

**CITI ISLAMIC INVESTMENT BANK E.C.**

**RISK AND CAPITAL MANAGEMENT  
DISCLOSURES**

**FOR THE SIX-MONTH PERIOD ENDED  
30 June 2020**

*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 2020.*

**RISK AND CAPITAL MANAGEMENT DISCLOSURES****for the six month period ended 30 June 2020**

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 2020, the Bank's total risk weighted assets amounted to US\$ 21,157; Tier 1 Capital and total regulatory capital amounted to US\$ 13,991 and US\$ 13,998 respectively. Accordingly, CET1 and Tier 1 ratios were 66.13% and Total Capital Adequacy Ratio was 66.16%. 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 66.14% as opposed to the minimum CBB requirement of 12.5%.

**(a) Capital structure, minimum capital requirement and capital adequacy:****Common Equity Tier 1 (CET 1)**

Issued and fully paid ordinary shares  
Statutory reserves  
Retained earnings  
Current interim profits

**Total CET 1 capital (A)**

**Tier 2 (Expected credit loss provision)**

**Total Tier 1 and Total capital (B)**

<b>Amount</b>	
	10,000
	3,465
	-
	526
<b>13,991</b>	
<b>7</b>	
<b>13,998</b>	

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**for the six month period ended 30 June 2020**

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

	<b>Risk weighted assets</b>	<b>Capital requirement @ 12.5%</b>
Claims on Banks	17,094	2,137
Claims on Corporates	18	2
Other assets	17	2
<b>Credit risk</b>	<b>17,129</b>	<b>2,141</b>
<b>Market risk</b>	<b>-</b>	<b>-</b>
<b>Operational risk</b>	<b>4,028</b>	<b>504</b>
<b>Total risk weighted exposures (C)</b>	<b>21,157</b>	<b>2,645</b>
<b>CET 1 and Tier 1 capital adequacy ratio (A/C)</b>		<b>66.13%</b>
<b>Total capital adequacy ratio (B/C)</b>		<b>66.16%</b>

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.

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

**Step 2: Reconciliation of published financial balance sheet to regulatory reporting as at 30 June 2020**

USD '000s	Statement of financial position in published financial statements USD'000s	Statement of financial position as per regulatory reporting USD'000s	Reference
<b>Assets</b>			
Bank balances	20,661	-	
of which Cash and balances at central bank	-	20,661	
Murabaha receivables	13,004	-	
of which placements with banks and similar financial institution*	-	12,997	a
Other assets	619	619	
<b>Total assets*</b>	<b>34,284</b>	<b>34,277</b>	
Payables and other accrued expenses	20,293	-	
of which other liabilities	-	20,293	
<b>Total Liabilities</b>	<b>20,293</b>	<b>20,293</b>	
<b>Equity Investment</b>			
Share capital	10,000	10,000	
Statutory reserve	3,465	3,465	
Retained earnings	526	-	
of which Net profit/ (loss) for the current period	-	526	
of which retained earnings/ (losses) brought forward			
Expected credit losses (Stages 1 & 2)*	-	7	a
<b>Total shareholder's equity*</b>	<b>13,991</b>	<b>13,998</b>	

**Note (a):** This variance is due to expected credit loss on murabaha receivables of USD 7 thousands being presented net in the statement of financial position.

**Step 3: Composition of Capital Common Template (transition) as at 30 June 2020**

<b>Equity Tier 1 capital : instruments and reserves</b>	
	<b>30-Jun-20</b>
	<b>Amt. in USD '000s</b>
Issued and fully paid ordinary shares	10,000
Statutory reserves	3,465
Retained earnings	-
Current interim net income/ (losses)	526
<b>Total CET1 capital prior to regulatory adjustments</b>	<b>13,991</b>
<b>Other capital (AT1 &amp; T2)</b>	<b>-</b>
Expected credit losses (Stages 1 & 2)	7
<b>Total capital</b>	<b>13,998</b>

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## 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	NA
5	Post-transitional CBB rules	NA
6	Eligible at solo/group/group & solo	Yes
7	Instrument Type	Common 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	
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

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**3. RISK EXPOSURES****(a) Credit risk****(i) Gross credit exposures**

