RISK AND CAPITAL MANAGEMENT

DISCLOSURES

These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports and PD-3.1.6 Semi-annual Disclosures, CBB Rule Book, Volume II for Islamic Banks. This document should be read in conjunction with the condensed consolidated interim financial information for the six months period ended 30 June 2020 and the qualitative disclosures in the annual report for the year ended 31 December 2019. Information already included in the condensed consolidated financial information are not repeated.

Contents

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. 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 website along with the half yearly financial statements.

GFH Financial Group ("GFH/ the Bank") was incorporated in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136. The Bank operates as an Islamic Wholesale Investment Bank under a license granted by the Central Bank of Bahrain ("CBB"). The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association

The condensed consolidated interim financial information for the six months period comprise of financial statements of the Bank and its subsidiaries (together referred to as "the Group") as at 30 June 2020. This document should be read in conjunction with the condensed consolidated interim financial information as at 30 June 2020 as certain disclosures which have made in the condensed consolidated interim financial information as at 30 June 2020 have not been reproduced in this document. The Group's financial statements are prepared and published on a full consolidation basis, with all material subsidiaries being consolidated in accordance with AAOIFI.

This report contains a description of the Group's risk and capital management practices and processes, including detailed information on the capital management process.

As at 30 June 2020, the Group's total capital ratio stood at 13.59%.

The Group's Tier I and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel 3 / IFSB for Islamic financial institutions framework.

The Group's total risk weighted assets as at 30 June 2020 amounted to USD 7,697,309 thousand. Credit risk accounted for 93 percent, operational risk 6 percent, and market risk 1 percent of the total risk weighted assets respectively. Tier I and total regulatory capital were USD 995,441 thousand and USD 1,046,186 thousand respectively, as at 30 June 2020.

At 30 June 2020, Group's CET1 and T1 capital and total capital adequacy ratios were 12.75%, 12.93% and 13.59% respectively.

2 Group Structure

The principal material subsidiaries and associates as at 30 June 2020 and their treatment for consolidated capital adequacy purposes are as follows:

<table>
<tr><th rowspan="2">Subsidiaries</th><th rowspan="2">Entity classification as per PCD Module for consolidated capital adequacy</th><th colspan="2">Treatment by the Bank</th></tr>
<tr><th>Consolidated</th><th>Solo basis</th></tr>
<tr><td>Khaleeji Commercial Bank BSC (‘KHCB’)</td><td>Banking subsidiary</td><td>Full consolidation</td><td>Full deduction from capital</td></tr>
<tr><td>GFH Capital Limited</td><td>Financial entity</td><td>Full consolidation</td><td>Full deduction from capital</td></tr>
<tr><td>Global Banking Corporation BSC (c) (‘GBCorp’)</td><td>Financial entity</td><td>Full consolidation</td><td>Full deduction from capital</td></tr>
<tr><td>GFH Sukuk Limited</td><td>Financial entity</td><td>Full consolidation</td><td>No impact as no direct investment by the Bank and the entity is a securitisation vehicle.</td></tr>
<tr><td>Morocco Gateway Investment Company</td><td>Commercial entity</td><td colspan="2">Risk weighting of investment exposure</td></tr>
<tr><td>KHCB Asset Company</td><td>Financial entity</td><td>Full consolidation</td><td>No impact as no direct investment by the Bank and the entity is a securitisation vehicle.</td></tr>
<tr><td>Harbour North 1 Real Estate SPC</td><td rowspan="8">Commercial entities</td><td colspan="2" rowspan="8">Risk weighting (look through approach) approved by the CBB on 24 August 2020. [i]</td></tr>
<tr><td>Harbour North 2a Real Estate SPC</td></tr>
<tr><td>Harbour North 2b Real Estate SPC</td></tr>
<tr><td>Harbour North 3 Real Estate SPC</td></tr>
<tr><td>Harbour Row 3 Real Estate SPC</td></tr>
<tr><td>Harbour Row East 3 Real Estate SPC</td></tr>
<tr><td>Delmon Lost Paradise Project Company 1 SPC</td></tr>
<tr><td>Delmon Lost Paradise Project Company 2 SPC</td></tr>
<tr><td>Tunis Bay Investment Company</td><td>Commercial entity</td><td colspan="2">Risk weighting of investment exposure</td></tr>
<tr><td>Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together “India Projects”)</td><td>Commercial entities</td><td colspan="2">Risk weighting of investment exposure</td></tr>
<tr><td>Gulf Holding Company KSC (c)</td><td>Commercial entity</td><td colspan="2">Risk weighting of investment exposure</td></tr>
</table>

Subsidiaries	Entity classification as per PCD Module for consolidated capital adequacy	Treatment by the Bank	
		Consolidated	Solo basis
Residential South Real Estate Company BSC (c)	Commercial entity	Risk weighting of investment exposure	
Falcon Cement Company BSC (c)	Commercial entity	Risk weighting of investment exposure	
GFH Properties SPC	Commercial entity	Risk weighting of investment exposure	
Harbour Row 2 Real Estate SPC	Commercial entity	Risk weighting of investment exposure	

Associates *	Entity classification as per PCD Module for consolidated capital adequacy	Treatment by the Bank for Consolidated and Solo basis
Bahrain Aluminium Extrusion Company BSC (c)	Commercial entity	Risk weighting of investment exposure
Enshaa Development Real Estate BSC (c)	Commercial entity	Risk weighting of investment exposure
Capital Real Estate Projects BSC (c)	Commercial entity	Risk weighting of investment exposure
Al Areen Hotel SPC	Commercial entity	Risk weighting of investment exposure

[i] These are pass-through entities and hence the underlying assets are risk weighted.

