	721,121
Investment in sukuk	-	60,340	3,798	-	64,138	-	266,593	-	-	266,593
Receivables and other assets	-	86,813	2,408	1,971	91,192	-	-	-	-	-
Total	**19,515**	**169,572**	**162,898**	**125,097**	**477,082**	**46,838**	**410,166**	**376,084**	**295,522**	**1,128,610**
Un-funded										
Contingent liabilities and commitments	-	-	2,386	62,834	65,220	-	-	-	-	-
Grand Total	**19,515**	**169,572**	**165,284**	**187,932**	**542,302**	**46,838**	**410,166**	**376,084**	**295,522**	**1,128,610**

Table – 11. Exposures in Excess of 15% Limit

CREDIT RISK: QUANTITATIVE DISCLOSURES		
Concentration of risk (PD-1.3.23(f)) Exposure as a Percentage of Capital Base		
Counterparties	**Self-Financed**	**Financed by Unrestricted Investment Accounts**
	Concentration of Risk	**Concentration of Risk**
Counterparty # 1	8.02%	10.36%

Restructured Islamic Financing Contracts {PD-1.3.23(j)}

The outstanding amount of financing contracts with customers for which financing terms have been renegotiated during the period and one year has not elapsed amounted to BD 38,872 thousand (2021: BD 40,813 thousand) and these are secured with collateral amounting to BD 72,657 thousand (2021: BD 78,556 thousand). As a condition to restructuring, the Bank has received partial payment from customers and/or obtained additional collateral.

The restructuring does not have any significant impact on impairment provisions and present and future earnings of the Group as most of the exposures are sufficiently collateralised and restructuring is based on the market terms. The concession provided to the restructured relationships mainly relates to the extension of the repayment dates.

Foreclosed Assets

The Group has implemented a policy to deal with foreclosed assets which prescribes the procedure to be followed by business units when foreclosing assets as deemed necessary. The policy provides for the recording of foreclosed assets in the Bank's books and their management, including sale or rental.

Table – 12. Maturity Breakdown of Credit Exposures

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES							
Residual Contractual Maturity Breakdown (PD-1.3.23(g))							
	Self Financed						
Portfolios	**Maturity Breakdown**						
	Up to 3 Months	**3-12 Months**	**1-5 Years**	**5-10 Years**	**10-20 Years**	**Over 20 Years**	**Total**
Balances with central banks	1,448	-	-	-	-	-	1,448
Due from banks	19,856	-	-	-	-	-	19,856
Financing contracts	66,027	37,623	78,736	55,066	52,902	10,094	300,448
Investment in sukuk	12,385	3,798	43,611	4,344	-	-	64,138
Receivables and other assets	3,207	495	87,448	42	-	-	91,192
Total	**102,923**	**41,916**	**209,795**	**59,452**	**52,902**	**10,094**	**477,082**
Contingent liabilities and commitments	-	62,834	2,386	-	-	-	65,220
Grand Total	**102,923**	**104,751**	**212,181**	**59,452**	**52,902**	**10,094**	**542,302**

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES							
Residual Contractual Maturity Breakdown (PD-1.3.23(g))							
	Financed by Unrestricted Investment Accounts						
Portfolios	**Maturity breakdown**						
	Up to 3 Months	**3-12 Month**	**1-5 Years**	**5-10 Years**	**10-20 Years**	**Over 20 Years**	**Total**
Balances with central banks	48,575	-	-	-	-	-	48,575
Due from banks	92,320	-	-	-	-	-	92,320
Financing contracts	158,478	90,304	188,983	132,173	126,976	24,207	721,121
Investment in sukuk	38,515	-	219,969	8,109	-	-	266,593
Grand Total	**337,888**	**90,304**	**408,952**	**140,282**	**126,976**	**24,207**	**1,128,609**

Table – 13. Break-up of Impaired Finances, Past Due Finances and Allowances by Industry Sector **Amount in BD '000**

CREDIT RISK: QUANTITATIVE DISCLOSURES

Impaired Finances, Past Due Finances and Allowances (PD-1.3.23(h))

