

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

## **Public Disclosure**

30 June 2021



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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 2021 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
<b>Total</b>	<b>1,325,186,990</b>	<b>132,518,699</b>	<b>100.00%</b>	

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 instruments issued by the parent company, 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 legal entities 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	Al-Enma House for Real Estate B.S.C. (c)	10,738	9,277	The company is engaged in property management of commercial, industrial and residential buildings and the provision of security services to buildings and facilities.
2	Kuwait Finance House - Jordan	26,526	26,499	The company and its subsidiaries are engaged in investment advisory and investments in private equities and real estate development.
3	Ishbiliya Village W.L.L.	20,858	20,835	The principal activity of the company is to invest in and develop real estate projects and consequently buying, selling and marketing of such properties.
4	Baytik Investments One S.P.C.	251	243	The company has been established as a special purpose vehicle to hold investments in various entities.
5	Baytik Investments Two S.P.C.	262	262	The company has been established as a special purpose vehicle to hold investments in various entities.
6	Delmon 1 Co. W.L.L.	20	20	The Company was established for the purpose of providing financing. The principal activity of the Company is management of commercial and industrial centers and residential buildings.



## 2.1 Quantitative Disclosures

Table – 1. Capital Structure

Amount in BD '000

<b>CAPITAL STRUCTURE</b>	
<b>Capital Structure (PD-1.3.11,1.3.12, 1.3.13,1.3.14, 1.3.15) *</b>	
<b>Components of Capital</b>	
<b>Common Equity Tier 1 (CET1)</b>	
Issued and fully paid ordinary shares	132,519
Statutory reserve	25,639
Retained earnings	312
Accumulated other comprehensive income and losses (and other reserves)	29,674
Total CET1 capital prior to regulatory adjustments	188,144
<b>Regulatory adjustments from CET1:</b>	
Regulatory adjustments from CET1	- 761
<b>Total Common Equity Tier 1 capital after the regulatory adjustments above</b>	<b>187,383</b>
<b>Other Capital (AT1 &amp; T 2):</b>	
Instruments issued by parent company (Note 1)	18,850
General financing loss provisions	8,996
<b>Total Available AT1 &amp; T2 Capital</b>	<b>27,846</b>
<b>Total Capital</b>	<b>215,229</b>

Note 1: The instrument issued by the Parent is in the form of subordinated Wakala with a maturity of below five years as of 30 June 2021. The repayments of this Wakala is subject to the prior approval of the CBB.

Note 2: investment in unconsolidated subsidiaries has not lead to any significant threshold breaches.

\* 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

<b>CAPITAL ADEQUACY</b>	
<b>Regulatory Capital Requirements (PD-1.3.17) by Each Type of Islamic Financing Contracts</b>	
<b>Type of Islamic Financing Contracts</b>	<b>Capital Requirement</b>
Murabaha and Wakala contracts with Banks	1,270
<b>Financing contracts with customers</b>	
-Murabaha	60,440
-Ijarah	9,550
<b>Total</b>	<b>71,259</b>

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

<b>CAPITAL ADEQUACY</b>		
<b>Capital Requirements for Market Risk (PD-1.3.18) &amp; Operational Risk (PD-1.3.19) &amp; 1.3.30(a)</b>		
<b>Particulars</b>	<b>Risk Weighted Assets</b>	<b>Capital Requirement</b>
Market Risk - Standardised Approach	23,576	2,947
Operational Risk - Basic indicator approach	136,539	17,067

Table – 4. Capital Ratios Amount in BD '000

<b>CAPITAL ADEQUACY</b>		
<b>Capital Adequacy Ratios (PD-1.3.20)</b>		
<b>Particulars</b>	<b>Total Capital Ratio</b>	<b>Tier 1 Capital Ratio</b>
	<b>%</b>	<b>%</b>
Consolidated Ratios	24.5%	21.3%