The investments in subsidiaries and associates are subject to large exposure and connected counterparty limits and guidelines set by the CBB. Significant investment in banking subsidiaries and financial entities that exceed the threshold for deduction from capital, the excess should be deducted from the capital of the Group

The Central Bank of Bahrain, vide its letter dated 24 August 2020, has continued the exemption granted to GFH Financial Group from including the assets acquired via recovery and via the shares swap as part of the Large Exposure and Connected Counterparty limits. The same will be reassessed by Central Bank of Bahrain on an annual basis.

KHCB, a banking subsidiary of the Bank, is a locally incorporated commercial bank and the specific quantitative and qualitative disclosures pertaining to all the risks of KHCB have been disclosed in the Risk Management Disclosures of KHCB as at 30 June 2020, which can be accessed directly from investor's relations section in KHCB's website. This document provides the risk and capital management disclosures of the GFH. The KHCB specific disclosures and requirements that are disclosed in the disclosures of KHCB were not reproduced in this document.

This document intends to combine the risk and capital management disclosures of the Bank and its involvement with its subsidiaries and associates. The quantitative disclosures in these documents provide further details of the exposures used for capital calculation purposes (where some entities are consolidated and some may be risk weighted) and accordingly will not match with the consolidated financial statements of the Group.

There are no restrictions for transfer of capital other than those applicable to licensed financial entities and process of commercial companies' law of respective jurisdictions.

Composition of Capital disclosure - As at 30 June 2020

Statement of financial position under the regulatory scope of consolidation and reconciliation of published financial statements to regulatory reporting as at 30 June 2020.

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

As at 30 June 2020	Consolidated Statement of Financial Position as in published financial statements (In USD'000)	Consolidated Statement of Financial Position as per Regulatory Reporting (In USD'000)	Reference
ASSETS			
Cash and bank balance	598,969	590,261	
Of which Expected Credit Losses (ECL) resulting from adoption of FAS 30	*(75)*	*(75)*	A
Treasury portfolio	1,594,462	1,594,450	
Of which Expected Credit Losses (ECL) as per FAS 30	*(1,611)*	*(1,611)*	A
Financing assets	1,275,622	1,300,231	
Of which Expected Credit Losses (ECL) as per FAS 30	*(22,286)*	*(22,286)*	A
Real estate investments	1,808,534	797,933	
Proprietary investments	251,328	773,169	
Of which Expected Credit Losses (ECL) as per FAS 30	*(37)*	*(37)*	A
Of which non-significant investments in financial entities	*18,000*	*18,000*	B
Of which significant investments in the common stock of financial entity	-	-	C
Co-investments	98,558	98,558	
Receivables and prepayments	399,555	348,147	
Of which Expected Credit Losses (ECL) as per FAS 30	*(780)*	*(780)*	A
Property and equipment	107,743	26,359	
Total assets	**6,134,771**	**5,529,108**	
LIABILITIES			
Clients' fund	104,383	104,383	

As at 30 June 2020	Consolidated Statement of Financial Position as in published financial statements (In USD'000)	Consolidated Statement of Financial Position as per Regulatory Reporting (In USD'000)	Reference
Placements from financial institutions, non-financials and individuals	2,296,788	2,296,788	
Customer current accounts	127,694	127,694	
Term financing	929,532	698,100	
Other liabilities	396,175	235,067	
Total liabilities	**3,854,572**	**3,462,032**	
Equity of investment account holders	**1,098,723**	**1,098,723**	
OWNERS' EQUITY			
Share capital	975,638	975,638	D
Treasury shares	(76,801)	(76,801)	E
Statutory reserve	125,312	125,312	F
Fair value reserve	(12,906)	(12,906)	G
Retained earnings	(110,273)	(110,273)	H
Foreign currency translation reserve	(48,929)	-	
Share grant reserve	1,198	1,198	I
Total equity attributable to shareholders of the Bank	**853,239**	**902,168**	
Non-controlling interests	328,237	66,185	
Of which Total minority interest in banking subsidiaries given recognition in CET1 capital	-	*66,185*	J
Total owners' equity	**1,181,476**	**968,353**	
Total liabilities, equity of investment account holders and owners' equity	**6,134,771**	**5,529,108**	

The table below shows the total assets and shareholders' equity of the Bank's subsidiaries as at 30 June 2020 which are not consolidated for capital adequacy calculation purposes.

Entity name	Principal activities	Total Assets* USD'000	Total Shareholders' equity * USD'000
Morocco Gateway Investment Company	Real estate development	145,247	107,799
India Project	Real estate development	579,359	457,559
Tunis Bay Investment Company	Real estate development	120,062	72,165
Gulf Holding Company	Real estate development	91,261	84,559
Residential South Real Estate Development Company (RSRED)	Real estate development	302,015	54,580
Falcon Cement Company	Industrial services	103,823	56,045

**The numbers disclosed are before considering intercompany eliminations.*

Composition of Regulatory Capital as at 30 June 2020

	Composition of Capital as at 30 June 2020 (In USD'000)		**Source based on reference letters of the statement of financial position under the regulatory scope of consolidation**
	Common Equity Tier 1 capital: instruments and reserves		
1.	Directly issued qualifying common share capital plus related stock surplus	975,638	D
2.	Retained earnings	(110,273)	H
3.	Accumulated other comprehensive income (and other reserves)	126,510	F+G+I
4.	*Not applicable*		
5.	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	66,185	J
6.	**Common Equity Tier 1 capital before regulatory adjustments**	1,058,060	
	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.	Not applicable		
15.	Defined-benefit pension fund net assets	-	
16.	Investments in own shares	(76,801)	E
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.	**Total regulatory adjustments to Common equity Tier 1**	-	
29.	**Common Equity Tier 1 capital (CET1)**	981,259	
	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*	-	