Self-Financed

Industry Sector	Total Portfolio	Stage 1	Stage 2	Stage 3				Stage 3 expected credit losses						Stage 1 & 2 expected credit losses
				Total	Over 3 Months	1 to 3 Years	Over 3 years	Balance at the beginning of period	Transferred to other stages	Transferred from other stages	Net remeasurement	Recoveries & write offs during the period	Balance at the End of period	
Trading and manufacturing	19,515	11,176	8,302	37	2	-	35	(0)	(0)	0	2	(0)	1	329
Banking and financial institutions	1,115	40	1,075	-	-	-	-	(0)	-	-	-	-	(0)	9
Construction & real estate	156,692	130,231	23,406	3,055	124	19	2,912	1,096	(23)	0	(52)	(59)	963	2,336
Others	123,126	118,270	4,826	30	1	-	29	47	(1)	1	11	(3)	55	2,291
Total	**300,448**	**259,717**	**37,609**	**3,122**	**127**	**19**	**2,976**	**1,143**	**(24)**	**1**	**(39)**	**(62)**	**1,019**	**4,965**

Past due finances are stated net of stage 3 expected credit losses.

Amount in BD '000

Impaired Finances, Past Due Finances and Allowances (PD-1.3.23(h))

Financed by Unrestricted Investment Accounts

Industry Sector	Total Portfolio	Stage 1	Stage 2	Stage 3				Stage 3 expected credit losses						Stage 1 & 2 expected credit losses
				Total	Over 3 Months	1 to 3 Years	Over 3 years	Balance at the beginning of period	Transferred to other stages	Transferred from other stages	Net remeasurement	Recoveries & write offs during the period	Balance at the End of period	
Trading and manufacturing	46,838	26,824	19,925	89	3	1	85	0	(0)	0	5	(0)	5	789
Banking and financial institutions	2,677	96	2,581	-	-	-	-	0	-	-	-	-	0	22
Construction & real estate	376,084	312,572	56,176	7,336	301	46	6,989	1,582	(53)	4	920	(142)	2,312	5,608
Others	295,522	283,866	11,584	72	3	-	69	71	(3)	(0)	75	(9)	133	5,496
Total	**721,121**	**623,358**	**90,266**	**7,497**	**307**	**47**	**7,143**	**1,653**	**(56)**	**4**	**1,000**	**(151)**	**2,450**	**11,915**

Past due finances are stated net of stage 3 expected credit losses.

Table – 14. Break-up of Provision by Geographic Area — **Amount in BD ‘000**

CREDIT RISK: QUANTITATIVE DISCLOSURES			
Impaired Finances, Past Due Finances And Allowances (PD-1.3.23(i))			
Geographic Area	**Credit impaired or past due or impaired Islamic financing contracts**	**Stage 3 expected credit losses**	**Stage 1 & 2 expected credit losses**
Bahrain	22,297	3,470	122
Total	**22,297**	**3,470**	**122**

Table – 15. Break-up of Eligible Collateral by Portfolio — **Amount in BD ‘000**

CREDIT RISK MITIGATION (CRM): DISCLOSURES FOR STANDARDISED APPROACH				
Credit Risk Exposure Covered By CRM (PD-1.3.25 (b) and (c))				
Portfolios	**Total Exposure Covered by**			
	Eligible Collateral(after appropriate haircuts)*			**Guarantees**
Ijarah			342,879	-
Total			**342,879**	**-**

* Over and above the collateral, considered as eligible under the CA Module, the Bank maintains additional collateral in the form of mortgage of residential properties, corporate guarantees and other tangible assets, which could be invoked to claim the amount owed in the event of default.

Table –16. Counter Party Credit Risk **Amount in BD '000**

DISCLOSURES FOR EXPOSURES RELATED TO COUNTERPARTY CREDIT RISK (CCR)								
General Disclosures (PD-1.3.26 (b))								
Current Credit Exposure by Type of Islamic Financing Contracts	**Gross Positive Fair Value (Net of specific provision)**	**Netting Benefits**	**Netted Current Credit Exposures**	**Eligible Collaterals Held (after appropriate haircuts) ***				
				Cash	**Govt. Securities**	**Guarantees**	**Real Estate**	**Total**
Murabaha	426,217	-	426,217	-	54,825	-	-	54,825
Ijarah	595,352	-	595,352	4,269	-	-	338,610	342,879
Total	**1,021,569**	-	**1,021,569**	**4,269**	**54,825**	**-**	**338,610**	**397,704**

* Over and above the collateral, considered as eligible under the CA Module, the Bank maintains additional collateral in the form of mortgage of residential properties, corporate guarantees and other tangible assets, which could be invoked to claim the amount owed in the event of default.

3.2 Market Risk

3.2.1 Introduction

Market risk is the risk that movements in market risk factors, including foreign exchange rates, profit rates, commodity prices, equity prices and credit spreads will reduce the Group's income or the value of its portfolios. The Group is also exposed to profit rate and potential foreign exchange risks arising from financial assets and liabilities.

