BANK ALKHAIR

Bank Alkhair B.S.C. (c)

Disclosures under PD Module

30 June 2021

CONSOLIDATED FINANCIAL PERFORMANCE SUMMARY

Bank Al-Khair B.S.C (c)
5-Year Consolidated Performance Summary

(Amounts in US $ thousands)	**H1-2021**	2020	2019	2018	2017	2016
(Loss) / profit for the year before Zakah and impairment	**-8,707**	(10,488)	(12,411)	(2,145)	(10,205)	(26,605)
(Loss) / profit for the year	**-8,707**	(8,916)	(19,707)	(8,380)	(9,839)	(33,034)
Total assets	**381,950**	391,969	390,012	470,872	482,242	489,693
Placements with financial institutions	**-**	-	-	5,056	6,588	8,402
Financing receivables	**-**	782	-	1,911	8,956	16,075
Investment securities	**63,596**	63,596	70,778	73,342	70,644	61,603
Total liabilities	**274,645**	276,293	265,648	287,181	292,284	291,617
Due to financial institutions	**263,825**	264,596	32,982	47,866	71,342	87,566
Due to customers	**10,820**	-	213,909	212,944	167,372	151,034
Equity attributable to the shareholders of the Bank	**31,435**	41,424	52,572	75,703	88,247	103,830
Total equity	**107,305**	115,676	124,364	183,691	189,958	198,076
Return on average assets *(percent)*	**-2.25%**	-2.3 %	-4.6 %	-1.8%	-2.0%	-6.2%
Return on average shareholders' equity *(percent)*	**-7.81%**	-7.4 %	-12.8 %	-4.5%	-5.1%	-15.7%
Cost to income ratio *(percent)**	**302.96%**	143.5 %	150.7 %	120.3%	122.3%	182.6%
Financial leverage *(percent)*	**839.27%**	638.7%	469.6 %	344.5%	270.5%	229.8%
Capital adequacy ratio *(percent)*	**-7.5%**	-6.9%	-6.1 %	-0.4%	1.9%	2.6%

Note:
Figures of previous years have been reclassified for comparative purposes.
** Cost excludes impairment and provision for zakah*

CAPITAL MANAGEMENT AND ALLOCATION

Bank Alkhair B.S.C. (c) ("the Bank") is a closed, unlisted company incorporated in the Kingdom of Bahrain and licensed as a Wholesale Islamic Bank by the Central Bank of Bahrain (CBB). It has subsidiaries in Malaysia, Jordan, United Arab Emirates and Turkey and associated undertakings in the Kingdom of Saudi Arabia, United Arab Emirates and Bahrain. The Bank along with its subsidiaries are together referred to as ("the Group").

Bank Alkhair is required to comply with the regulatory capital adequacy guidelines promulgated by the CBB, based on the standards established by the Basel Committee on Banking Supervision (the Basel Committee) of the Bank for International Settlements (BIS). In accordance with CBB guidelines, Bank Alkhair must maintain a minimum target capital adequacy ratio of 12.5% on a consolidated basis.

Basis of Consolidation for Accounting and Regulatory Purposes

For the purpose of preparation of consolidated financial statements, the Bank consolidates all subsidiaries which are fully owned or exercises significant control over them. These subsidiaries are consolidated from date of acquisition being the date on which the group obtains control and continues until the control ceases. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. For regulatory purposes the Bank should consolidate all banking and other financial entities which are considered to be subsidiaries of the Bank.

The list of the legal entities that are included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation are as follows:

Entity Name	Total Assets US$ 000's	Total Liabilities US$ 000's	Entity principle activities
Al-Tajamouat for Touristic Projects Co Plc	187,814	40,486	The main activities are in real estate property investment & development and ownership and operation of a shopping mall in Amman.

Composition of capital disclosure

a. Statement of financial position under the regulatory scope of consolidation

The table below shows the reconciliation between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

	30 June 2021		
	Statement of Financial Position as in published Financial Statements	Statement of Financial Position as per regulatory reporting	Reference
	US$ 000's	US$ 000's	
ASSETS			
Cash and balances with banks	5,738	98	
Placements with financial institutions	-	-	
Financing receivables	-	-	
Investment securities	63,596	103,685	
Equity-accounted investees	123,499	123,499	
Of which related to significant investments in financial entities under CET1	-	123,499	G
Investment property	177,069	-	
Other assets	11,758	387	
Assets held-for-distribution	257	213	
Equipment	33	10	
TOTAL ASSETS	**381,950**	**227,892**	
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial institutions and customers	263,825	232,428	
Other liabilities	10,820	1,755	
Liabilities relating to assets held-for-distribution	-	-	
TOTAL LIABILITIES	**274,645**	**234,183**	
Owners' equity			
Share capital	207,962	207,962	A