Composition of Capital as at 30 June 2020 (In USD'000)			Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
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)	14,182	
35.	*of which: instruments issued by subsidiaries subject to phase out*	-	
36.	**Additional Tier 1 capital before regulatory adjustments**	-	
	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)**	995,441	
	Tier 2 capital: instruments and provisions		
46.	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47.	*Directly issued capital instruments subject to phase out from Tier 2*	-	
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)	25,450	
49.	*of which: instruments issued by subsidiaries subject to phase out*	-	
50.	Provisions	25,295	A
51.	**Tier 2 capital before regulatory adjustments**	**50,745**	
	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)	-	
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.	National specific regulatory adjustments	-	
57.	**Total regulatory adjustments to Tier 2 capital**	-	
58.	**Tier 2 capital (T2)**	**50,745**	
59.	**Total capital (TC = T1 + T2)**	**1,046,186**	
60.	**Total risk weighted assets**	7,697,309	
	Capital ratios and buffers		
61.	Common Equity Tier 1 (as a percentage of risk weighted assets)	12.75%	
62.	Tier 1 (as a percentage of risk weighted assets)	12.93%	
63.	Total capital (as a percentage of risk weighted assets)	13.59%	

Composition of Capital as at 30 June 2020 (In USD'000)			**Source based on reference letters of the statement of financial position under the regulatory scope of consolidation**
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)	N/A	
65.	of which: capital conservation buffer requirement	N/A	
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)	12.75%	
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	18,000	B
73.	Significant investments in the common stock of financials	-	C
74.	Mortgage servicing rights (net of related tax liability)	-	
75.	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
76.	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to 10 standardized approach (prior to application of cap)	22,995	A
77.	Cap on inclusion of provisions in Tier 2 under 10 standardized 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*	NA	
81.	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	NA	
82.	*Current cap on AT1 instruments subject to phase out arrangements*	NA	
83.	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	NA	
84.	*Current cap on T2 instruments subject to phase out arrangements*	NA	
85.	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	NA	

Disclosure template for main features of regulatory capital instruments		
1	Issuer	GFH Financial Group B.S.C
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	GFH *(DFM)* GFH *(BHB)* GFH *(KSE)*
3	Governing law(s) of the instrument Regulatory treatment	All applicable laws and regulations in 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 and solo
7	Instrument type (types to be specified by each jurisdiction)	Common equity shares
8	Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	USD 976 million
9	Par value of instrument	USD 0.265
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1999
12	Perpetual or dated	*Not applicable*
13	Original maturity date	*Not applicable*
14	Issuer call subject to prior supervisory approval	*Not applicable*
15	Optional call date, contingent call dates and redemption amount	*Not applicable*
16	Subsequent call dates, if applicable Coupons / dividends	*Not applicable*
17	Dividends	Dividends as decided by the shareholders
18	Coupon rate and any related index	*Not applicable*
19	Existence of a dividend stopper	*Not applicable*
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	*Not applicable*
22	Noncumulative or cumulative	*Not applicable*
23	Convertible or non-convertible	*Not applicable*
24	If convertible, conversion trigger (s)	*Not applicable*
25	If convertible, fully or partially	*Not applicable*
26	If convertible, conversion rate	*Not applicable*
27	If convertible, mandatory or optional conversion	*Not applicable*
28	If convertible, specify instrument type convertible into	*Not applicable*
29	If convertible, specify issuer of instrument it converts into	*Not applicable*
30	Write-down feature	*Not applicable*
31	If write-down, write-down trigger(s)	*Not applicable*
32	If write-down, full or partial	*Not applicable*
33	If write-down, permanent or temporary	*Not applicable*
34	If temporary write-down, description of write-up mechanism	*Not applicable*
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	*Not applicable*
36	Non-compliant transitioned features	*Not applicable*
37	If yes, specify non-compliant features	*Not applicable*

3 Capital structure and capital adequacy ratio

The Bank’s regulator CBB sets and monitors capital requirements for the Bank as a whole (i.e. at a consolidated level). 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%].

risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Bank has adopted the standardised approach to credit and market risk and basic indicator approach for operational risk management under the revised framework.

The Bank’s regulatory capital position at 30 June 2020 was as follows:

USD'000

Total Regulatory Capital	**30 June 2020**
Common Equity Tier 1 (CET 1)	
Issue and fully paid ordinary shares	975,638
Statutory reserve	125,312
Retained earnings	(125,327)
Current interim cumulative net profit	15,054
Accumulated other comprehensive income and losses (and other reserves)	1,198
Total CET1 capital before minority interest	**991,875**
Total minority interest in banking subsidiaries given recognition in CET1 capital	66,185
Total CET 1 capital prior to regulatory adjustments	**1,058,060**
Less: Investment in own shares	(76,801)
Total Common Equity Tier 1 (CET1) capital after to the regulatory adjustments	981,259
Additional Tier 1 Capital (AT1)	
Instruments issued by banking subsidiaries to third parties	14,182
Total Tier 1 (T1) Capital	**995,441**
Instruments issued by banking subsidiaries to third parties	2,455
Expected Credit Losses (ECL) Stages 1 & 2	22,995
Modification losses	25,295
Total Capital (T1 & T2)	**1,046,186**

USD 000's

Risk weighted exposures	**30 June 2020**
Credit risk:	
- Self-financed assets	7,046,247
- Assets financed by EIAH (30%)	126,667
Market risk	50,263
Operational risk	474,052
Total Risk weighted exposures	**7,697,309**

Common Equity Tier 1 (CET1)	**12.75%**
Tier 1 capital (T1)	**12.93%**
Total Capital Adequacy ratio (Total Capital)	**13.59%**

The Bank's paid up capital consists only of one class of shares with voting rights.