The Board has approved the overall market risk appetite in terms of market risk strategy and market risk limits. RMD is responsible for the market risk control framework and sets a limit framework within the context of the approved market risk appetite. The Bank separates market risk exposures into either trading or non–trading portfolios. Trading portfolios include those positions arising from market–making, proprietary position–taking and other marked–to–market positions. Non–trading portfolios include all other positions that are not included in the trading book.

Daily market risk reports are produced for the Bank's senior management covering the different risk categories. These reports are discussed with the senior management committees such as ALCO/Risk Management Committee which take appropriate action to mitigate the risk.

3.2.2 Market Risk Factors

For the Group, market risk may arise from movements in profit rates, foreign exchange markets, equity markets or commodity markets. A single transaction or financial product may be subject to any number of these risks.

Profit Rate Risk is the sensitivity of financial products to changes in the profit rates. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments.

Foreign Exchange Risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on FX Value At Risk (VAR) . Positions are monitored on a daily basis to ensure risk is maintained within established limits using VaR methodology.

Equity Risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

Commodity Price Risk is the risk that arises as a result of sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within a particular sector and less correlated across sectors. The Group is not exposed to material commodity price risk.

3.2.3 Quantitative disclosures

Table – 17. Minimum and Maximum Capital Requirement for Market Risk **Amount in BD '000**

MARKET RISK: DISCLOSURES FOR BANK'S USAGE OF THE STANDARDISED APPROACH					
Level Of Market Risks In Terms Of Capital Requirements (PD-1.3.27 (b))					
Particulars	**Price Risk**	**Foreign Exchange Risk (net open position)**	**Equity Position Risk**	**Market Risk on Trading Positions in Sukuks**	**Commodity Risk**
Capital requirements	-	2,897	-	-	-
Maximum value	-	2,958	-	-	-
Minimum value	-	2,897	-	-	-

This disclosure is based on the figures from the PIRI for the period ended 30 June 2022.

3.3 Operational Risk

3.3.1 Introduction

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks to an acceptable level. Controls include but are not limited to effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, and the internal audit process.

The Board acknowledges that it has the ultimate responsibility for operational risk. Oversight rests with the BRC Committee. The Board has approved the operational risk framework in terms of strategy, policy and limits. The Bank has implemented Risk Controls and Self-Assessment (RCSA) and departments report the incidents and Key Risk Indicators (KRIs) values to the operational risk unit for monitoring and reporting the key operational risks in the Bank.

3.3.2 Quantitative disclosures

Table –18. Indicators of Operational Risk **Amount in BD '000**

OPERATIONAL RISK : QUANTITATIVE DISCLOSURES FOR BASIC INDICATOR APPROACH	
Indicators of Operational Risk (PD-1.3.30 (b))	
Particulars	**Total**
Gross Income (average)	65,260
Amount of non-Shari'a-compliant income	-
Number of Shari'a violations that were identified and reported during the financial year	-

Legal cases resulting from normal course of business are handled by the Bank's in-house legal team and external legal consultants are also consulted on such matters, as and when required.

Any non-Shari'a compliant earnings are immediately given away as charity.

3.4 Equity Positions in the Banking Book (PD-1.3.31(a))

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements. All of the Group's investments are intended to be for long term holdings.

3.4.1 Quantitative disclosures

Table – 19. Total and Average Gross Exposures **Amount in BD '000**

EQUITY POSITION IN BANKING BOOK - DISCLOSURE REQUIREMENTS				
Total and Average Gross Exposure - (PD-1.3.31 (b) & (c))				
Type and Nature of Investment	**Total Gross Exposure**	*** Average Gross Exposure**	**** Publicly Traded**	**Privately held**
Equity investments	45,356	45,872	1,682	43,674
Musharaka	19	19	-	19
Total	**45,375**	**45,891**	**1,682**	**43,693**

* Average exposure has been calculated using quarterly consolidated financial statements or PIRI forms submitted to CBB.