Statutory reserve	664	664	D
Investments fair value reserve	140	140	E
Foreign currency translation reserve	(2,095)	23	F
Accumulated losses	(175,236)	(215,080)	
Retained earnings	-	(203,100)	B
Current interim cumulative net income / losses	-	(11,980)	C
Equity attributable to shareholders of the Bank	**31,435**	**(6,291)**	
Non-controlling interests	75,870	-	
TOTAL EQUITY	**107,305**	**(6,291)**	
TOTAL LIABILITIES AND EQUITY	**381,950**	**227,892**	

b. Composition of regulatory capital

The table below provides a detailed breakdown of the bank's regulatory capital components including all regulatory adjustments. The table also provides reference to the comparison displayed in section a between accounting and regulatory statement of financial positions.

	30 June 2021		
	Components of regulatory Capital	***Amount Subject to pre-2015 treatment***	***Reference***
	US$ 000's	***US$ 000's***	
Common Equity Tier 1 capital: instruments and reserves			
Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	207,962		A
Retained earnings	(203,100)		B
Current interim cumulative net income / losses	(11,980)		C
Accumulated other comprehensive income (and other reserves)	827		D+E+F
Common Equity Tier 1 capital before minority interest	**(6,291)**		
Total minority interest in banking subsidiaries given recognition in CET1 capital	-		
Common Equity Tier 1 capital before regulatory adjustments	**(6,291)**		
Common Equity Tier 1 capital: regulatory adjustments			
Goodwill (net of related tax liability)	-	-	
Intangibles other than mortgage servicing rights	-		
Non-common equity Invest. in financial entities where ownership is >10% of the issued common share capital	-		
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)	(139,583)	138,954	
Amount exceeding the 15% threshold	-		

Total regulatory adjustments to Common equity Tier 1	**(139,583)**	**138,954**	G
Common Equity Tier 1 capital (CET1)	**(145,874)**		
Additional Tier 1 capital (AT1)	**-**		
Tier 1 capital (T1 = CET1 + AT1)	**(145,874)**		
Tier 2 capital			
Provisions	-		
Instruments issued by banking subsidiaries to third parties	-		
Tier 2 capital (T2)	**-**		
Total capital (TC = T1 + T2)	**(145,874)**		
Total risk weighted assets	**1,936,074**		
Capital ratios and buffers			
Common Equity Tier 1 (as a percentage of risk weighted assets)	-7.53%		
Tier 1 (as a percentage of risk weighted assets)	-7.53%		
Total capital (as a percentage of risk weighted assets)	-7.53%		
National minima including CCB (if different from Basel 3)			
CBB Common Equity Tier 1 minimum ratio	6.50%		
CBB Tier 1 minimum ratio	8.00%		
CBB total capital minimum ratio	10.00%		

c. Statement of financial position under the regulatory scope of consolidation

Main features of regulatory capital instruments		
1	**Issuer**	Bank Alkhair B.S.C. (c)
2	**Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)**	NA
3	**Governing law(s) of the instrument**	Kingdom Of Bahrain
	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*	Group & solo
7	*Instrument type (types to be specified by each jurisdiction)*	Equity shares
8	**Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)**	USD 207 millions
9	**Par value of instrument**	USD 1.00
10	**Accounting classification**	Shareholder's equity
11	**Original date of issuance**	2004
12	**Perpetual or dated**	Perpetual
13	*Original maturity date*	No Maturity
14	**Issuer call subject to prior supervisory approval**	NA
15	*Optional call date, contingent call dates and redemption amount*	NA
16	*Subsequent call dates, if applicable*	NA
	Coupons / dividends	NA
17	*Fixed or floating dividend/coupon*	NA
18	*Coupon rate and any related index*	NA
19	*Existence of a dividend stopper*	NA
20	*Fully discretionary, partially discretionary or mandatory*	Partially discretionary
21	*Existence of step up or other incentive to redeem*	NA
22	*Noncumulative or cumulative*	NA
23	**Convertible or non-convertible**	NA
24	*If convertible, conversion trigger (s)*	NA
25	*If convertible, fully or partially*	NA
26	*If convertible, conversion rate*	NA
27	*If convertible, mandatory or optional conversion*	NA
28	*If convertible, specify instrument type convertible into*	NA
29	*If convertible, specify issuer of instrument it converts into*	NA
30	**Write-down feature**	NA
31	*If write-down, write-down trigger(s)*	NA
32	*If write-down, full or partial*	NA
33	*If write-down, permanent or temporary*	NA
34	*If temporary write-down, description of write-up mechanism*	NA
35	**Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)**	NA
36	**Non-compliant transitioned features**	NA
37	**If yes, specify non-compliant features**	NA

Capital Management

Bank Alkhair's capital adequacy policy is to maintain a strong capital base to support the Bank's financial position. Current and future capital requirements are determined on the basis of business growth expectations for each business line; future sources and uses of funds, including seed capital requirements; and expected sell-down and placement targets, and the Bank's future dividend policy.