4 Credit risk

4.1 Capital requirements for credit risk

To assess its capital adequacy requirements for credit risk in accordance with the CBB requirements, the Bank adopts the standardized approach. According to the standardized approach, on and off balance sheet credit exposures are assigned to various defined categories based on the type of counterparty or underlying exposure. The main relevant categories are claims on banks, claims on investment firms, past due facilities, investment in equities, holdings of real estate, claims on corporate portfolio and other assets. Risk Weighted Assets (RWAs) are calculated based on prescribed risk weights by CBB relevant to the standard categories and counterparty's external credit ratings, where available.

Rating of exposures and risk weighting

The use of external rating by External Credit Assessment Institutions (ECAI) is generally limited to the Bank's exposure to financial institutions and investments in sukuks. For externally rated facilities the Bank uses ratings by Standards & Poor, Moody's, Fitch and Capital Intelligence to derive risk weights for the purpose of capital adequacy computations. For financial institutions, domestic currency ratings are used to assess claims on domestic currency while foreign currency rating is used for foreign currency exposures. A preferential risk weight of 20% is used which is applicable to short term claims on locally incorporated banks where the original maturity of these claims are three months or less and these claims are in Bahraini Dinar or US Dollar.

As per CBB guidelines, 100% of the RWA's financed by owners' equity (i.e. self-financed) are included for the purpose of capital adequacy computations whereas only 30% of the RWA's financed by equity of investment account holders [EIAH] are required to be included.

Following is the analysis for credit risk as computed for regulatory capital adequacy purposes: *USD 000's*

Asset categories for credit risk - 30 June 2020	**Gross credit exposures**	**Average risk weights**	**Total credit risk weighted exposure**
Self-financed assets			
Cash items	16,510	0%	-
Total claims on sovereigns	200,509	0%	-
Total Claims on PSEs	81,930	0%	-
Standard Risk Weights for Claims on Banks	307,400	20%-100%	203,947
Short-term Claims on locally incorporated Banks – BHD and USD	309,742	20%	61,948
Preferential Risk Weight for Claims on Banks	22,561	20%	4,512
Claims on Corporates including Takaful Companies and Category 3 Investment Firms (Unsecured portion after Credit Risk Mitigant)	759,316	100% - 150%	770,860
Past Due Facilities	156,200	100% - 150%	144,156
Investments in Equity Securities	514,211	100% - 800%	1,258,043
Holdings of Real Estate	1,708,282	100% - 400%	4,540,095
Others Assets	54,172	100%	54,172
Total self-financed assets (A)	**4,130,833**	**53%**	**7,046,327**
Total regulatory capital required (A x 12.5%)		**12.5%**	**880,791**
Financed by EIAH			
Total claims on sovereigns	539,361	0%	-
Total Claims on PSEs	121,759	20%-100%	22,599
Standard Risk Weights for Claims on Banks	139,074	20% - 100%	67,182
Short-term Claims on locally incorporated Banks – BHD and USD	909	20%	182
Claims on Corporates including Takaful Companies and Category 3 Investment Firms (Unsecured portion after Credit Risk Mitigant)	342,262	100%	342,262
Total financed by EIAH (B)	**1,143,365**	**38%**	**432,225**
Considered for credit risk (C) = (B x 30%)		**30%**	**129,668**
TOTAL REGULATORY CAPITAL REQUIRED (C x 12.5%)		**12.5%**	**16,208**
TOTAL GROSS CREDIT EXPOSURES	**5,274,198**		
TOTAL RISK WEIGHTED EXPOSURE			**7,175,995**
TOTAL REGULATORY CAPITAL REQUIRED			**897,000**

4.2 Quantitative information on credit risk

4.2.1 Gross and average credit exposure

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations of the Bank classified as per disclosure in the condensed consolidated interim financial information:

USD 000's

30 June 2020	**Average [1] Exposure**	**Gross Exposure**		
		Self – Financed	**Financed by EIAH**	**Total**
Cash and bank balances	481,784	213,592	385,377	598,969
Treasury portfolio	1,591,561	326,786	1,267,676	1,594,462
Financing assets	1,274,199	976,537	299,085	1,275,622
Real estate investments	1,807,271	1,808,534	-	1,808,534
Proprietary investments	259,751	251,328	-	251,328
Co-Investments	97,532	98,558	-	98,558
Receivables and prepayments	422,122	399,555	-	399,555
Property, plant and equipment	105,801	107,743	-	107,743
Total funded Credit Exposure	**6,040,021**	**4,182,633**	**1,952,108**	**6,134,771**
Restricted investment accounts	28,332	28,332	-	28,332
Commitments	34,803	28,564	-	28,564
Financial guarantees	29,385	27,374	-	27,374
Undrawn commitments to extend finance	151,744	120,793	-	120,793
Total unfunded Credit Exposure	**244,264**	**205,063**	**-**	**205,063**

[1] Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis for six months period ended 30 June 2020. Assets funded by EIAH are geographically classified in GCC countries, and are placed with Banks and financial institutions having maturity profile of up to 3 months.

4.2.2 Credit exposure by geography

The classification of credit exposure by geography, based on the location of the counterparty, was as follows:

USD 000's

30 June 2020	GCC countries	MENA	Asia	Others	Total
Assets					
Cash and bank balances	498,694	2,000	4,140	94,135	598,969
Treasury portfolio	1,296,389	12	0	298,061	1,594,462
Financing assets	1,254,849	11,640	0	9,134	1,275,623
Real estate investments	957,963	516,817	333,754	0	1,808,534
Proprietary investments	251,328	0	0	0	251,328
Co-Investments	71,571	0	11,047	15,940	98,558
Receivables and prepayments	282,923	15,090	18,396	83,146	399,555
Property, plant and equipment	104,799	2,944	0	0	107,743
Total	**4,718,516**	**548,503**	**367,337**	**500,416**	**6,134,772**
Off-Balance sheet					
Restricted investment accounts	25,699	-	2,633	-	28,332
Commitments	28,564	-	-	-	28,564
Financial guarantees	27,374	-	-	-	27,374
Undrawn financing facilities	120,793	-	-	-	120,793

The geographical exposures of total assets are based on the condensed consolidated interim financial information as at 30 June 2020.