** This includes publically listed equities classified as available for sale in the financial statements.

Table – 20. Break-up of Capital Requirement for Equity Groupings **Amount in BD '000**

EQUITY POSITION IN BANKING BOOK - DISCLOSURE REQUIREMENTS	
Capital Requirement - (PD-1.3.31 (g))	
Equity Grouping	**Capital Requirement**
Listed	210
Unlisted	10,774
Total	**10,984**

Table – 21. Gain and Loss Reported **Amount in BD '000**

EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS	
Gains / Losses Etc. (PD-1.3.31(d),(e)&(f))	
Particulars	**Total**
Total unrealised gains (net) recognised in statement of other comprehensive income	(484)
Unrealised gains and losses included in Tier 1 Capital	1,064

3.5 Equity of Investment Account Holders (URIA) {PD-1.3.32}

The Investment Account Holder ("IAH") authorizes the Bank to invest the account holder's funds (URIA) on the basis of Mudaraba and Wakala contracts in a manner which the Bank deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. Under this arrangement the Bank can commingle the IAH funds with its own funds (owner's equity) and with other funds the Bank has the right to use (e.g. current accounts or any other funds which the Bank does not receive on the basis of URIA Mudaraba/Wakala contract). The IAH and the Bank participate in the returns on the invested funds. The funds received under the wakala arrangement

The Bank has developed a Profit Sharing Investment Accounts (PSIA) policy which details the manner in which the URIA funds are deployed and the way the profits are calculated for the URIA holders. The strategic objectives of the investments of the IAH funds are:

- Investment in Shari'a compliant opportunities;
- Targeted returns;
- Compliance with investment policy and overall business plan;
- Diversified portfolio; and
- Preparation and reporting of periodic management information.

URIA holders' funds are invested in due from banks, Sukuks and the financing portfolio. The Bank invests these funds through various departments including Treasury, corporate, consumer, and capital markets. The experience of relevant department heads is mentioned in Section 4. No priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the URIA, 100% of the funds are invested after setting aside amount for mandatory reserve and sufficient operational cash requirements. URIA funds are invested and managed in accordance with Shari'a requirements. Income generated and losses arising (including provisions) from the invested funds is allocated proportionately between URIA holders and shareholders on the basis of the average balances outstanding and share of the funds invested. Administrative expenses incurred by the Bank are allocated to the URIA holders in the proportion of average URIA funded assets to average total pool assets of the Bank. The process has not changed significantly from the past years. The amount of administrative expenses charged to URIA are provided in table 34.

IAH's can request the Bank to withdraw funds before the maturity of the URIA contract however, such arrangement are subject to the approval of the Bank.

The mudarib share on investment accounts ranges from 30% to 85% depending on the investment period and in case of saving accounts, where there is no restriction of cash withdrawal, the mudarib share ranges from 85% to 95%. However, during the year, in addition to investors' share of profit, the Bank has distributed profit to investors from its own share of mudarib share. The ranges of Mudarib share are provided in table 31. The Bank also did not charge any Wakala agency fees to URIA-Wakala.

The Bank has a Corporate Communications Department which is responsible for communicating new and/or extended product information through various channels of communication which may include publications, website, direct mailers, electronic mail and local media. The URIA products available to the customers can be classified broadly under two categories, 1) Term URIA and 2) Saving URIA. Term URIA are fixed term URIA having maturity of 1, 3, 6, 9, 12,24,36 and 60 months whereas Saving URIA can be withdrawn on demand. Detailed information about the features of various products offered by the Bank can be obtained from the website of the Bank, brochures at the branches, call centre and customer service representatives at the branches of the Bank. Branches of the Bank are the primary channel through which products are made available to the customers.

3.5 Equity of Investment Account Holders (URIA) (continued)

Fiduciary risk is the risk that arises from Bank's failure to perform in accordance with explicit and implicit standards applicable to their fiduciary responsibilities. Although KFHB will discourage subsidizing its URIA holders, the Bank may forgo a portion of its mudarib share from assets funded by PSIA and apportion its share to the IAH as part of smoothing returns and to mitigate potential withdrawal of funds by investment account holders.

Complete mudarib share or part thereof, based on the approval of ALCO of the Bank, can be waived to pay a competitive rate to URIA holders. There are no instances where the Bank, as Mudarib, has taken any share greater than the agreed/disclosed profit sharing ratio. There were instances where the Bank has forgone part of its profit to distribute that to the Bank's customers or investors. The bank may also forgo part of its shareholder's returns as a "hiba" to URIA holders in order to mitigate DCR.