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

	<b>Gross credit exposure</b>	<b>Risk weight</b>	<b>Credit risk weighted assets</b>	<b>Average gross credit exposures during the period*</b>
Claims on Banks with Citigroup	34,188	50%	17,094	24,503
Claims on Banks	-	100%	-	-
Claims on Corporates	18	100%	18	14
Claims on Sovereigns	68	0%	-	55
Other assets	17	100%	17	26
<b>Total gross credit risk exposures</b>	<b>34,291</b>		<b>17,129</b>	<b>24,598</b>

\* 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 2020**

	<b>Middle East</b>	<b>Americas</b>	<b>Europe</b>	<b>Total</b>
Bank balances	-	20,661	-	20,661
Murabaha receivables	13,004	-	-	13,004
Other assets	412	199	8	619
<b>Total gross credit exposures</b>	<b>13,416</b>	<b>20,680</b>	<b>8</b>	<b>34,284</b>
<b>Restricted investment accounts</b>	<b>314,026</b>	<b>-</b>	<b>-</b>	<b>314,026</b>

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## 3. Risk exposures (continued)

## Sectoral concentration

30 June 201920

	<b>Banks and financial institutions</b>	<b>Inter-group</b>	<b>Others</b>	<b>Total</b>
Bank balances	-	20,661	-	20,661
Murabaha receivables	-	13,004	-	13,004
Other assets	11	516	92	619
<b>Total gross credit exposures</b>	<b>11</b>	<b>34,181</b>	<b>92</b>	<b>34,284</b>
<b>Restricted investment accounts</b>	<b>119,676</b>	<b>-</b>	<b>-</b>	<b>119,676</b>

## Maturity profile

30 June 201920

	<b>Within 8 days</b>	<b>Over 8 days to 1 month</b>	<b>Over 1 month to 3 months</b>	<b>Over 3 months to 1 year</b>	<b>Total</b>
Bank balances	20,661	-	-	-	20,661
Murabaha receivables	-	5,008	7,996	-	13,004
Other assets	-	540	61	17	619
<b>Total assets</b>	<b>20,661</b>	<b>5,548</b>	<b>8,057</b>	<b>17</b>	<b>34,284</b>
Payables and other accrued expenses	20,000	185	26	82	20,293
<b>Total liabilities</b>	<b>20,000</b>	<b>185</b>	<b>26</b>	<b>82</b>	<b>20,293</b>
<b>Restricted investment accounts</b>	<b>189,001</b>	<b>119,007</b>	<b>6,018</b>	<b>-</b>	<b>314,026</b>

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

## Combined exposure

<b>Amount of exposure</b>	<b>% of capital base</b>
34,181	244.31%
314,026	2244.56%
<b>348,206</b>	<b>2488.87%</b>

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.

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## 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)	2,148
Alpha (B)	15%
(C) = (A) * (B)	322
<b>Risk weighted exposures ((C) * 12.5)</b>	<b>4,028</b>

The Bank did not have any non-sharia complaint income/ sharia violations/ material legal contingencies during the six months period ended 30 June 2020.

**(c) Liquidity risk**

Following are the key liquidity ratios as at 30 June 2020:

Description	Ratio
Short Term Assets: Total Assets	1.00 : 1.00
Short Term Assets: Short Term Liabilities	1.70 : 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	390,663
Net deposits	(77,866)
Gross income	1,269
Bank's income as an agent	(40)
<b>As at 30 June 2020</b>	<b>314,026</b>

**Historical returns:**

Product	Launch date	Annualised returns					Status
		2020	2019	2018	2017	2016	
Deposit Murabaha	1996	1.26%	2.02%	0.91%	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.



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**6. RELATED PARTY TRANSACTIONS**

Following were the related party balances and transactions as at and during the six month period ended 30 June 2020:

**As at 30 June 2020**

Murabaha receivables  
Cash and bank balances  
Other assets  
Payables and other accrued expenses

Amount
13,004
20,661
516
20,251

**Transactions during the six month period ended 30 June 2020**

Income from murabaha contracts  
Income from advisory services  
Head office charges  
Management fees  
Sharia board expenses

Amount
101
1,042
74
398
74

**7. FINANCIAL INDICATORS**

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

	2020	2019	2018	2017	2016
Return on average equity (ROAE)	3.71%	7.18%	8.50%	3.67%	-2.96%
Return on average assets (ROAA)	2.15%	7.06%	8.36%	3.57%	-2.87%
Cost to income ratio	61.23%	60.39%	50.59%	66.85%	156.51%
Earnings per share (USD)	0.053	0.104	0.118	0.048	-0.039