The following tables detail the risk-weighted exposures, regulatory capital requirements and regulatory capital ratios for the Bank Alkhair B.S.C. (c) (Group). The figures for the period ending are based on the standardised approach for credit risk and market risk, and the basic indicator approach for operational risk. The Bank considers Standard & Poor's, Fitch and Moody's to be External Credit Assessment Institutions (ECAIs) for the risk weighting of balance with banks, placement with financial institutions, financing receivables and investment in Sukuk. If there are two assessments available by eligible ECAIs chosen by the Bank which map into different risk weights, the higher risk weight will be applied. If there are three assessments available by eligible ECAIs chosen by the Bank which map into different risk weights, the assessments corresponding to the two lowest risk weights will be referred to, and the higher of those two risk weights will be selected.

The Bank uses the Standardised Approach for allocating capital for credit risk and consequently uses the same approach for allocating capital for counterparty credit risk. The Bank does not deal with, finance or hold securities on behalf of Highly Leveraged Institutions (HLIs) as defined by the Basel Committee on Banking Supervision (BCBS). The Bank's methodology and approach for establishing and approving counterparty and credit limits is based on an extensive review and analysis of a counterparty's financial condition and performance, trading history, due diligence covering licensing, regulatory oversight and anti-money laundering compliance review tools which are all designed to exclude HLIs.

Bank Alkhair's treasury counterparts are fully licensed and regulated financial institutions. Before establishing limits, all counterparties undergo a thorough credit risk assessment and due diligence review before approval by the Risk Committee.

As part of its collateral management policy, the Bank only accepts collateral in line with Shari'ah requirements, and with a view to minimising risk exposure. The Bank also manages its collateral to minimise collateral concentration risk either by specific issuer, market or instrument.

The Bank's credit policy defines the approach to be used when determining provisions, depending on the number of days outstanding and the credit risk rating. Facilities where repayments of principal and/or profit charges have been outstanding for more than 90 days are classified as non-performing. All facilities graded as non-performing have been provided for. General provisions are assessed and calculated on a portfolio basis if it is determined that a portfolio of facilities is affected by common risk factors that are likely to increase the collective probability of default on those facilities. Specific provisions are calculated on a facility-by-facility basis after incorporating the value of realisable collateral net of any disposal costs.

The Group Risk Management policies and objectives disclosed in the notes to the Consolidated Financial Statements have been effective throughout the reporting period.

Credit Risk-Weighted Exposures

Under the CBB standardised approach, credit risk exposures are assigned to one of fourteen standard portfolios as shown below, risk weighted accordingly.

(US$ millions)	Risk-weighted equivalents			Risk-weightings for 2021
	30 June 2021	31 December 2020	31 December 2019	
Claims on Public sector entities	**-**	-	-	20%
Claims on banks	**0.0**	0.5	0.1	20%-100%
Claims on corporates including Takaful companies & category 3 investment firms	**0.8**	2.9	6.6	20%-800%
Past Due Facilities	**-**	-	-	100%-150%
Investments in securities, funds & sukuk:				
- Investments in listed equities	**-**	-	-	100%
- Investments in unlisted equities	**-**	-	-	150%
-Significant investment in the common shares of financial entities > 10%	**-**	-	-	250%
-Significant investment in the common shares of commercial entities	**-**	-	13.1	800%
- Other investment with excess amount over 15%	**1,844.5**	1,917.4	1,886.3	800%
- Investments in unrated funds	**-**	-	-	100%-150%
Real estate holdings	**-**	-	-	100%-400%
Holding of Sukuk Securitizations and Securitisations	**-**	-	-	20%-1,250%
Other assets and specialised financing	**-**	-	-	100%
Credit risk-weighted assets	**1,845.3**	1,920.7	1,906.2	

Minimum Capital Requirements for Islamic Financing Contracts

(US$ millions)	**30 June 2021**		31 December 2020	
	Risk-weighted equivalents	**Minimum capital requirements**	Risk-weighted equivalents	Minimum capital requirements
Murabaha	**-**	**-**	-	-
Sukuks	**-**	**-**	-	-
Quoted Equity Securities	**-**	**-**	-	-
Unquoted Equity Securities	**72.2**	**9.0**	72.4	9.1
Quoted Funds	**-**	**-**	-	-
Unquoted Funds	**31.2**	**3.9**	31.2	3.9

Market Risk-Weighted Exposures

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in profit rates, foreign exchange rates, and equity and commodity prices. Under the CBB standardised approach, market risk exposures are calculated for the five categories shown in the table below. Apart from limited foreign exchange, which is mainly transaction-driven, and long-term foreign currency exposure on private equity investments, the Bank has limited exposure to short-term market risks.