The rate of return payable to URIA holders is decided by ALCO, keeping in view the rate of return earned on the pool of assets. Based on the results of URIA, allocation will take place to the URIA holders affected by the following factors including rates offered by peer banks, cost of funds from various sources, liquidity position of the Bank and market benchmarks (LIBOR etc). The Bank compares its rates with the rates offered by peer Islamic banks in the market along with performing analysis of its profitability and studies of other market indicators. The Bank does not use a fixed market benchmark rate for comparison to the returns paid to URIA holders. In order to ensure smooth returns and to mitigate the potential withdrawal of funds by URIA Investors; the Bank can use Profit Equalisation Reserve (PER). Similarly, the Bank can use an Investment Risk Reserve (IRR) to cater against future losses for URIA holders. The amount of PER and IRR as at 30 June 2022 and 31 December 2021 is Nil but the Bank may transfer an amount into PER and IRR in future after prior notice to its customers.

Deposits and URIA held with the Bank are covered by the Regulation Protecting Deposits and Unrestricted Investment Accounts issued by the Central Bank of Bahrain in accordance with Resolution No.(34) of 2010.

3.5.1 Quantitative Disclosures

Table – 22. Break-up of URIA **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (a),(e) &(g))			
	Amount	**Financing to Total URIA %**	**Ratio of Profit Distributed**
Savings URIA	393,997	35%	20%
Term URIA	742,453	65%	80%
Total	**1,136,450**	**100%**	**100%**

Table – 23. Percentage of Return on Average URIA Assets

UNRESTRICTED INVESTMENT ACCOUNTS:	
Unrestricted Investment Account (PD-1.3.33 (d))	
	Percentage
Average profit paid on average URIA assets	1.66%
Average profit earned on average URIA assets	4.65%

Table – 24. Percentage of Mudarib share to Total URIA Profits **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (f))			
	URIA Return Before Mudarib share	**Share of Profit Paid to Bank as Mudarib**	**Percentage**
Mudarib share to total URIA profits	19,029	9,124	47.95%

Table – 25. Percentage of Islamic Financing Contracts Financed by URIA to Total URIA **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:		
Unrestricted Investment Account (PD-1.3.33 (h))		
Shari'a-Compliant Contract	**Financing**	**Financing to Total URIA %**
Cash and balances with banks	56,416	4.96%
Murabaha and due from banks	92,320	8.12%
Investments at amortised cost – Sukuk	266,593	23.46%
Customer Murabaha	300,852	26.48%
Customer Ijarah Muntahia Bittamleek	420,270	36.98%
Total	**1,136,450**	**100.00%**

Table – 26. Percentage of Counterparty Type Contracts Financed by URIA to Total URIA

Amount in BD '000

UNRESTRICTED INVESTMENT ACCOUNTS:		
Unrestricted Investment Account (PD-1.3.33 (i))		
Counterparty Type	**Financing**	**Financing to Total URIA %**
Cash items	7,841	0.69%
Claims on sovereigns & MDBs	266,593	23.46%
Claims on banks	140,895	12.40%
Claims on corporate	260,103	22.89%
Regulatory retail portfolio	68,725	6.05%
Real Estate financing	386,003	33.97%
Past due facilities	6,252	0.55%
Others	38	0.00%
Total	**1,136,450**	**100.00%**

Table – 27. Percentage of Profit Paid to URIA Holders to Total URIA Investment

UNRESTRICTED INVESTMENT ACCOUNTS:							
Unrestricted Investment Account (PD-1.3.33 (l) (m) & (n))							
					Share of Profit Paid to IAH Before Transfer To/From Reserves %	**Share of Profit Paid to IAH After Transfer To/From Reserves %**	**Share of Profit Paid, as a % of Funds Invested, to Bank as Mudarib %**
URIA					52.05%	52.05%	47.95%

Table – 28. Range of Declared Rate of Return

UNRESTRICTED INVESTMENT ACCOUNTS:								
Unrestricted Investment Account (PD-1.3.33 (q))								
Declared rate of return for Investments accounts	**1-Month**	**3-Month**	**6-Month**	**9 - Months**	**12-Month**	**2-Years**	**3-Years**	**5-Years**
BHD denominated	1% - 1.3%	1.5% - 1.9%	1.6% - 2.1%	1.9% - 2.3%	2.13% - 2.6%	2.5% - 2.9%	2.8% - 3%	3% - 3.1%
USD denominated	0.7% - 0.96%	1% - 1.28%	1.2% - 1.6%	1.3%	1.5% - 1.93%	NA	NA	NA
GBP denominated	0.4% - 0.48%	0.55% - 0.96%	0.7% - 1.28%	0.8%	0.9% - 1.6%	NA	NA	NA
EUR denominated	0.2% - 0.48%	0.3% - 0.96%	0.4% - 1.28%	0.45%	0.5% - 1.6%	NA	NA	NA

