

CITI ISLAMIC INVESTMENT BANK E.C.

**RISK AND CAPITAL MANAGEMENT
DISCLOSURES**

**FOR THE SIX-MONTH PERIOD ENDED
30 June 2021**

These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), Section PD-3.1.6, CBB Rule Book, Volume II for Islamic Banks. These disclosures should be read in conjunction with the Notes, in particular the Significant Accounting Policies and Financial Risk Management, in the Bank's Financial Statements for the period ended 30 June 2021.

RISK AND CAPITAL MANAGEMENT DISCLOSURES
for the six month period ended 30 June 2021

US\$ 000's

1. EXECUTIVE SUMMARY

The Central Bank of Bahrain's ("CBB") Basel 3 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2015. The banks are required to maintain minimum capital adequacy ratio of 12.5% on a consolidated basis [i.e. CET1 – 6.5%, AT1-1.5%, Tier 2 – 2% and CCB – 2.5%] and a capital adequacy ratio of 8% on a solo basis [i.e. CET1 – 4.5%, AT1 – 1.5% and Tier 2 – 2%]. These disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports of the CBB Rule Book, Volume II for Islamic Banks and Section PD-3.1.6: Publication of reviewed (Unaudited) quarterly financial statements for locally incorporated banks. Section PD-1.3 reflect the requirements of Basel 2 - Pillar 3 and the Islamic Financial Services Board's ("IFSB") recommended disclosures for Islamic banks and PD 3.1.6 highlights the requirement to make quantitative disclosures described in PD-1.3 on their web site along with the half yearly financial statements.

The PD Module requires disclosure of the Bank's exposure to risks on its banking and trading book. As the Bank does not have a trading book all its disclosures are limited to the risks faced on its banking book.

The Bank has adopted the Standardised Approach for Credit Risk and Market Risk and follows the Basic Indicator Approach for Operational Risk to determine its capital requirements.

As at 30 June 2021, the Bank's total risk weighted assets amounted to US\$ 12,022; Tier 1 Capital and total regulatory capital amounted to US\$ 13,883 and US\$ 13,884 respectively. Accordingly, CET1 and Tier 1 ratios were 115.48% and Total Capital Adequacy Ratio was 115.49%. These ratios exceed the minimum capital requirements under the CBB's Basel 3 framework.

2. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

The Bank is comfortably placed in terms of its regulatory capital and the current regulatory Capital Adequacy Ratio (CAR) is 115.49% as opposed to the minimum CBB requirement of 12.5%.

(a) Capital structure, minimum capital requirement and capital adequacy:

	Amount
Common Equity Tier 1 (CET 1)	
Issued and fully paid ordinary shares	10,000
Statutory reserves	3,577
Retained earnings	3
Current interim profits	303
Total CET 1 capital (A)	13,883
Tier 2 (Expected credit loss provision)	1
Total Tier 1 and Total capital (B)	13,884

RISK AND CAPITAL MANAGEMENT DISCLOSURES
for the six month period ended 30 June 2021

US\$ 000's

2. Capital structure and capital adequacy (continued)

	Risk weighted assets	Capital requirement @ 12.5%
Claims on Banks	7,221	903
Other assets	17	2
Credit risk	7,238	905
Market risk	-	-
Operational risk	4,784	598
Total risk weighted exposures (C)	12,022	1,503
CET 1 and Tier 1 capital adequacy ratio (A/C)	115.48%	
Total capital adequacy ratio (B/C)	115.49%	

The Bank's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the Bank's business activities and to maintain a well-capitalised status under regulatory requirements. The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements.

Step1: Balance sheet under the regulatory scope of consolidation

This step is not applicable to the Bank since the scope of regulatory and accounting is identical and the bank is a standalone entity.

RISK AND CAPITAL MANAGEMENT DISCLOSURES
for the six month period ended 30 June 2021

US\$ 000's

2. *Capital structure and capital adequacy (continued)*

Step 2: Reconciliation of published financial balance sheet to regulatory reporting as at 30 June 2021

USD '000s	Statement of financial position in published financial statements USD'000s	Statement of financial position as per regulatory reporting USD'000s	Reference
Assets			
Bank balances	914	-	
of which Cash and balances at central bank	-	914	
Murabaha receivables	13,003	-	
of which placements with banks and similar financial institution*	-	13,004	
Other assets	542	542	
Total assets*	14,459	14,460	
Payables and other accrued expenses	576	-	
of which other liabilities	-	575	
Total Liabilities	576	575	
Equity Investment			
Share capital	10,000	10,000	A
Statutory reserve	3,577	3,577	B1
Retained earnings	306	-	B2
of which Net profit/ (loss) for the current period	-	303	
of which retained earnings/ (losses) brought forward	-	3	
Expected credit losses (Stages 1 & 2)*	-	1	C
Total shareholder's equity*	13,883	13,884	

RISK AND CAPITAL MANAGEMENT DISCLOSURES
for the six month period ended 30 June 2021