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)	
<b>Assets</b>			
Cash and balances with banks and Central Bank of Bahrain	61,214	61,216	
Due from banks	89,105	89,813	
Financing contracts	1,067,424	1,085,142	
Investments	7,446	7,446	
Investment Properties	-	26,399	
Investment in sukuk	309,265	309,263	
Investment in associates	6,653	6,653	
Receivables and other assets	219,726	193,359	
Premises and equipments	3,120	3,120	
- of which other intangibles		761	9
<b>Total assets</b>	<b>1,763,953</b>	<b>1,782,411</b>	
<b>Liabilities</b>			
Customers' current accounts	139,179	139,179	
Due to banks	11,027	11,027	
Due to non-banks	401,782	401,782	
Other liabilities	20,610	20,505	
Equity of Investment Account Holders	1,011,774	1,011,774	
<b>Total liabilities</b>	<b>1,584,372</b>	<b>1,584,267</b>	
<b>Shareholders' Equity</b>			
Share capital *	132,519	132,519	1
Retained earnings and unrealized gains *	12,988	2,464	2, 3
Other reserves *	25,640	36,162	2, 3
Non-controlling shareholders	8,434	8,434	
Expected Credit Losses (ECL) Stages 1 & 2	-	18,564	
- of which cap on inclusion of provision in Tier 2		8,996	50, 77
<b>Total Shareholders' Equity</b>	<b>179,581</b>	<b>198,144</b>	

\* These amounts are eligible for CET1





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

S.No.	Description	Tier 1	Tier 2
1	Issuer	Kuwait Finance House (Bahrain) B.S.C. (c)	Kuwait Finance House (Bahrain) B.S.C. (c)
2	Unique identifier (e.g. CUSP, ISIN or Bloomberg identifier for private placement)	N/A	N/A
3	Governing law(s) of the instrument	1. Central Bank of Bahrain; and 2. Ministry of Industry, Commerce and Tourism	1. Central Bank of Bahrain.
	<i>Regulatory treatment</i>		
4	Transitional CBB rules	Common Equity Tier 1	Tier 2
5	Post-transitional CBB rules	Common Equity Tier 1	Tier 2
6	Eligible at solo/group/group & solo	Solo and Group	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Paid Up Capital, Reserves and Retained Earning	Subordinated Wakala
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BD 187,383 (thousands)	BD 18,850 (thousands)
9	Par value of instrument	BD 0.100	N/A
10	Accounting classification	Shareholders' Equity	Liability - Amortised
11	Original date of issuance	January-02	July-17
12	Perpetual or date	Perpetual	Dated
13	Original maturity date	No Maturity	June-22
14	Issuer call subject to prior supervisory approval	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	<i>Coupons / dividends</i>		
17	Fixed or floating dividend/coupon	Based on the performance of the Bank and approval of the AGM.	Floating
18	Coupon rate and any related index	N/A	6 Month LIBOR + 1.125% per annum (Paid wakala rate for previous period)
19	Existence of a dividend stopper	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully Discretionary	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Non - Cumulative	Non - Cumulative



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

S.No.	Description	Tier 1	Tier 2
23	Convertible or non-convertible	N/A	Convertible
24	If convertible, conversion trigger (s)	N/A	Common Equity Tier 1 Ratio falls below 7% or as specified by the CBB from time to time
25	If convertible, fully or partially	N/A	Partially, to restore the Common Equity Tier 1 ratio to 7%.
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	Mandatory
28	If convertible, specify instrument type convertible into	N/A	Share Premium Account
29	If convertible, specify issuer of instrument it converts into	N/A	KFH Kuwait
30	Write-down feature	No	No
31	If write-down, write-down trigger(s)	No	No
32	If write-down, full or partial	No	No
33	If write-down, permanent or temporary	No	No
34	If temporary write-down, description of write-up	No	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.	Subordinated. All other Liabilities are senior to this instrument.
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	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	27,833
3	Accumulated other comprehensive income (and other reserves)	27,792
4	<i>Not applicable</i>	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-
6	<b>Common Equity Tier 1 Capital Before Regulatory Adjustments</b>	<b>188,144</b>
Common Equity Tier 1 Capital: Regulatory Adjustments		
7	Prudential valuation adjustments	-
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	761
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-
14	<i>Not applicable</i>	
15	Defined-benefit pension fund net assets	-
16	Investments in own shares	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	CBB specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	<b>Total Regulatory Adjustments to Common Equity Tier 1</b>	<b>761</b>
29	<b>Common Equity Tier 1 Capital (CET1)</b>	<b>187,383</b>
Additional Tier 1 Capital: Instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-
36	<b>Additional Tier 1 Capital Before Regulatory Adjustments</b>	<b>-</b>