4.2.3 Credit exposure by sector

The classification of credit exposure by industry was as follows: *USD 000's*

30 June 2020	Banks and financial institutions	Development Infrastructure	Others	Total
Assets				
Cash and bank balances	590,262	5,912	2,796	598,970
Treasury portfolio	1,594,450	12	0	1,594,462
Financing assets	1,186,600	27,248	61,774	1,275,622
Real estate investments	0	1,808,534	0	1,808,534
Proprietary investments	169,286	34,789	47,254	251,329
Co-Investments	44,557	0	54,002	98,559
Receivables and prepayments	66,812	28,255	304,488	399,555
Property, plant and equipment	26,359	2,967	78,417	107,743
Total	**3,678,326**	**1,907,717**	**548,731**	**6,134,774**
Off-Balance sheet items				
Restricted investment accounts	95	25,604	2,633	28,332
Commitments	-	10,564	18,000	28,564
Financial guarantees	-	6,963	20,411	27,374
Undrawn financing facilities	-	120,793	-	120,793

*****The sector exposures of total assets are based on the condensed consolidated interim financial information as at 30 June 2020.*

4.2.4 Exposure by maturity

The maturity profile of exposures based on maturity was as follows: *USD 000's*

30 June 2020	Up to 3 months	3 to 6 months	6 months- 1 year	1 to 3 years	Over 3 years	Total
Assets						
Bank balances	576,287	5,414	10,865	6,403	0	598,969
Treasury portfolio	628,560	140,501	297,300	266,300	261,800	1,594,461
Financing assets	124,602	63,284	112,016	403,745	571,975	1,275,622
Real estate investments	0	0	0	65,000	1,743,534	1,808,534
Proprietary investments	2,448	0	23,825	41,244	183,811	251,328
Co-Investments	0	0	0	0	98,558	98,558
Receivables and prepayments	91,909	1,480	113,672	135,765	56,729	399,555
Property, plant and equipment	0	0	0	0	107,743	107,743
Total assets	**1,423,806**	**210,679**	**557,678**	**918,457**	**3,024,150**	**6,134,770**
Off-Balance sheet items						
Restricted investment accounts	135	-	-	28,197	-	28,332
Commitments	-	-	-	20,564	8,000	28,564
Financial guarantees	27,374	-	-	-	-	27,374
Undrawn financing facilities	-	-	88,483	32,310	-	120,793

The table above shows the maturity profile of the Group's assets and unrecognized commitments on the basis of their contractual maturity, where available. For other items, (including past due receivables), the maturity profile is on the basis of their expected realization. The total assets are as per the assets of the condensed consolidated interim financial information.

4.2.5 Exposures in excess of regulatory limits

The CBB has set single exposure limit of 15% of the Bank's total capital base on exposures to individual and a combined exposure limit of 25% of total capital base of closely connected counterparties. The excess amount of any exposure above the mentioned thresholds must be risk weighted at 800%, unless it is an exempt exposure in accordance with the requirements of CBB rulebook. The Central Bank of Bahrain, vide its letter dated 24 August 2020, has continued the exemption granted to GFH Financial Group from including the assets acquired via recovery and via the shares swap as part of the Large Exposure and Connected Counterparty limits. The same will be reassessed by Central Bank of Bahrain on an annual basis. With the exemption received from Central Bank of Bahrain, there are no combined exposure in excess of the limit of 25% of total capital base of closely connected counterparties.

The Bank's exposure in excess of 15% of the obligor limit to individual counterparties based on regulatory "total available capital" at 30 June 2020 is shown below:

30 June 2020	CAR limits 15% (US$ 000's)	Exposure (US$ 000's)	Excess over permissible limit (US$ 000's)
Counterparty A	156,928	318,344	161,416
Counterparty B	156,928	178,985	22,057

4.2.6 Impaired facilities and past due exposures

The Bank classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Credit and investment exposures are subject to regular reviews by the Investment units and Risk Management Department.

Movement in impairment provisions during the period of Islamic Financing Contracts:

USD'000

30 June 2020	Total	Stage 3	Stage 1 and 2
At 1 January	109,462	88,700	20,762
Charge for the period	1,547	-	1,547
At 30 June	**111,009**	**88,700**	**22,309**

Analysis of past due and impaired and past due but not impaired receivables of aging of Islamic Financing Contracts:

USD'000

30 June 2020	Past due but not impaired	Past due and impaired
1 to 3 years	-	9,186

* The Bank believes that the past due exposures are not further impaired on the basis of the assessment of the level of future expected cash flows from the counterparty and / or the stage of collection of amounts owed to the Bank.

Geographical concentration of impaired and past due receivables:

USD'000

30 June 2020	Gross impaired receivables	Specific Impairment allowance	Net receivables
United Kingdom (UK)	9,186	(4,340)	4,846

Industry/sector wise breakdown of impaired and past due receivables:

USD'000

30 June 2020	Gross impaired receivables	Specific Impairment allowance	Net receivables
Other sector	9,186	(4,340)	4,846

4.2.6.1 Credit risk mitigation

The credit risk exposures faced by the Bank are primarily related to placements with other financial institutions, investments in sukuks and in respect of investment related funding made to its projects. The funding made to the projects are based on the assessment of the underlying value of the assets and the expected streams of cash flows. Since these exposures arise in the ordinary course of the Bank's investment banking activities and are with the projects promoted by the Bank, they are generally transacted without any collateral or other credit risk mitigants.