US\$ 000's

2. *Capital structure and capital adequacy (continued)*

Composition of Capital and mapping to regulatory reports		Component of regulatory capital	Reference numbers of balance sheet under the regulatory scope of consolidation from step 2
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share capital plus related stock surplus	10,000	A
2	Retained earnings	306	B2
3	Accumulated other comprehensive income (and other reserves)	3,577	B1
4	<i>Not Applicable</i>		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	Common Equity Tier 1 capital before regulatory adjustments	13,883	
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)	-	
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)	-	

RISK AND CAPITAL MANAGEMENT DISCLOSURES
for the six month period ended 30 June 2021

US\$ 000's

2. *Capital structure and capital adequacy (continued)*

Composition of Capital and mapping to regulatory reports		Component of regulatory capital	Reference numbers of balance sheet under the regulatory scope of consolidation from step 2
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	Total regulatory adjustments to Common equity Tier 1	-	
29	Common Equity Tier 1 capital (CET1)	13,883	
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	<i>Directly issued capital instruments subject to phase out from Additional Tier 1</i>	-	
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	of which: instruments issued by subsidiaries subject to phase out	-	
36	Additional Tier 1 capital before regulatory adjustments	-	

RISK AND CAPITAL MANAGEMENT DISCLOSURES
for the six month period ended 30 June 2021

US\$ 000's

2. *Capital structure and capital adequacy (continued)*

Composition of Capital and mapping to regulatory reports		Component of regulatory capital	Reference numbers of balance sheet under the regulatory scope of consolidation from step 2
Additional Tier 1 capital: regulatory adjustments			
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	Total regulatory adjustments to Additional Tier 1 capital	-	
44	Additional Tier 1 capital (AT1)	-	
45	Tier 1 capital (T1 = CET1 + AT1)	13,883	
Tier 2 capital: instruments and provisions			
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>	-	
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	1	C
51	Tier 2 capital before regulatory adjustments	1	

RISK AND CAPITAL MANAGEMENT DISCLOSURES
for the six month period ended 30 June 2021

US\$ 000's

2. *Capital structure and capital adequacy (continued)*

Composition of Capital and mapping to regulatory reports		Component of regulatory capital	Reference numbers of balance sheet under the regulatory scope of consolidation from step 2
Tier 2 capital: regulatory adjustments			
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) 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	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	1	
59	Total capital (TC = T1 + T2)	13,884	
60	Total risk weighted assets	12,022	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	115.48%	
62	Tier 1 (as a percentage of risk weighted assets)	115.48%	
63	Total capital (as a percentage of risk weighted assets)	115.49%	
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)	10%	
65	of which: capital conservation buffer requirement	2.5%	
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)	115.48%	

RISK AND CAPITAL MANAGEMENT DISCLOSURES
for the six month period ended 30 June 2021

US\$ 000's

2. *Capital structure and capital adequacy (continued)*

Composition of Capital and mapping to regulatory reports		Component of regulatory capital	Reference numbers of balance sheet under the regulatory scope of consolidation from step 2
National minima including CCB (where different from Basel III)			
69	CBB Common Equity Tier 1 minimum ratio	9.0%	
70	CBB Tier 1 minimum ratio	10.5%	
71	CBB total capital minimum ratio	12.5%	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	-	
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)	-	
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	-	
78	N/A	-	
79	N/A	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)			
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and	-	

RISK AND CAPITAL MANAGEMENT DISCLOSURES
for the six month period ended 30 June 2021

US\$ 000's

2. Capital structure and capital adequacy (continued)

1	Issuer	Citi Islamic Investment bank E.C.
2	Unique identifier (Bahrain Bourse ticker)	NA
3	Governing law of the instrument	All applicable laws and regulations of the 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	Common Equity shares
8	Amount recognized in regulatory capital (currency in Millions, as of most recent reporting date)	USD 10 million
9	Par Value of instrument	USD 1 per share
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1996
12	Perpetual or dated	NA
13	Original maturity date	NA
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	Dividends
17	Fixed or floating dividend/coupon	Dividend is declared by shareholders in the AGM
18	Coupon rate and any related index	NA
19	Existence of a dividend stopper	NA
20	Fully discretionary, partially discretionary or mandatory	Refer to 17 above
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

RISK AND CAPITAL MANAGEMENT DISCLOSURES
for the six month period ended 30 June 2021

US\$ 000's

3. RISK EXPOSURES

(a) Credit risk

(i) Gross credit exposures

The exposure to credit risk for the Bank is from the following:

	Gross credit exposure	Risk weight	Credit risk weighted assets	Average gross credit exposures during the period*
Claims on Banks with Citigroup	14,442	50%	7,221	14,797
Other assets	17	100%	17	23
Total gross credit risk exposures	14,459		7,238	14,820

* These have been computed based on a quarterly average.