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

Common Equity Tier 1 Capital: Instruments and Reserves		
S.No.	Description	(BD '000)
<b>Additional Tier 1 Capital: Regulatory Adjustments</b>		
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	CBB specific regulatory adjustments	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	<b>Total Regulatory Adjustments to Additional Tier 1 Capital</b>	-
44	<b>Additional Tier 1 Capital (AT1)</b>	-
45	<b>Tier 1 Capital (T1 = CET1 + AT1)</b>	<b>187,383</b>
<b>Tier 2 Capital: Instruments and Provisions</b>		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47	<i>Directly issued capital instruments subject to phase out from Tier 2</i>	18,850
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-
50	Provisions	8,996
51	<b>Tier 2 Capital Before Regulatory Adjustments</b>	<b>27,846</b>
<b>Tier 2 Capital: Regulatory Adjustments</b>		
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	CBB specific regulatory adjustments	-
57	<b>Total Regulatory Adjustments to Tier 2 Capital</b>	-
58	<b>Tier 2 Capital (T2)</b>	<b>27,846</b>
59	<b>Total Capital (TC = T1 + T2)</b>	<b>215,229</b>
60	<b>Total Risk Weighted Assets</b>	<b>879,769</b>
<b>Capital Ratios and Buffers</b>		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	21.30%
62	Tier 1 (as a percentage of risk weighted assets)	21.30%
63	Total capital (as a percentage of risk weighted assets)	24.46%
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))	12.30%



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

Common Equity Tier 1 Capital: Instruments and Reserves		
S.No.	Description	(BD '000)
<b>National Minima Including CCB (Where Different from Basel III)</b>		
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%
<b>Amounts Below the Thresholds for Deduction (Before Risk Weighting)</b>		
72	Non-significant investments in the capital of other financials	4,301
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
<b>Applicable Caps on the Inclusion of Provisions in Tier 2</b>		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	18,564
77	Cap on inclusion of provisions in Tier 2 under standardised approach	8,996
78	N/A	
79	N/A	
<b>Capital Instruments Subject to Phase-Out Arrangements (Only applicable between 1 Jan 2019 and 1 Jan 2024)</b>		
80	<i>Current cap on CET1 instruments subject to phase out arrangements</i>	
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	
82	<i>Current cap on AT1 instruments subject to phase out arrangements</i>	
83	<i>Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)</i>	
84	<i>Current cap on T2 instruments subject to phase out arrangements</i>	
85	<i>Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)</i>	





## 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.

#### 3.2.1 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 Mudarabaha 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





## 3.1.2 Quantitative disclosures

Table – 8. Average and Gross Credit Risk Exposure

Amount in BD '000

<b>CREDIT RISK: QUANTITATIVE DISCLOSURES</b>				
<b>Credit Risk Exposure (PD-1.3.23(a))</b>				
<b>Portfolios</b>	<b>Self-Financed</b>		<b>Financed by Unrestricted Investment Accounts</b>	
	<b>* Total Gross Credit Exposure</b>	<b>** Average Gross Credit Exposure Over the Period</b>	<b>* Total Gross Credit Exposure</b>	<b>** Average Gross Credit Exposure Over the Period</b>
<b>Funded</b>				
Balances with central banks	2,841	5,102	40,978	43,233
Due from banks	17,669	24,009	78,469	88,614
Financing contracts***	449,461	423,921	635,681	635,746
Investment in sukuk	58,991	74,939	250,272	237,482
Receivables and other assets	159,645	160,041	-	-
<b>Total</b>	<b>688,607</b>	<b>688,012</b>	<b>1,005,400</b>	<b>1,005,075</b>
<b>Un-funded</b>				
Contingent liabilities and commitments	76,520	76,491	-	-
<b>Grand Total</b>	<b>765,127</b>	<b>764,503</b>	<b>1,005,400</b>	<b>1,005,075</b>

\* 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))										
Portfolios	Self-Financed Geographic Area					Financed by Unrestricted Investment Accounts Geographic Area				
	Bahrain	Other GCC	North America	Other countries	Total	Bahrain	Other GCC	North America	Other countries	Total
<b>Funded</b>										
Balances with central banks	2,841	-	-	-	2,841	40,978	-	-	-	40,978
Due from banks	9,079	7,773	528	289	17,669	40,320	34,520	2,344	1,285	78,469
Financing contracts	439,641	9,820	-	-	449,461	621,793	13,888	-	-	635,681
Investment in sukuk	58,991	-	-	-	58,991	250,272	-	-	-	250,272
Receivables and other assets	5,188	154,457	-	-	159,645	-	-	-	-	-
<b>Total</b>	<b>515,740</b>	<b>172,050</b>	<b>528</b>	<b>289</b>	<b>688,607</b>	<b>953,363</b>	<b>48,408</b>	<b>2,344</b>	<b>1,285</b>	<b>1,005,400</b>
<b>Un-funded</b>										
Contingent liabilities and commitments	76,520	-	-	-	76,520	-	-	-	-	-
<b>Grand Total</b>	<b>592,260</b>	<b>172,050</b>	<b>528</b>	<b>289</b>	<b>765,127</b>	<b>953,363</b>	<b>48,408</b>	<b>2,344</b>	<b>1,285</b>	<b>1,005,400</b>