4.2.7 Related party and intra-group transactions

Related counterparties are those entities which are connected to the Bank through significant shareholding or control or both. The Bank has entered into business transactions with such counterparties in the normal course of its business. For the purpose of identification of related parties the Bank follows the guidelines issued by Central Bank of Bahrain and definitions as per FAS issued by AAOIFI. Detailed break up of related parties transactions and exposures as at and for the six months period ended 30 June 2020 were disclosed in note 20 of the condensed consolidated interim financial information.

4.2.8 Exposure to highly leveraged and other high risk counterparties

The Bank has no exposure to highly leveraged and other high risk counterparties as per definition provided in the CBB rule book PD 1.3.24.

4.2.9 Restructured facilities

As at 30 June 2020, the Bank does not have any restructured facilities. For the disclosures pertaining to restructured facilities of KHCB, please refer the disclosures of KHCB.

4.2.10 Equity investments held in banking book

The Bank does not have a trading book and hence all of its equity investments and other investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include available-for-sale investments, significant and majority investments in commercial entities and associate investments in non-significant financial and non-financial entities (i.e. significant financial entities which qualify as associates are treated separately for regulatory purposes).

The Risk Management Department provides an independent review of all transactions. A fair evaluation and impairment assessment of investments takes place every quarter with inputs from the Investment department, Finance Department and Risk Management Department. Investment updates are periodically reviewed by the Board of Directors. Regular audits of business units and processes are undertaken by Internal Audit.

The Bank's equity investments are predominantly in its own projects, which include venture capital, private equity and development infrastructure investment products. The intent of such investments is a later stage exit along with the investors principally by means of sell outs at the project level or through initial public offerings. The Bank also has a strategic financial institutions investment portfolio which is aligned with the long term investment objectives of the Group.

Information on equity investments (including significant commercial entities)	**USD 000's**
Privately held	755,689
Quoted in an active market	17,480
Managed funds	-
Dividend income	4,109
Realised gain/ (loss) during the period	211
Unrealised gain recognized in the balance sheet not through income statement	(9,017)

The following are the categories under which equity investments are included in the capital adequacy computations as per the requirements of the CBB rules:

USD 000's

30 June 2020	Gross exposure*	Risk weight	Risk weighted exposure	Capital charge @12.5%
Listed equity investments	17,480	100%	17,480	2,185
Unlisted equity investments	300,606	150%	450,909	56,364
Significant investment in the common shares of financial entities >10%	18,000	250%	45,000	5,625
Other investment with excess amount over 15% of total capital	161,416	800%	1,291,328	161,416
All other holdings of real estate	988,861	200%	1,977,722	247,215
Investments in listed real estate companies	103	300%	309	39
Investment in unlisted real estate companies	481,900	400%	1,927,600	240,950
Total	**1,968,366**		**5,710,348**	**713,794**

**Includes amounts of risk weighted assets arising from full consolidation of certain investments.*

5 Market risk

To assess its capital adequacy requirements for market risk in accordance with the CBB capital adequacy module for Islamic Banks, the Bank adopts the standardised approach. Foreign exchange risk charge is computed based on 8% of overall net open foreign currency position of the Bank.

USD 000's

	30 June 2020	Maximum during the period	Minimum during the period
Foreign exchange risk – A	4,021	4,021	2,814

Risk weighted assets – B (A*12.5)	50,263	50,263	35,173
Capital requirement – (B*12.5%)	6,283	6,283	4,397

6 Operational risk

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the approach agreed with the CBB. The bank's average gross income for the last three financial years is multiplied by a fixed coefficient alpha of 15% set by CBB and a multiple of 12.5x is used to arrive at the risk weighted assets that are subject to capital charge.

USD 000's

	Average gross income	Risk weighted assets	Capital charge at 12%
Operational risk	252,828	474,052	56,886

Litigations, claims and contingencies

The Bank has established approved policies in relation to legal, regulatory and compliance risk; and have dedicated Compliance and Legal departments in place. All contracts, documents, etc are reviewed by the legal department as well. For information on commitments and contingencies, refer note 22 of the consolidated interim financial information for the six months ended 30 June 2020.

7 Other types of risk

7.1 Liquidity risk

Liquidity risk is the inability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. This also includes the inability of the Bank to liquidate its assets at their expected prices in a reasonable period. The Group's approach to managing liquidity is to ensure that it should always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Bank has a liquidity risk policy in place, which describes the roles and responsibilities of various committees, Treasury and other concerned departments in management of liquidity. The liquidity risk policy and liquidity risk appetite limits stipulates various liquidity ratios to be maintained by the Bank, as well as gap limits for time bucket of the maturity ladder.

The liquidity position is closely monitored and stressed to cover both normal and more severe market conditions. Daily reports cover the liquidity position of the Bank. Moreover, periodic reports are submitted to the Asset and Liability Management Committee of the Bank (ALCO) Audit & Risk Committee (ARC) and to the Board of Directors for review and strategic decisions.

The following are the key liquidity ratios which reflect the liquidity position of the Group.