Table – 29. Movement of URIA by Type of Assets **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (r) & (s))			
Type of Assets	**Opening Actual Allocation as at 01 Jan 2022**	**Net Movement During the Period**	**Closing Actual Allocation as at 30 Jun 2022**
Cash and Balance with banks and CBB	97,131	(40,716)	56,416
Due from banks	98,526	(6,205)	92,320
Investment in sukuk	314,507	(47,914)	266,593
Murabaha due from customers	277,355	23,497	300,852
Ijarah Muntahia Bittamleek due from customers	357,965	62,304	420,270
Total	**1,145,484**	**(9,034)**	**1,136,450**

Note: There are no limits imposed on the amount that can be invested by URIA funds in any one asset. However, the Bank monitors its URIA deployment classifications so that to ensure that URIA funds are not invested in the Bank's long term Investment Portfolio (including Private Equity and Real Estate). The Bank also does not allocate URIA funds to the equity investments in the trading book.

Table – 30. Capital Charge on URIA by Type of Claims **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:			
Unrestricted Investment Account (PD-1.3.33 (v))			
Type of Claims	**Exposures**	*** Risk Weighted Assets**	**Capital Charge**
Cash items	7,841	-	-
Claims on sovereign	266,593	-	-
Claims on banks	140,895	14,753	553
Claims on corporate	260,103	152,229	5,709
Regulatory retail portfolio	68,725	51,544	1,933
Mortgages	386,003	132,236	4,959
Past due facilities	6,252	7,205	270
Other assets	38	38	1
Total	**1,136,450**	**358,005**	**13,425**

* The RWA for Capital Adequacy Ratio Purposes is presented above prior to the application of the CBB approved 30% alpha factor which is the proportion of assets funded by URIA for RWA purposes in accordance to the CA module.

Table – 31. Percentage of Profit Earned and Profit Paid to Total Mudaraba **Amount in BD '000**

DISPLACED COMMERCIAL RISK - URIA: Mudaraba only			
Displaced Commercial Risk Unrestricted Investment Account (PD-1.3.41 (b)			
	Total Mudaraba profits available for sharing between URIA andshareholders as Mudarib	**Contractual Range of Mudharib Share**	**Mudharib Share % of URIA Mudaraba Profit Earned**
June 2022	3.15%	30%-95%	47.95%
2021	3.34%	30%-95%	53.29%
2020	3.78%	30%-95%	42.82%
2019	6.02%	30%-95%	38.30%
2018	5.54%	30%-95%	27.96%
2017	3.14%	30%-95%	57.88%

Table –32. Percentage rate of return to URIA and shareholders from Mudaraba Profit **Amount in BD '000**

DISPLACED COMMERCIAL RISK - URIA: Mudaraba only			
Displaced Commercial Risk Unrestricted Investment Account (PD-1.3.41 (d))			
Type of Claims			**Mudaraba Profit Earned as % of mudaraba funds (before admin charge)**
June 2022			4.83%
2021			3.53%
2020			3.67%
2019			4.94%
2018			2.36%
2017			0.73%

Table – 33. Percentage of Profit Earned and Profit Paid to Total URIA Funds **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:					
Unrestricted Investment Account (PD-1.3.33 (w))					
	*** URIA Funds (Average)**	**Profit Earned (net of admin charges)**	**Profit Earned as a percentage of funds invested**	**Profit paid**	**Profit paid as a percentage of funds invested (after smoothing)**
June 2022	1,190,487	19,029	3.20%	9,881	1.66%
2021	1,048,535	34,982	3.34%	17,575	1.68%
2020	957,170	41,226	4.31%	19,221	2.01%
2019	597,206	23,205	3.89%	13,457	2.25%
2018	485,065	14,925	3.08%	6,579	1.36%
2017	477,280	12,544	2.63%	5,283	1.11%

* Average assets funded by URIA have been calculated using consolidated management accounts.