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))										
Portfolios	Self-Financed Industry Sector					Financed by Unrestricted Investment Accounts 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
<b>Funded</b>										
Balances with central banks	-	2,841	-	-	2,841	-	40,978	-	-	40,978
Due from banks	-	17,669	-	-	17,669	-	78,469	-	-	78,469
Financing contracts	21,360	1,818	224,020	202,263	449,461	30,210	2,570	316,836	286,065	635,681
Investment in sukuk	-	55,196	3,795	-	58,991	-	250,271	-	-	250,271
Receivables and other assets	-	152,854	5,333	1,458	159,645	-	-	-	-	-
<b>Total</b>	<b>21,360</b>	<b>230,378</b>	<b>233,148</b>	<b>203,721</b>	<b>688,607</b>	<b>30,210</b>	<b>372,289</b>	<b>316,836</b>	<b>286,065</b>	<b>1,005,400</b>
<b>Un-funded</b>										
Contingent liabilities and commitments	3,296	26,862	1,441	44,920	76,519	-	-	-	-	-
<b>Grand Total</b>	<b>24,656</b>	<b>257,240</b>	<b>234,589</b>	<b>248,641</b>	<b>765,126</b>	<b>30,210</b>	<b>372,289</b>	<b>316,836</b>	<b>286,065</b>	<b>1,005,400</b>



Table – 11. Exposures in Excess of 15% Limit

<b>CREDIT RISK: QUANTITATIVE DISCLOSURES</b>		
<b>Concentration of risk (PD-1.3.23(f)) Exposure as a Percentage of Capital Base</b>		
<b>Counterparties</b>	<b>Self-Financed</b>	<b>Financed by Unrestricted Investment Accounts</b>
	<b>Concentration of Risk</b>	<b>Concentration of Risk</b>
Counterparty # 1	8.66%	8.23%

**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 year and one year has not elapsed amounted to BD 32,409 thousand (2020: BD 32,351 thousand) and these are secured with collateral amounting to BD 71,032 thousand (2020: BD 79,597 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))							
Portfolios	Self Financed						Total
	Maturity Breakdown						
	Up to 3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	
Balances with central banks	2,841	-	-	-	-	-	2,841
Due from banks	17,668	-	-	-	-	-	17,668
Financing contracts	80,278	54,665	133,148	106,643	61,200	13,526	449,461
Investment in sukuk	21,468	7,835	18,442	11,246	-	-	58,991
Receivables and other assets	34,030	495	125,078	42	-	-	159,645
<b>Total</b>	<b>156,285</b>	<b>62,995</b>	<b>276,668</b>	<b>117,931</b>	<b>61,200</b>	<b>13,526</b>	<b>688,606</b>
Contingent liabilities and commitments	-	75,079	1,441	-	-	-	76,520
<b>Grand Total</b>	<b>156,285</b>	<b>138,074</b>	<b>278,109</b>	<b>117,931</b>	<b>61,200</b>	<b>13,526</b>	<b>765,126</b>

Amount in BD '000

CREDIT RISK: QUANTITATIVE DISCLOSURES							
Residual Contractual Maturity Breakdown (PD-1.3.23(g))							
Portfolios	Financed by Unrestricted Investment Accounts						Total
	Maturity breakdown						
	Up to 3 Months	3-12 Month	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	
Balances with central banks	40,978	-	-	-	-	-	40,978
Due from banks	78,469	-	-	-	-	-	78,469
Financing contracts	113,541	77,315	188,319	150,830	86,558	19,118	635,681
Investment in sukuk	35,134	6,613	190,119	18,406	-	-	250,272
Receivables and other assets	-	-	-	-	-	-	-
<b>Total</b>	<b>268,122</b>	<b>83,928</b>	<b>378,438</b>	<b>169,236</b>	<b>86,558</b>	<b>19,118</b>	<b>1,005,400</b>
Contingent liabilities and commitments	-	-	-	-	-	-	-
<b>Grand Total</b>	<b>268,122</b>	<b>83,928</b>	<b>378,438</b>	<b>169,236</b>	<b>86,558</b>	<b>19,118</b>	<b>1,005,400</b>