Liquidity ratios	30 June 2020	Maximum	Minimum
Liquid assets : Total assets	35.75%	35.75%	26.47%
Liquid* assets : Total deposits	90.47%	90.47%	40.51%
Short term assets : Short term liabilities**	66.13%	66.13%	42.17%
Illiquid assets : Total assets	64.25%	73.53%	64.25%

**Liquid Assets consist of cash and bank balances, placements with financial and non-financial institutions, investment in sukuk and investments in listed equities.*

*** Based on maturity profile of assets and liabilities of one year or less of the Group.*

The maturity profile of the Group's financial liabilities based on contractual cash flows are as follows:

USD 000's

30 June 2020	**Up to 3 months**	**3 to 6 months**	**6 months-1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Clients' funds	34,794	52,191	17,397	0	0	104,382
Placements from financial, non-financial and other individual	810,866	302,291	643,955	155,570	384,105	2,296,787
Customer current accounts	41,703	13,202	14,334	16,382	42,074	127,695
Term financing	210,857	304,479	36,400	54,196	323,600	929,532
Other liabilities	63,250	54,048	33,404	245,472	0	396,174
Total liabilities	**1,161,470**	**726,211**	**745,490**	**471,620**	**749,779**	**3,854,570**
Equity of investment account holders	**247,488**	**170,568**	**263,637**	**177,790**	**239,240**	**1,098,723**

7.2 Management of profit rate risk in the banking book

Profit rate risk is the exposure of a bank's financial condition to adverse movements in profit rates. Changes in profit rates affect a bank's earnings by changing its net profit income and the level of other profit-sensitive income and operating expenses. Changes in profit rates also affect the underlying value of the bank's assets, liabilities, and off-balance-sheet (OBS) instruments because the present value of future cash flows change when profit rates change.

The Board of Directors is responsible for the overall management of the profit rate risk. The ALCO helps the Board by determining the borrowing and funding strategy of the Bank in order to optimize risk return trade off. It supports the Board in managing profit rate risk by recommending policies, setting limits and guidelines and monitoring the risk on a regular basis.

The following disclosures are of the Group.

US$ 000's

30 June 2020	Up to 3 months	3 to 6 months	6 months - 1 year	1 to 3 years	Over 3 years	Total
Assets						
Treasury portfolio	628,560	140,501	297,300	266,300	261,800	1,594,461
Financing assets	124,602	63,284	112,016	403,745	571,975	1,275,622
Total assets	**753,162**	**203,785**	**409,316**	**670,045**	**833,775**	**2,870,083**
Liabilities						
Clients' funds	34,794	52,191	17,397	0	0	104,382
Placements from financial, non-financial and other individual	810,866	302,291	643,955	155,570	384,105	2,296,787
Customer current accounts	41,703	13,202	14,334	16,382	42,074	127,695
Term financing	210,857	304,479	36,400	54,196	323,600	929,532
Total liabilities	**1,098,220**	**672,163**	**712,086**	**226,148**	**749,779**	**3,458,396**
Equity of investment account holders	**247,488**	**170,568**	**263,637**	**177,790**	**239,240**	**1,098,723**
Profit rate sensitivity gap	**(592,546)**	**(638,946)**	**(566,407)**	**266,107**	**(155,244)**	**(1,687,036)**

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market profit rates for a 200bps increase / (decrease) is as below: (assuming no asymmetrical movement in yield curves and a constant balance sheet position)

USD'000

200 bps parallel increase / (decrease)	**2020**
At 30 June 2020	± 16,870

Average for the period	± 19,273
Maximum for the period	± 16,870
Minimum for the period	± 16,870

7.3 Concentration risk

This risk arises from exposure to a common set of factors that can produce losses large enough to threaten the Bank's health or ability to maintain its core business.

Concentration risk can arise from exposure to specific classes of assets, sector, country, revenue streams, counterparty, a group of counterparties, etc. Concentration risk is mitigated by limits, diversification by assets, geography counterparty quality etc. The geographical and sector concentration of credit exposures has been disclosed in paragraphs 4.2.2 and 4.2.3.

7.4 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. In addition to the identified credit risk exposures the Bank's counterparty credit risk from markets as such is limited to the fair value of contracts of foreign exchange risk management instruments the overall exposure to which is usually not significant. For other credit market transactions (primarily inter-bank placements), the Bank has established a limit structure based on the credit quality (assessed based on external rating) of each counter party bank to avoid concentration of risks for counterparty, sector and geography.

The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank. As at 30 June 2020, the Bank did not have any open positions on foreign exchange contracts.

7.5 Reputational risk (non-performance risk)

Reputation risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base, lead to costly litigation that could have an adverse impact on liquidity or capital of the Bank. Being an Islamic Investment Bank, reputation is an important asset and among the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments and poor communication to investors. A well developed and coherently implemented communication strategy helps the Bank to mitigate reputational risks.

7.6 Displaced commercial risk

Displaced Commercial Risk (DCR) refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates. The Bank's DCR primarily arises from the funds accepted in the form of Investment Account Holders (IAH) which is currently not very significant in terms of its size and in comparison to the overall activities of the Bank. The returns to investors on the funds are based on returns earned from short-term placements and hence the Bank is not exposed to a significant repricing risk or maturity mismatch risk in relation to these accounts. In relation to the DCR that may arise from its investment banking and restricted investment account products, the risk is considered limited as the Bank does not have any obligation to provide fixed or determinable returns to its investors. The Bank constantly monitors all potential risks that may arise from all such activities as part of its reputational risk management.

7.7. Shari'a compliance

The Sharia Supervisory Board (SSB) is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Sharia and specific fatwas, rulings and guidelines issued. The Bank also has a dedicated internal Sharia audit function, who performs an ongoing independent review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Sharia standards prescribed by AAOIFI while the Coordination and Implementation function assists the SSB in issuing Sharia pronouncements/resolutions about the products and services offered by the Group. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Sharia rules and principles.

7.8 Other risks

Other risks include strategic, fiduciary risks, regulation risks etc. which are inherent in all business activities and are not easily measurable or quantifiable. However, the Bank has proper policies and procedure to mitigate and monitor these risks. The Bank's Board is overall responsible for approving and reviewing the risk strategies and significant amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank. The Bank as a matter of policy regularly reviews and monitors financial and marketing strategies, business performance, new legal and regulatory developments and its potential impact on the Bank's business activities and practices.