The details of the group's market risk capital charges and the equivalent market risk-weighted exposures as at 30 June 2021, 31 December 2020 and 31 December 2019 are:

(US$ millions)	**30 June 2021**	31 December 2020	31 December 2019
Price risk	**-**	-	-
Equities position risk	**-**	-	-
Sukuk risk	**-**	-	-
Foreign exchange risk	**3.4**	3.4	3.9
Commodities risk	**-**	-	-
Total capital requirement for market risk	**3.4**	3.4	3.9
Multiplier	**12.5**	12.5	12.5
Total Market risk-weighted exposures	**43.2**	43.2	49.3

The details of the Group's maximum and minimum value for each category of the market risk during the periods ended 30 June 2021 and 31 December 2020 are:

	30 June 2021		31 December 2020	
(US$ millions)	**Maximum Capital Charge**	**Minimum Capital Charge**	Maximum Capital Charge	Minimum Capital Charge
Price risk	**-**	**-**	-	-
Equities position risk	**-**	**-**	-	-
Sukuk risk	**-**	**-**	-	-
Foreign exchange risk	**3.4**	**3.4**	3.8	3.4
Commodities risk	**-**	**-**	-	-
Total capital requirement for market risk	**3.4**	**3.4**	3.8	3.4
Multiplier	**12.5**	**12.5**	12.5	12.5
Total Market risk-weighted exposures	**42.5**	**42.5**	47.5	42.5

Operational Risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure and or inadequate staffing. The Bank has a policy in place which outlines the Bank's approach in the management of operational risk, including the appointment of departmental Risk Champions, the mapping of key processes; and establishment of Key Risk Indicators (KRI's) used for monitoring operational risks through Risk and Control Self Assessments (RCSAs).

To support a robust internal control environment, the Risk Management function is actively involved in oversight of key control processes including exposure and limit monitoring. In addition, it also independently reviews payment authorisation and control arrangements, Nostro account reconciliations, new product proposals, new counterparty limit proposals, new commodity broker proposals, and key changes in internal processes.

For selected material operational risks where the Bank's capacity to fully mitigate risk is limited, Takaful insurance contracts are used to transfer such risks to third parties. Key risks where Takaful insurance contracts are used include professional indemnity liability, property risks and third party liability.

Operational Risk-Weighted Exposures

For the purposes of calculating regulatory capital for operational risk under CBB capital adequacy regulation, the Bank uses the Basic Indicator Approach where gross income (weighted by an alpha of 15%) is used as a proxy for operational risk capital. The details of Bank Alkhair's operational risk capital charge, and the equivalent operational risk-weighted exposures as at the end of 30 June 2021 is shown below:

(US$ millions)	**30 June 2021**	31 December 2020	31 December 2019
Gross income	**24.1**	24.1	22.2
Average gross income for three years	**25.4**	25.4	28.8
Alpha	**15%**	15%	15%
Capital charge for operational risk	**3.8**	3.8	4.3
Multiplier	**12.5**	12.5	12.5
Total operational risk-weighted exposures	**47.6**	47.6	53.8

Non-Shari'ah income

The bank charged late fees on some repayments from an investment, these fees were pooled in an account to be used for charity purposes, and the bank charged these fees on 24 transactions incurred between 2009 till 2012. All outstanding amounts were paid as charity during the year 2019 and there is no more outstanding balance as at 30 June 2021.

Risk-Weighted Exposures

Risk-weighted exposures decreased by US$ 75.4 million (3.7%) in H1 2020, from US$ 1,936.1 million as at 31 December 2020 to US$ 1,936.1 million as at 30 June 2021, as detailed below:

(US$ millions)	**30 June 2021**	31 December 2020	31 December 2019
Credit risk-weighted exposures	**1,845.3**	1,920.7	1,906.2
Market risk-weighted exposures	**43.2**	43.2	54.0
Operational risk-weighted exposures	**47.6**	47.6	48.8
Total risk-weighted exposures	**1,936.1**	2,011.5	2,009.0

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group conducts significant investment activity in private equity, mainly in unquoted entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration by arranging representation on the Board of Directors within the investee company, wherever possible. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Bank.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates, for further details, please refer to the financial statements notes.

Group Structure

The Group's financial statements are prepared on a full consolidation basis, with all subsidiaries being consolidated in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). For capital adequacy purposes, all subsidiaries are included within the Group structure. However, the CBB's capital adequacy methodology accommodates both full consolidation, risk weighting as well as regulatory adjustment (deductions).