Table – 34. Operating Expenses Allocated to URIA **Amount in BD '000**

UNRESTRICTED INVESTMENT ACCOUNTS:	
Unrestricted Investment Account (PD-1.3.33 (x))	
Unrestricted IAH	**Amount**
Amount of administrative expenses charged to URIA	8,674

3.6 Restricted Investment Accounts ("RIA")

Under RIA, the IAH has authorized the Bank to invest the funds on the basis of Mudaraba contract for investments, but imposes certain restrictions as to where, how and for what purpose this funds are to be invested. Further, the Bank may be restricted from commingling its own funds with the RIA funds for the purposes of investment. In addition, there may be other restrictions which IAHs may impose. RIA funds are invested and managed in accordance with Shari'a requirements. The funds are managed by the Bank under a fiduciary capacity as per the instructions of the RIA holders and accordingly the Bank is not liable to make good any losses occurred due to normal commercial reasons.

The Bank has developed the PSIA policy, approved by the Board, which details the manner in which the RIA funds are deployed and the way the profits are calculated for the RIA.

The Bank as fund manager (mudarib) carries out its fiduciary duties and administers the scheme in a proper, diligent and efficient manner, in accordance with the Shari'a principles and applicable laws and relevant rules and guidelines issued by the CBB.

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

a) Organising its internal affairs in a responsible manner, ensuring it has appropriate internal controls and management systems and procedures and controls designed to mitigate and manage such risk;
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 Bank has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

RIA products are made available to the customers through Private Banking department. Detailed product information about various RIA products is available in the respective RIA information pack. The detailed risks are disclosed in the respective RIA information pack for the investors to make informed decision. Such disclosure includes the disclosure on participation risks, default risks, investment risks and exchange rate risks.

3.6.1 Quantitative Disclosures

Table – 35. History of Profit Paid to RIA Holders **Amount in BD '000**

RESTRICTED INVESTMENT ACCOUNTS:					
Restricted Investment Account (PD-1.3.35 (a) & (b))					
	2022	**2021**	**2020**	**2019**	**2018**
Return to RIA holders	3,219	7,272	8,076	7,619	6,850

Table – 36. RIA Exposure **Amount in BD '000**

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (a))	
	Amount
Average RIA funds during the year	129,784

Table – 37. Percentage of Profit Paid to RIA Holders to RIA Assets

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (d))	
	Percentage
Return on average* RIA assets	4.96%

* Average RIA funds have been calculated using consolidated management accounts.

Table – 38. Mudarib share as a Percentage of Total RIA Profits

RESTRICTED INVESTMENT ACCOUNTS:	
Restricted Investment Account (PD-1.3.33 (f))	
	Percentage
Mudarib share to total (gross) RIA profits	19.69%

Table – 39. Share of Islamic Financing Contracts in Total RIA Financing **Amount in BD '000**

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.33 (h))		
Shari'a-Compliant Contract	**Financing**	**Financing to Total Financing %**
Murabaha	124,650	100.00%
Total	**124,650**	**100.00%**

Table – 40. Percentage of Counterparty Type Contracts Financed by RIA to Total RIA **Amount in BD '000**

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.33 (i))		
Counterparty Type	**Financing**	**Financing to Total Financing %**
Claims on corporate	124,650	100.00%
Maturity buckets:		
6-1y	17,495	
1-3Y	107,155	

Table – 41. Share of Profit Paid to RIA Holders as a Percentage of Total RIA **Amount in BD '000**

RESTRICTED INVESTMENT ACCOUNTS:				
Restricted Investment Account (PD-1.3.33 (l) (m) (n) & (o))				
Type of RIA	**Total RIA**	**RIA Return Before Mudarib shares**	**RIA Return after Mudarib shares**	**Share of Profit Paid to Bank as Mudarib**
	A	**B**	**C**	**D**
Murabaha	124,650	4,008	3,219	789
Total	**124,650**	**4,008**	**3,219**	**789**

Table – 42. Declared Rate of Return of RIA

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.33 (q))		
	12-Month	**24-Month**
Average declared rate of return	4.50%	5.00%

Table – 43. Treatment of Assets Financed by RIA in the Calculation of RWA for Capital Adequacy Purposes

RESTRICTED INVESTMENT ACCOUNTS:		
Restricted Investment Account (PD-1.3.33 (v))		
Type of RIA	**Exposure**	**Risk Weighted**
Murabaha	124,650	-

Table – 44. Profit Earned and Profit Paid as a Percentage of Total RIA Funds **Amount in BD '000**

RESTRICTED INVESTMENT ACCOUNTS:				
Restricted Investment Account (PD-1.3.33 (w),1.3.35(a),(b))				
	Profit Earned	***Profit Earned as a Percentage of RIA Funds**	**Profit Paid**	***Profit Paid as a Percentage of RIA Funds**
June 2022	4,008	6.18%	3,219	4.96%
2021	9,105	6.66%	7,272	5.32%
2020	9,963	7.32%	8,076	5.93%
2019	9,654	7.16%	7,619	5.65%
2018	9,198	6.76%	6,850	5.03%
2017	8,259	6.12%	5,567	4.12%