8 Product disclosures

8.1 Product descriptions and consumer awareness

The Bank offers a comprehensive mix of Shari'a compliant investment banking products primarily to high net worth and sophisticated investors. This includes a range of innovative structured investment products like funds, repackaged products and structured restricted investment accounts. The investment department of the Bank has expertise in creating innovative high end and value added products offering a wide range of structures, expected returns, tenors and risk profiles. Proposal for any new product is initiated by individual business lines within the Bank. The Management Investment Committee of the Bank reviews such proposal to ensure that the new product/ business is in line with the Bank's business and risk strategy. All new products will need the approval of the respective authorities as per the Delegated Authority Limits (DAL) as well as the Shari'a Supervisory Board of the Bank.

8.2 Customer complaints

GFH is dedicated to providing a high standard of service and to maintaining its reputation for honesty and integrity in all its dealings. The Bank takes all disputes and complaints from its customers and business partners very seriously. The Bank has a comprehensive policy on handling of external complaints, approved by the Board. All employees of the Bank are aware of and abide by this policy. The complaint handling process is disclosed in the Bank's website and also in all printed prospecting materials. Complaints are normally investigated by persons not directly related to the subject matter of the complaint.

8.3 Equity of Investment Account Holders (EIAH)

The Bank does not have significant amount under EIAH and does not use EIAH as a main source of its funding. The Bank does not, as a focused product proposition, offer EIAH products to its clients. The current EIAH deposits have been accepted on a case-by-case basis considering the Bank's relationship with its customers. The EIAH holder authorises the Bank to invest the funds in any investments approved by the Bank's Sharia'a Board without any preconditions. All EIAH accounts are on profit sharing basis, but the Bank does not guarantee any particular level of return. In accordance with the principles of Sharia'a, the entire investment risk is on the investor. Any loss arising from the investment will be borne by the customer except in the case of the Bank's negligence. The Bank charges a Mudarib fee as its share of profit. Early withdrawal is at the discretion of the Bank and is subject to the customer giving reasonable notice for such withdrawal and agreeing to forfeit a share of the profit earned on such account.

The Bank has an element of displaced commercial risk on EIAH which is mitigated by setting up and maintaining an appropriate level of Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) to smoothen return to EIAH holders.

Profit Equalisation reserve (PER) is created by allocations from gross income of the Mudarabah before adjusting the Mudarib (Bank) share. Investment Risk Reserves (IRR) comprises amounts appropriated out of the income of investment account holders after deduction of the Mudarib share of income. Administrative expenses incurred for management of the funds are borne directly by the Bank and are not charged separately to investment accounts. All terms of the EIAH are agreed upfront with the customers and form part of the agreement with the customer. Till date, the Bank has not made any withdrawals on PER or IRR. Any movements on these accounts are therefore only on account of additional reserves added. The historical returns data on EIAH of the Bank is as follows:

USD 000's

	30 June 2020	31 Dec 2019
Total EIAH as at 30 June / 31 December	591	590
Average EIAH balance	591	758
Average rate of return earned (%)	0.24%	1.04%
Total profits on EIAH assets earned	1	6
Distributed to investor	1	6
Allocated to IRR	0.1	0.2
Allocated to PER	0.1	0.3
Bank's share of profits	0.1	0.5
Average declared rate of return (%)	0.24%	1.04%

The information disclosed above pertains to EIAH directly promoted by the Bank. For the qualitative disclosures pertaining to EIAH of KHCB, please refer the disclosures of KHCB.

8.4 Restricted investment accounts

The Bank offers Restricted Investment Accounts ("RIAs") to both financial institutions and high net worth individuals in the GCC. All RIA product offering documents ("Offering Document") are drafted and issued with input from the Bank's Investment Banking, Shari'a, Financial Control, Legal and Risk Management Departments to ensure that the Investors have sufficient information to make an informed decision after considering all relevant risk factors. The Bank has guidelines for the development, management and risk mitigation of its' RIA investments and for establishment of sound management and internal control systems to ensure that the interests of the investment account holders are protected at all times. Wherever it is necessary for the Bank establishes Special Purpose Vehicles (SPVs) for management of the investment. The Bank has a Board approved SPV Governance framework in place to equip the Board in ensuring that the management of such SPVs are conducted in a professional and transparent manner.

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The Bank considers the following in discharge of its fiduciary responsibilities:

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Shari'a principles and the CBB regulations;

- Appropriately highlighting to the Investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the Investor before accepting the investment funds;

- Completing all necessary legal and financial due diligence on investments undertaken on behalf of the Investors with the same level of rigor as the Bank requires for its' own investments;

- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;

- Preparing and disseminating periodical investment updates to Investors on a regular basis during the tenor of the investment;

- Distributing the capital and profits to the Investor in accordance with the terms of the offering document; and

- In all matters related to the RIA, RIA SPV(s) and the investment, act with the same level of care, good faith and diligence as the Bank would apply in managing its own investments.

Within the Bank, the abovementioned responsibilities and functions are provided, managed and monitored by qualified and experienced professionals from the Investment Banking, Shari'a, Financial Control, Legal, Investment Administration and the Risk Management Departments with internal audit oversight.

The restricted investment accounts primarily represents the investments in the projects promoted by the Bank and managed on a portfolio basis on behalf of investors.

There were no annual distributions made by the Bank for RIA for the past five years.

For the qualitative and quantitative disclosures pertaining to RIA's of KHCB, please refer the financial disclosures of KHCB.

9 Penalties

During the period, no financial penalties were imposed.