The principal subsidiaries and associates, as well as the treatment for capital adequacy purposes, are as follows:

	Domicile	Ownership	Regulatory treatment
Subsidiaries			
AKIIM Sdn Bhd (formerly Alkhair International Islamic Bank Malaysia Berhad)	Malaysia	100%	Risk Weighting
Alkhair Gayrimenkul Yatirim Ve Ticaret A.S (Formerly Alkhair Portföy Yönetimi A.Ş.)	Turkey	99.6%	Risk Weighting
Al-Tajamouat for Touristic Projects Co Plc	Jordan	50.6%	Risk Weighting
Associates			
BFC Group Holdings Ltd.	United Arab Emirates	43.36%	Regulatory Adjustment & Risk weighting
t'azur Company B.S.C. (c)	Kingdom of Bahrain	25.86%	Regulatory Adjustment & Risk weighting
Independent Logistics and Warehousing Company	Jordan	33.33%	Risk weighting

Capital Adequacy Ratio

Capital Ratios - Consolidated & Subsidiaries above 5% of Group Regulatory Capital.

(Percent)	**30 June 2021**		31 December 2020		31 December 2019	
	Tier 1 Capital Ratio	**Total Capital Ratio**	Tier 1 Capital Ratio	Total Capital Ratio	Tier 1 Capital Ratio	Total Capital Ratio
Bank Alkhair Group	**-7.5**	**-7.5**	-7.0	-7.0	-6.0	-6.0

Based on the planned asset sales program and operating cash flow projections, the Group expects to improve its risk weighted assets profile and capital adequacy ratio. The Bank's Board of Directors and senior management are actively looking for other options to enhance the capital position of the Bank to meet the amended capital requirements set by the CBB.

The minimum consolidated capital required by Bank Alkhair to maintain compliance at 12.5% is shown in the table below.

(US$ millions)	**30 June 2021**	31 December 2020	31 December 2019
Credit risk	**230.7**	240.1	238.3
Market risk	**5.4**	5.4	6.1
Operational risk	**6.0**	6.0	6.8
Total capital requirements	**242.1**	251.5	251.2

The minimum capital requirements for equity investments of the Group, broken down by appropriate equity groupings, consistent with the methodology, as well as the aggregate amounts and type of equity investments subject to any supervisory transition or grandfathering provisions regarding regulatory capital requirements is shown in the table below:

(US$ millions)	**30 June 2021**	31 December 2020	31 December 2019
Investments in listed equities	**-**	-	-
Investments in unlisted equities	**-**	-	-
Significant investment in the common shares of financial entities > 10%	**-**	-	-
Significant investment in the common shares of commercial entities	**-**	-	1.6
Other investment with excess amount over 15%	**230.6**	239.7	235.8
Investments in unlisted real estate companies	**-**	-	-
Investments in unrated funds	**-**	-	-
Total capital requirements	**230.6**	239.7	237.4

RISK MANAGEMENT

Credit Risk

Gross and average credit risk

The table below shows the average gross credit risk exposure of the Bank as at 30 June 2021, classified as per the disclosure in the consolidated financial statements:

Balance sheet items	**Funded exposure**	**Unfunded exposure**	**Total gross credit exposure**	**Average gross credit exposure***
(US$ thousands)				
Balances with banks	5,738	-	5,738	4,352
Placements with financial institutions	-	-	-	-
Financing Receivables	-	-	-	156

Investment securities - Sukuk	-	-	-	-
Other assets	2,158	-	2,158	1,566
	7,896	**-**	**7,896**	**6,074**
Commitment to invest	-	-	-	-
Guarantees	-	-	-	-
Total credit risk exposure	**7,896**	**-**	**7,896**	**6,074**

* Average gross credit exposures have been calculated based on the average of balances outstanding on the period ended 30 June 2021.

Residual maturity breakdown of the whole credit portfolio disclosed in the notes to the consolidated financial statements for the period ended 30 June 2018. Total of US$ 48.2 million due to financial institutions which residual maturity from 5-10 years.

Intra-group transactions

All transactions with related parties have been made on arm's length basis. The following table summarizes the Group's intra-group transactions as follows:

	30 June 2021	31 December 2020
Assets		
Cash and balances with banks	**-**	-
Due from financial institutions	**-**	-
Due from non-banks	**-**	-
Investment in Subsidiary	**40,087**	82,856
Other Assets	**-**	-
Total	**40,087**	82,856

CREDIT RISK MITIGATION

Credit risk mitigation is defined as the utilization of a number of techniques, such as collaterals and guarantees to mitigate the credit risks that the Group is exposed to. The Group's first priority when establishing Islamic financing is to determine the borrower's capacity to repay and not to rely principally on security or collateral.