None of the exposures are either past due, impaired or restructured. The exposures are not backed by collaterals and hence no benefit for credit risk mitigation is applicable. Further, the Bank does not have any unfunded exposures.

(ii) Concentration of gross credit exposures

Geographical distribution

30 June 2021

	Middle East	Americas	Europe	Total
Bank balances	91	823	-	914
Murabaha receivables	13,003	-	-	13,003
Other assets	265	250	27	542
Total gross credit exposures	13,359	1,073	27	14,459
Restricted investment accounts	819,019	310,805	-	1,129,824

RISK AND CAPITAL MANAGEMENT DISCLOSURES
for the six month period ended 30 June 2021

US\$ 000's

3. *Risk exposures (continued)*

Sectoral concentration

30 June 2021

	Banks and financial institutions	Inter-group	Others	Total
Bank balances	-	914	-	914
Murabaha receivables	-	13,003	-	13,003
Other assets	-	525	17	542
Total gross credit exposures	-	14,442	17	14,459
Restricted investment accounts	683,013	-	446,811	1,129,824

Maturity profile

30 June 2021

	Within 8 days	Over 8 days to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year	Total
Bank balances	914	-	-	-	-	914
Murabaha receivables	-	5,002	8,001	-	-	13,003
Other assets	-	525	-	17	-	542
Total assets	914	5,527	8,001	17	-	14,459
Payables and other accrued expenses	457	3	99	11	6	576
Total liabilities	457	3	99	11	6	576
Restricted investment accounts	799,016	320,806	10,002	-	-	1,129,824

None of the exposures of the Bank has a maturity period of more than 5 years.

(iii) Large exposures

The Bank has significant exposure to Citigroup entities (as a Group) as mentioned below.

Type of exposure

Direct exposure
 Exposure of restricted investment accounts

Amount of exposure	% of capital base
14,442	104.03%
1,129,824	8138.18%
1,144,266	8242.21%

These exposures qualify as exempt exposures as they are in the nature of short-term inter-bank exposures and hence no regulatory capital deduction is considered necessary.

RISK AND CAPITAL MANAGEMENT DISCLOSURES
for the six month period ended 30 June 2021

US\$ 000's

3. *Risk exposures (continued)*

(b) Operational risk

The operational risk weighted assets are computed as per the guidelines of the CBB which are as follows:

[Average gross income (excluding extraordinary and exceptional income) for the past 3 years x 15% x 12.5]

Particulars	Amount
Average gross income (A)	2,551
Alpha (B)	15%
(C) = (A) * (B)	383
Risk weighted exposures ((C) * 12.5)	4,784

The Bank did not have any non-sharia complaint income/ sharia violations/ material legal contingencies during the six months period ended 30 June 2021.

(c) Liquidity risk

Following are the key liquidity ratios as at 30 June 2021:

Description	Ratio
Short Term Assets: Total Assets	1.00 : 1.00
Short Term Assets: Short Term Liabilities	25.84 : 1.00

4. PROFIT RATE RISK IN THE BANKING BOOK

The Bank's exposure to profit rate risk is currently considered to be minimal due to the short-term nature of its Murabaha receivables.

5. RESTRICTED INVESTMENT ACCOUNTS

The Bank acts as an agent and invests the funds only in Commodity Murabaha transactions on behalf of its customers. Following is the movement during the period:

	Deposit murabaha
As at 1 January	378,519
Net deposits	750,286
Gross income	876
Bank's income as an agent	143
As at 30 June 2021	1,129,824

Historical returns:

Product	Launch date	Annualised returns					Status
		2021	2020	2019	2018	2017	
Deposit Murabaha	1996	0.19%	0.71%	20.02%	0.91%	0.91%	Active

The commodity murabaha's are entered into with Citigroup entities which are highly rated and hence the credit risk is not considered significant. Further, as the commodity murabaha's entered into are for average tenors of less than three months, the profit rate re-pricing risk is considered minimal.

RISK AND CAPITAL MANAGEMENT DISCLOSURES
for the six month period ended 30 June 2021

US\$ 000's

6. RELATED PARTY TRANSACTIONS

Following were the related party balances and transactions as at and during the six month period ended 30 June 2021:

As at 30 June 2021

	Amount
Murabaha receivables	13,003
Cash and bank balances	914
Other assets	525
Payables and other accrued expenses	465

Transactions during the six month period ended 30 June 2021

	Amount
Income from murabaha contracts	15
Income from advisory services	1,058
Head office charges	151
Management fees	458
Sharia board expenses	75

7. FINANCIAL INDICATORS

The key financial indicators of the Bank for the past 5 years are as follows:

	2021	2020	2019	2018	2017
Return on average equity (ROAE)	2.13%	7.70%	7.18%	8.50%	3.67%
Return on average assets (ROAA)	2.05%	7.50%	7.06%	8.36%	3.57%
Cost to income ratio	76.10%	57.98%	60.39%	50.59%	66.85%
Earnings per share (USD)	0.030	0.112	0.104	0.118	0.048