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))														
Industry Sector	Total Portfolio	Stage 1	Stage 2	Self-Financed				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	21,360	21,360	-	-	-	-	-	(0)	-	-	-	-	(0)	-
Banking and financial institutions	1,818	1,818	-	-	-	-	-	(0)	-	-	-	-	(0)	1
Construction & real estate	224,020	188,589	30,358	5,073	253	151	4,669	1,036	(109)	1	(13)	(42)	872	3,932
Others	202,263	184,014	18,215	34	2	1	31	122	(5)	1	(75)	(2)	41	3,406
<b>Total</b>	<b>449,461</b>	<b>395,781</b>	<b>48,573</b>	<b>5,107</b>	<b>255</b>	<b>152</b>	<b>4,700</b>	<b>1,158</b>	<b>(114)</b>	<b>2</b>	<b>(89)</b>	<b>(44)</b>	<b>913</b>	<b>7,339</b>

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	30,212	30,212	-	-	-	-	-	0	-	-	-	-	0	-
Banking and financial institutions	2,571	2,571	-	-	-	-	-	0	-	-	-	-	0	2
Construction & real estate	316,835	266,725	42,935	7,175	359	214	6,602	882	(154)	2	563	(60)	1,233	5,562
Others	286,063	260,255	25,760	48	2	1	45	103	(7)	(1)	(34)	(4)	58	4,816
<b>Total</b>	<b>635,681</b>	<b>559,763</b>	<b>68,695</b>	<b>7,223</b>	<b>361</b>	<b>215</b>	<b>6,647</b>	<b>986</b>	<b>(162)</b>	<b>1</b>	<b>529</b>	<b>(63)</b>	<b>1,291</b>	<b>10,380</b>

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

<b>CREDIT RISK: QUANTITATIVE DISCLOSURES</b>				
<b>Impaired Finances, Past Due Finances And Allowances (PD-1.3.23(i))</b>				
Geographic Area	Own Capital and Current Account		Unrestricted Investment Account	
	Stage 3 financing contracts*	Stage 3 expected credit losses	Stage 3 financing contracts*	Stage 3 expected credit losses
Bahrain	5,108	913	7,225	1,291
<b>Total</b>	<b>5,108</b>	<b>913</b>	<b>7,225</b>	<b>1,291</b>

\* These amount are net of Stage 3 ECL

Table – 15. Break-up of Eligible Collateral by Portfolio

Amount in BD '000

<b>CREDIT RISK MITIGATION (CRM): DISCLOSURES FOR STANDARDISED APPROACH</b>			
<b>Credit Risk Exposure Covered By CRM (PD-1.3.25 (b) and (c))</b>			
Portfolios	Total Exposure Covered by		
	Eligible Collateral(after appropriate haircuts)*		Guarantees
Ijarah		350,847	1
<b>Total</b>		<b>350,847</b>	<b>1</b>

\* 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	490,348	-	490,348	-	54,825	-	-	54,825
Ijarah	594,772	-	594,772	4,219	-	1	346,628	350,848
Musharakah	22	-	22	-	-	-	-	-
<b>Total</b>	<b>1,085,142</b>	<b>-</b>	<b>1,085,142</b>	<b>4,219</b>	<b>54,825</b>	<b>1</b>	<b>346,628</b>	<b>405,673</b>

\* 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.

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

**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

<b>MARKET RISK: DISCLOSURES FOR BANK'S USAGE OF THE STANDARDISED APPROACH</b>					
<b>Level Of Market Risks In Terms Of Capital Requirements (PD-1.3.27 (b))</b>					
<b>Particulars</b>	<b>Price Risk</b>	<b>Foreign Exchange Risk (net open position)</b>	<b>Equity Position Risk</b>	<b>Market Risk on Trading Positions in Sukuks</b>	<b>Commodity Risk</b>
Capital requirements	-	2,947	-	-	-
Maximum value	-	2,947	-	-	-
Minimum value	-	2,938	-	-	-

This disclosure is based on the figures from the PIRI for the period ended 30 June 2021.