The credit exposure information presented above represents gross exposures prior to the application of any credit risk mitigation techniques, the Bank's credit risk mainly arises from its investment transactions.

Risk concentration of the maximum exposure to credit risk

Risk Exposure Concentration

Risk concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. In line with regulatory requirements, the bank has a group level Large Exposure Policy which details the Bank's approach in managing concentration risk to sectors, asset classes, single obligors and countries including defining specific limits.

Counterparty Credit Risk

A counterparty is defined as an obligor (individual, company, other legal entity), a guarantor of an obligor, or person receiving funds from the Group. It also includes the issuer of a security in case of a security held by the Group, or a party with whom a contract is made by the Group for financial transactions. The measure of exposure reflects the maximum loss that the Group may suffer in case the counterparty fails to fulfil its commitments. Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. Large exposure is any exposure whether direct, indirect or funded by restricted investment accounts to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's Capital Base. The Group has adopted Standardized Approach to allocate capital for counterparty credit risk.

Connected counterparties includes companies or persons connected with the bank, including, in particular, subsidiaries and associated companies (whether such association is due to control or shareholding or otherwise), Directors and their associates (whether such association is due to control or family links or otherwise), members of the Shari'a Supervisory Board, management and other staff, and shareholders holding 10% or more of the voting power of the bank.

As a strategy, exposure to connected counterparties may be undertaken only when negotiated and agreed on an arm's length basis. The Bank shall not assume any exposure to its external auditors or members of Shari'a Supervisory Board. The disclosure relating to related party transactions has been made in the consolidated financial statements. All related party transactions have been executed at arm's length basis.

Exposures in excess of the 15% limit for the period ended 30 June 2021 are as follows:

Counterparties	**Amount of exposures In US$ thousands**	**% of exposure To capital**	
Counterparty # 1	113,786	-78.00%	Investment and Receivable
Counterparty # 2	50,316	-34.49%	Investment and Receivable
Counterparty # 3	42,768	-29.32%	Receivables
Counterparty # 4	20,828	-14.28%	Investment
Counterparty # 5	5,374	-3.68%	Investment
Counterparty # 6	4,340	-2.98%	Investment
Counterparty # 7	49	-0.03%	Bank Balances
Counterparty # 8	39	-0.03%	Investment and Receivable
Counterparty # 9	35	-0.02%	Bank Balances
Counterparty # 10	22	-0.02%	Receivables
Counterparty # 11	11	-0.01%	Bank Balances
Counterparty # 12	11	-0.01%	Bank Balances
Counterparty # 13	9	-0.01%	Receivables
Counterparty # 14	6	0.00%	Bank Balances

Geographical Exposure Distribution

Type of Assets/Region	30 June 2021					
	Bahrain	Middle East	North America	Asia	Europe	Grand Total
Balances with banks	99	5,639	-	-	-	5,738
Financing Receivables	-	-	-	-	-	-
Other Assets	312	11,447	-	-	-	11,759
Grand Total	**411**	**17,086**	**-**	**-**	**-**	**17,497**

Type of Assets/Region	31 December 2020					
	Bahrain	Middle East	North America	Asia	Europe	Grand Total
Balances with banks	2,456	6,839	-	-	-	9,295
Financing Receivables	782	-	-	-	-	782
Other Assets	3,494	8,711	-	-	-	12,205
Grand Total	**6,732**	**15,550**	**-**	**-**	**-**	**22,282**

Industry Sector Exposure

Type of Assets/Industry	30 June 2021							
	Banking and Finance	Industrial	Real Estate and Construction	Technology	Funds	Trade	Government	Total
Funded:								
Balances with banks	99	-	5,639	-	-	-	-	5,738
Financing Receivables	-	-	-	-	-	-	-	-
Other Assets	312	-	11,447	-	-	-	-	11,759
Grand Total	**411**	**-**	**17,086**	**-**	**-**	**-**	**-**	**17,497**

Type of Assets/Industry	31 December 2020							
	Banking and Finance	Industrial	Real Estate and Construction	Technology	Funds	Trade	Government	Total
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Balances with banks	2,456	-	6,839	-	-	-	-	9,295
Financing Receivables	782	-	-	-	-	-	-	782
Other Assets	3,494	-	8,711	-	-	-	-	12,205
Grand Total	**6,732**	**-**	**15,550**	**-**	**-**	**-**	**-**	**22,282**

Credit quality per class of financial assets

The Group did not apply a standard credit rating to its investment business, as the Group assessed credit quality according to the policies of the respective business areas. Management considers the credit quality of the Group's financial assets to be of standard quality as of 30 June 2021. Following is an analysis of credit quality by class of financial assets:

	30 June 2021				
	Neither past due nor impaired	**Past due but not impaired**	**Individually impaired**	**Impairment/ provision**	**Total**
Balances with banks	5,738	-	-	-	5,738
Financing receivables	-	-	-	-	-
Other assets	11,759	-	1,898	(1,898)	11,759
Total	**17,497**	**-**	**1,898**	**(1,898)**	**17,497**

Exposures that are past due but not impaired are either past due for less than 90 days and the financial condition of the customer is sound, or has adequate unimpaired collateral coverage. Provisioning is driven by the performance of the customer against laid down terms and conditions of the facility, internal credit grading and classification system calculated on net exposure after deducting the discounted value of recoverable collateral and any disposal costs.

	31 December 2020				
	Neither past due nor impaired	**Past due but not impaired**	**Individually impaired**	**Impairment/ provision**	**Total**
Balances with banks	9,295	-	-	-	9,295
Financing receivables	782	-	-	-	782
Other assets	12,205	-	1,898	(1,898)	12,205
Total	**22,282**	**-**	**1,898**	**(1,898)**	**22,282**

Past due and non-performing facilities

Past due represents repayments that are not received on the contractual repayment dates. The Group defines non-performing facilities as the facilities that are overdue for period of 90 days or more. These exposures are placed on a non-accrual status with income being recognised to the extent that it is actually received/distributed. Past due and fully impaired assets as at 30 June 2021 amounted to Nil.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. The key features of the Group's liquidity methodology are:

– The Group Asset and Liability Committee ("ALCO") is responsible for liquidity monitoring, cash flow planning and general asset liability management.
– In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.

The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon and its forecast investment commitments over the liquidity horizon

The following are the indicators of the Group's exposure to liquidity risk.

	June 2021	December 2020
Short term assets (in US$ 000s)	5,738	10,080
Short term liabilities (in US$ 000s)	237,840	238,019
Liquidity ratios (in %)		
Liquid assets : Total assets	**1.5%**	2.4%
Liquid assets : Total deposits	**2.2%**	3.5%
Liquid assets : Total liabilities	**2.1%**	3.4%
Short term assets: Short term liabilities	**2.4%**	4.2%

	31 June 2021							
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 to 12 months US$ '000*	*Total up to 1 year US$ '000*	*1 to 5 years US$ '000*	*5 to 10 years US$ '000*	*Total US$ '000*
ASSETS								
Cash and balances with banks	**3**	**5,735**	**-**	**-**	**5,738**	**-**	**-**	**5,738**
Financing receivables	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Investments	**-**	**-**	**-**	**20,828**	**20,828**	**42,768**	**-**	**63,596**
Investment in associates	**-**	**-**	**-**	**-**	**-**	**-**	**123,499**	**123,499**
Investment in real estate	**-**	**-**	**-**	**-**	**-**	**-**	**177,069**	**177,069**
Asset Held-for-Distribution	**-**	**-**	**-**	**257**	**257**	**-**	**-**	**257**
Other assets	**-**	**-**	**-**	**11,758**	**11,758**	**-**	**-**	**11,758**
Equipment	**-**	**-**	**-**	**-**	**-**	**-**	**33**	**33**
Total assets	**3**	**5,735**	**-**	**32,843**	**38,581**	**42,768**	**300,601**	**381,950**
LIABILITIES								
Due to financial institutions and customers	**-**	**232,340**	**618**	**1,236**	**234,024**	**13,194**	**16,347**	**263,825**
Other liabilities	**-**	**5,410**	**5,410**	**-**	**10,820**	**-**	**-**	**10,820**
Total liabilities	**-**	**237,840**	**6,028**	**1,236**	**245,104**	**13,194**	**16,347**	**274,645**
Commitments	**-**	**3**	**11**	**22**	**36**	**75**	**-**	**111**
Net liquidity gap	**3**	**(232,108)**	**(6,039)**	**31,585**	**(206,559)**	**24,499**	**284,254**	**107,194**
Net cumulative gap	**3**	**(232,105)**	**(238,144)**	**(206,559)**	**(206,559)**	**(177,060)**	**107,194**	

* There are no items beyond the maturity of 10 years.

The maturity for the financial assets and liabilities were determined based on their residual maturity period and for the remaining assets and liabilities the maturity profile was determined based on expected timeline to recover or settle.