* Profit earned and profit paid are based on average RIA funds and may not tally with the declared profit rates

3.7 Liquidity Risk {PD-1.3.36}

Liquidity risk is the risk that the Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Funding risk arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

Limits

The limits are in line with the overall liquidity risk management strategy approved by the Board. The breach of the limits is reported to the Board. The Bank monitors the limits on the liquidity gaps in various tenor buckets and on the ratios. The Bank also calculates the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

Stress Tests

On a monthly basis, the Bank conducts stress tests on its liquidity profile. The institution specific and market wide stress tests are conducted. The gaps are created under stress conditions to understand the liquidity needs in case of stress situations.

Table – 45. Liquidity Risk Exposure Indicators

LIQUIDITY RISK: QUANTITATIVE DISCLOSURE	
Liquid assets to customer deposits (PD-1.3.37)	
As at 30 June 2022	31.68%
During the period:	
Average	31.51%
Highest	38.32%
Lowest	15.33%

Liquidity Coverage Ratio	
LCR (Liquidity Coverage Ratio) *	227.74%
* Daily average figures (Year to Date)	80.00%

* Daily average figures (Year to Date)

3.8 Profit Rate Risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance. Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments.

3.8.1 Quantitative Disclosures

Table – 46. Profit Rate Shock **Amount in BD '000**

PROFIT RATE RISK IN THE BANKING BOOK			
200bp Profit Rate Shocks (PD-1.3.40 (a)+(b))			
Assets	**Amount**	**Change in Basis Points**	**Effect on Net Income for the Period**
Due from banks	102,082	200	2,042
Financing contracts	1,004,693	200	20,094
Investment in sukuk	330,729	200	6,615
Liabilities			
Due to banks	682	200	(14)
Due to non-banks	186,959	200	(3,739)
Equity of investment account holders	1,136,450	200	(22,729)

3.9 Financial Performance and Position

Table – 47. Ratios

Financial Performance and Position					
(PD-1.3.39(b))					
Quantitative Indicator	**June 2022**	**2021**	**2020**	**2019**	**2018**
Return on average equity	16.37%	13.00%	8.85%	13.82%	10.42%
Return on average assets	1.65%	1.31%	0.89%	1.59%	1.28%
Staff cost to net operating income ratio	23.99%	25.95%	29.20%	27.12%	33.20%

Formula is as follows:
ROAE = Net Income/average equity
ROAA= Net profit/ average Assets

3.10 Related Party Balances and Transactions

Related parties represent associated companies, the Parent and its major shareholders, Board of Directors and key management personnel of the Bank, the Bank's Shari'a Supervisory Board and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties arise from the ordinary course of business. Pricing policies and terms of these transactions are approved by the Group's management. Outstanding balances at the period end, excluding financing contracts, are unsecured.

Table – 48. Related Party Transactions (PD-1.3.23(d)) Amount in BD '000

The balances with related parties included in the interim condensed consolidated financial statements are as follows:

	Parent	Directors & key management personnel	Other related parties	As at 30 June 2022
Balances with banks	1,435	-	49	**1,484**
Due from banks	55,448	-	-	**55,448**
Financing contracts *	-	838	-	**838**
Investment in sukuk	-	-	3,798	**3,798**
Fees receivable	-	-	807	**807**
Receivables and other assets	-	-	86,613	**86,613**
Due to banks	564	-	85	**649**
Customers' current accounts	-	511	3,976	**4,487**
Equity of investment account holders	217,979	2,773	15,259	**236,011**
Off-balance sheet equity of investment account holders				
- Funds extended to related parties	-	-	124,650	**124,650**
- Funds received from related parties	-	100	-	**100**
Assets under management	-	-	455,937	**455,937**

Amount in BD '000

The income and expenses in respect of related parties are as follows:

	Parent	Directors & key management personnel	Other related parties	Six months ended 30 June 2022
Income from due from banks	219	-	-	**219**
Income from financing contracts	-	11	75	**86**
Income from investment in sukuk	-	-	114	**114**
Fee income	-	-	334	**334**
Profit on equity investment account holders	1,697	21	84	**1,802**
Operating expenses	-	-	826	**826**
Mudarib share of off-balance sheet equity				
of investment account holders	-	-	789	**789**