## 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)	72,821
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	46,597	47,544	2,495	44,102
Musharaka	22	22	-	22
<b>Total</b>	<b>46,619</b>	<b>47,566</b>	<b>2,495</b>	<b>44,124</b>

\* 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	312
Unlisted	10,880
<b>Total</b>	<b>11,192</b>

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	1,135
Unrealised gains and losses included in Tier 1 Capital	2,153



### 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 are also

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 2021 and 31 December 2020 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

<b>UNRESTRICTED INVESTMENT ACCOUNTS:</b>			
<b>Unrestricted Investment Account (PD-1.3.33 (a),(e) &amp;(g))</b>			
	<b>Amount</b>	<b>Financing to Total URIA %</b>	<b>Ratio of Profit Distributed</b>
Savings URIA	439,347	43%	24%
Term URIA	572,428	57%	76%
<b>Total</b>	<b>1,011,774</b>	<b>100%</b>	<b>100%</b>

Table – 23. Percentage of Return on Average URIA Assets

<b>UNRESTRICTED INVESTMENT ACCOUNTS:</b>	
<b>Unrestricted Investment Account (PD-1.3.33 (d))</b>	
	<b>Percentage</b>
Average profit paid on average URIA assets	1.69%
Average profit earned on average URIA assets	4.93%

Table – 24. Percentage of Mudarib share to Total URIA Profits

Amount in BD '000

<b>UNRESTRICTED INVESTMENT ACCOUNTS:</b>			
<b>Unrestricted Investment Account (PD-1.3.33 (f))</b>			
	<b>URIA Return Before Mudarib share</b>	<b>Share of Profit Paid to Bank as Mudarib</b>	<b>Percentage</b>
Mudarib share to total URIA profits	17,100	8,671	50.71%

Table – 25. Percentage of Islamic Financing Contracts Financed by URIA to Total URIA

Amount in BD '000

<b>UNRESTRICTED INVESTMENT ACCOUNTS:</b>		
<b>Unrestricted Investment Account (PD-1.3.33 (h))</b>		
<b>Shari'a-Compliant Contract</b>	<b>Financing</b>	<b>Financing to Total URIA %</b>
Cash and balances with banks	47,353	4.68%
Murabaha and due from banks	78,469	7.76%
Investments at amortised cost – Sukuk	250,272	24.74%
Customer Murabaha	287,248	28.39%
Customer Ijarah Muntahia Bittamleek	348,433	34.44%
<b>Total</b>	<b>1,011,774</b>	<b>100.00%</b>





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

Amount in BD '000

<b>UNRESTRICTED INVESTMENT ACCOUNTS:</b>		
<b>Unrestricted Investment Account (PD-1.3.33 (i))</b>		
<b>Counterparty Type</b>	<b>Financing</b>	<b>Financing to Total URIA %</b>
Cash items	6,375	0.63%
Claims on sovereigns & MDBs	250,272	24.74%
Claims on banks	119,447	11.81%
Claims on corporate	229,079	22.64%
Regulatory retail portfolio	52,559	5.19%
Real Estate financing	347,648	34.36%
Past due facilities	6,395	0.63%
<b>Total</b>	<b>1,011,773</b>	<b>100.00%</b>

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

<b>UNRESTRICTED INVESTMENT ACCOUNTS:</b>								
<b>Unrestricted Investment Account (PD-1.3.33 (l) (m) &amp; (n))</b>								
						<b>Share of Profit Paid to IAH Before Transfer To/From Reserves %</b>	<b>Share of Profit Paid to IAH After Transfer To/From Reserves %</b>	<b>Share of Profit Paid, as a % of Funds Invested, to Bank as Mudarib %</b>
<b>URIA</b>						49.29%	49.29%	50.71%

Table – 28. Range of Declared Rate of Return

<b>UNRESTRICTED INVESTMENT ACCOUNTS:</b>								
<b>Unrestricted Investment Account (PD-1.3.33 (q))</b>								
<b>Declared rate of return for Investments accounts</b>	<b>1-Month</b>	<b>3-Month</b>	<b>6-Month</b>	<b>9 - Months</b>	<b>12-Month</b>	<b>2-Years</b>	<b>3-Years</b>	<b>5-Years</b>
BHD denominated	1.2% - 1.66%	1.6% - 2.07%	1.92% - 2.49%	2.2% - 2.2%	2.24% - 2.9%	2.9% - 2.9%	3.1% - 3.1%	3.2% - 3.2%
USD denominated	0.7% - 1.24%	1% - 1.66%	1.2% - 2.07%	1.3% - 1.3%	1.5% - 2.49%	NA	NA	NA
GBP denominated	0.48% - 0.62%	0.96% - 1.24%	1.28% - 1.66%	NA	1.6% - 2.07%	NA	NA	NA
EUR denominated	0.48% - 0.62%	0.96% - 1.24%	1.28% - 1.66%	NA	1.6% - 2.07%	NA	NA	NA