	31 December 2020							
	Up to 1 month US$ '000	*1 to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 to 12 months US$ '000*	*Total up to 1 year US$ '000*	*1 to 5 years US$ '000*	*5 to 10 years US$ '000*	*Total US$ '000*
ASSETS								
Cash and balances with banks	**3**	**9,295**	**-**	**-**	**9,295**	**-**	**-**	**9,298**
Financing receivables	**782**	**-**	**-**	**-**	**782**	**-**	**-**	**782**
Investments	**-**	**-**	**-**	**20,828**	**20,828**	**42,768**	**-**	**63,596**
Investment in associates	**-**	**-**	**-**	**-**	**-**	**-**	**126,978**	**126,978**
Investment in real estate	**-**	**-**	**-**	**-**	**-**	**-**	**177,059**	**177,059**
Asset Held-for-Distribution	**-**	**-**	**-**	**1,878**	**1,878**	**-**	**-**	**1,878**
Other assets	**-**	**-**	**-**	**12,340**	**12,340**	**-**	**-**	**12,340**
Equipment	**-**	**-**	**-**	**-**	**-**	**-**	**38**	**38**
Total assets	**785**	**9,295**	**-**	**35,046**	**45,126**	**42,768**	**304,075**	**391,969**
LIABILITIES								
Due to financial institutions and customers	**-**	**232,170**	**618**	**1,236**	**234,024**	**13,194**	**17,378**	**264,596**
Other liabilities	**-**	**5,849**	**5,849**	**-**	**11,697**	**-**	**-**	**11,697**
Total liabilities	**-**	**238,019**	**6,466**	**1,236**	**245,721**	**13,194**	**17,378**	**276,293**
Commitments	**5**	**15**	**15**	**30**	**65**	**94**	**-**	**159**
Net liquidity gap	**780**	**(238,739)**	**(6,481)**	**33,780**	**(200,660)**	**29,480**	**286,697**	**115,517**
Net cumulative gap	**780**	**(227,959)**	**(234,440)**	**(200,660)**	**(200,660)**	**(171,180)**	**115,517**	

* There are no items beyond the maturity of 10 years.

The maturity for the financial assets and liabilities were determined based on their residual maturity period and for the remaining assets and liabilities the maturity profile was determined based on expected timeline to recover or settle.

MARKET RISK MANAGEMENT

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as profit rates, foreign exchange rates, equity prices and commodities. The Group classifies exposures to market risk into either trading or non-trading portfolios. The Group does not currently engage in trading activity. Non-trading positions are managed and monitored using sensitivity analysis.

Market Risk: Non-trading

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Board has set limits on profit rate positions by maturity. The Group currently has limited exposure to profit rate risk. The Group's assets and liabilities that are exposed to profit rate risk include: placements with financial institutions, financing receivables, investments in sukuk and due to financial and non-financial institutions.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates by 200 bps, with all other variables held constant. The effect of decreases in profit rate is expected to be equal and opposite to the effect of the increases shown.

(Amounts in US$ thousands)

	30-Jun-21			*31-Dec-20*		
	Balance	***Change in profit rate bps (+/-)***	***Effect on net profit (+/-)***	*Balance*	*Change in profit rate bps (+/-)*	*Effect on net profit (+/-)*
Assets						
Bank Balances	5,738	200	115	4,914	200	98
Liabilities						
Due to financial institutions & customers	(263,825)	200	(5,277)	(264,596)	200	(5,292)
Total			(5,162)			(5,194)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates.

The table below indicates the currencies to which the Group has significant exposure. The analysis shows the impact of a 20% movement in the currency rate against the United States Dollar, with all other variables held constant on the consolidated statement of income and equity. The effect of decreases in the currency rates is expected to be equal and opposite to the effect of the increases shown.

	30-Jun-21			31-Dec-20		
Currency	Exposure (USD) equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)	Exposure (USD) equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)
Kuwaiti Dinar	9	2	-	9	2	-

PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties prepay or request repayment earlier than expected. The Group is not exposed to any significant prepayment risk.

Displaced Commercial Risk

The Bank does not have Profit Sharing Investment Accounts (PSIAs) and is not exposed to displaced commercial risk.

External Auditors:

Based on best corporate governance practice the auditors were changed after a certain period.

Capital Restrictions and income mobility

Distributing profits by subsidiary to the parent is subject to compliance with applicable local laws and regulations. Such distribution should go through the legal and regulatory channels applicable in relevant jurisdiction. Mobilisation of capital, reserves and equivalent funds out of the subsidiary to the parent is subject to the local rules and regulations. The approval is obtained from CBB by the parent for increasing investment in subsidiaries.

Segregation of duties

The Board is responsible for the adequacy and effectiveness of system of internal controls of the bank which is supported by segregation of duties, enhanced system of internal controls across all aspects of the business as well as strong support functions covering legal, regulatory, governance, reputation, finance, information technology, human resources and strategy.

Risk Management governance originates at Board level, and cascades through to the CEO and businesses, via policies and delegated authorities which ensures Board-level oversight and a clear segregation of duties between those who originate and those who approve risk exposures.