Table – 29. Movement of URIA by Type of Assets

Amount in BD '000

<b>UNRESTRICTED INVESTMENT ACCOUNTS:</b>			
<b>Unrestricted Investment Account (PD-1.3.33 (r ) &amp; (s))</b>			
<b>Type of Assets</b>	<b>Opening Actual Allocation as at 01 Jan 2021</b>	<b>Net Movement During the Period</b>	<b>Closing Actual Allocation as at 30 Jun 2021</b>
Cash and Balance with banks and CBB	43,599	3,754	47,353
Due from banks	100,801	(22,333)	78,469
Investment in sukuk	231,447	18,825	250,272
Murabaha due from customers	258,453	28,795	287,248
Ijarah Muntahia Bittamleek due from customers	341,992	6,441	348,433
<b>Total</b>	<b>976,292</b>	<b>35,482</b>	<b>1,011,775</b>

**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

<b>UNRESTRICTED INVESTMENT ACCOUNTS:</b>			
<b>Unrestricted Investment Account (PD-1.3.33 (v))</b>			
<b>Type of Claims</b>	<b>Exposures</b>	<b>* Risk Weighted Assets</b>	<b>Capital Charge</b>
Cash items	6,375	-	-
Claims on sovereign	250,272	-	-
Claims on banks	119,447	10,499	394
Claims on corporate	229,079	98,675	3,700
Regulatory retail portfolio	52,559	39,419	1,478
Mortgages	347,648	123,846	4,644
Past due facilities	6,395	7,307	274
Other assets	-	-	-
<b>Total</b>	<b>1,011,773</b>	<b>279,747</b>	<b>10,490</b>

\* 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

<b>DISPLACED COMMERCIAL RISK - URIA: Mudaraba only</b>			
<b>Displaced Commercial Risk Unrestricted Investment Account (PD-1.3.41 (b))</b>			
	<b>Total Mudaraba profits available for sharing between URIA and shareholders as Mudarib</b>	<b>Contractual Range of Mudharib Share</b>	<b>Mudharib Share % of URIA Mudaraba Profit Earned</b>
June 2021	3.37%	30%-95%	53.17%
2020	1.89%	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%
2016	2.33%	30%-85%	19.54%

Table –32. Percentage rate of return to URIA and shareholders from Mudaraba Profit

Amount in BD '000

<b>DISPLACED COMMERCIAL RISK - URIA: Mudaraba only</b>			
<b>Displaced Commercial Risk Unrestricted Investment Account (PD-1.3.41 (d))</b>			
<b>Type of Claims</b>			<b>Mudaraba Profit Earned as % of mudaraba funds (before admin charge)</b>
June 2021			3.56%
2020			3.67%
2019			4.94%
2018			2.36%
2017			0.73%
2016			2.58%



Table – 33. Percentage of Profit Earned and Profit Paid to Total URIA Funds

Amount in BD '000

<b>UNRESTRICTED INVESTMENT ACCOUNTS:</b>					
<b>Unrestricted Investment Account (PD-1.3.33 (w))</b>					
	* 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 2021	1,000,924	17,100	3.42%	8,439	1.69%
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%
2016	452,621	5,144	1.14%	4,139	0.91%

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

Table – 34. Operating Expenses Allocated to URIA

Amount in BD '000

<b>UNRESTRICTED INVESTMENT ACCOUNTS:</b>	
<b>Unrestricted Investment Account (PD-1.3.33 (x))</b>	
<b>Unrestricted IAH</b>	<b>Amount</b>
Amount of administrative expenses charged to URIA	7,584



### 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

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

<b>RESTRICTED INVESTMENT ACCOUNTS:</b>						
<b>Restricted Investment Account (PD-1.3.35 (a) &amp; (b))</b>						
	2021	2020	2019	2018	2017	2016
Return to RIA holders	3,770	8,076	7,619	6,850	5,567	6,423

Table – 36. RIA Exposure Amount in BD '000

<b>RESTRICTED INVESTMENT ACCOUNTS:</b>	
<b>Restricted Investment Account (PD-1.3.33 (a))</b>	
	Amount
Average RIA funds during the year	136,708

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

<b>RESTRICTED INVESTMENT ACCOUNTS:</b>	
<b>Restricted Investment Account (PD-1.3.33 (d))</b>	
	Percentage
Return on average* RIA assets	5.52%

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

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

<b>RESTRICTED INVESTMENT ACCOUNTS:</b>	
<b>Restricted Investment Account (PD-1.3.33 (f))</b>	
	Percentage
Mudarib share to total (gross) RIA profits	20.38%

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

<b>RESTRICTED INVESTMENT ACCOUNTS:</b>			
<b>Restricted Investment Account (PD-1.3.33 (h))</b>			
Shari'a-Compliant Contract	Financing	Financing to Total Financing %	
Murabaha	136,710	100.00%	
<b>Total</b>	<b>136,710</b>	<b>100.00%</b>	

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

<b>RESTRICTED INVESTMENT ACCOUNTS:</b>			
<b>Restricted Investment Account (PD-1.3.33 (i))</b>			
Counterparty Type	Financing	Financing to Total Financing %	
Claims on corporate	136,710	100.00%	





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

<b>RESTRICTED INVESTMENT ACCOUNTS:</b>				
<b>Restricted Investment Account (PD-1.3.33 (l) (m) (n) &amp; (o))</b>				
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	136,710	4,735	3,770	965
<b>Total</b>	<b>136,710</b>	<b>4,735</b>	<b>3,770</b>	<b>965</b>

Table – 42. Declared Rate of Return of RIA

<b>RESTRICTED INVESTMENT ACCOUNTS:</b>		
<b>Restricted Investment Account (PD-1.3.33 (q))</b>		
	12-Month	24-Month
Declared rate of return	5.0% - 5.5%	5.5% - 6.0%

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

<b>RESTRICTED INVESTMENT ACCOUNTS:</b>		
<b>Restricted Investment Account (PD-1.3.33 (v))</b>		
Type of RIA	Exposure	Risk Weighted
Murabaha	136,710	-

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

<b>RESTRICTED INVESTMENT ACCOUNTS:</b>				
<b>Restricted Investment Account (PD-1.3.33 (w),1.3.35(a),(b))</b>				
	Profit Earned	*Profit Earned as a Percentage of RIA Funds	Profit Paid	*Profit Paid as a Percentage of RIA Funds
June 2021	4,735	6.93%	3,770	5.52%
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%
2016	9,183	6.77%	6,423	4.74%

\* 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

<b>LIQUIDITY RISK: QUANTITATIVE DISCLOSURE</b>	
<b>Liquid assets to customer deposits (PD-1.3.37)</b>	
As at 30 June 2021	27.36%
During the period:	
Average	28.97%
Highest	29.79%
Lowest	27.36%

<b>Liquidity Coverage Ratio</b>	
LCR (Liquidity Coverage Ratio) *	365.97%
Minimum LCR as required by CBB	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	89,105		200		1,782
Financing contracts	1,067,424		200		21,348
Investment in sukuk	309,265		200		6,185
<b>Liabilities</b>					
Due to banks	11,027		200		(221)
Due to non-banks	401,782		200		(8,036)
Equity of investment account holders	1,011,774		200		(20,235)

### 3.9 Financial Performance and Position

Table – 47. Ratios

Financial Performance and Position					
(PD-1.3.39(b))					
Quantitative Indicator	June 2021	2020	2019	2018	2017
Return on average equity	12.14%	8.85%	13.82%	10.42%	7.53%
Return on average assets	1.21%	0.89%	1.59%	1.28%	1.39%
Staff cost to net operating income ratio	26.28%	29.20%	27.12%	33.20%	32.76%

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 2021
Balances with banks	700	-	19	719
Due from banks	9,425	-	-	9,425
Financing contracts *	-	4,013	25,035	29,048
Investment in sukuk	-	-	21,032	21,032
Fees receivable	-	-	1,872	1,872
Receivables and other assets	-	-	164,779	164,779
Due to non-banks	-	-	2,268	2,268
Customers' current accounts	210	510	2,750	3,470
Equity of investment account holders	138,153	3,009	86,238	227,400
Letters of credit	-	-	-	-
Commitments to extend credit	-	-	442	442
<b>Off-balance sheet equity of investment account holders</b>				
- Funds extended to related parties	-	-	136,710	136,710
- Funds received from related parties	-	675	2,900	3,575
Assets under management	-	-	597,399	597,399

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 2021
Income from due from banks	25	-	-	25
Income from financing contracts	-	80	856	936
Income from investment in sukuk	-	-	359	359
Fee income	-	-	630	630
Profit on due to banks	-	-	21	21
Profit on equity investment account holders	2,290	66	2,285	4,641
Operating expenses	-	-	721	721
Mudarib share of off-balance sheet equity	-	-	-	-
of investment account holders	-	-	923	923

