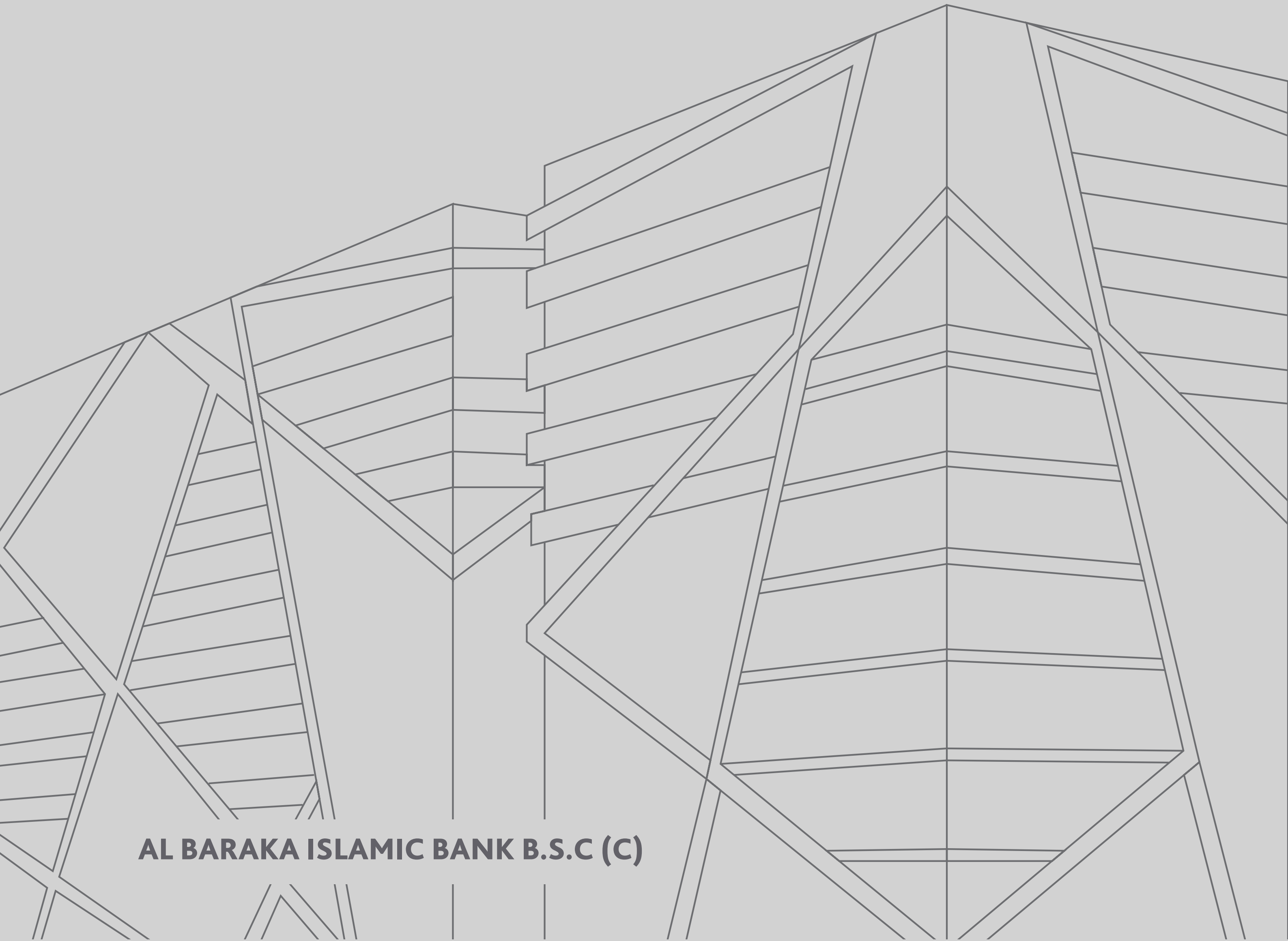
ANNUAL REPORT 2022



AL BARAKA ISLAMIC BANK B.S.C (C)

Head Office

Mr. Hamad Abdulla Al Oqab, CEO
Al Baraka Tower, Bahrain Bay, P.O. Box 1882
Manama, Kingdom of Bahrain

Head Office Branch(Bahrain Bay)	Tel: +973 17 535 300	Fax: +97317 533 993
Muharraq Branch	Tel: +973 17 461 999	Fax: +973 17 324 888
Riffa Branch	Tel: +973 17 768 600	Fax: +973 17 490 003
Ramli Mall, A'ali	Tel: +973 17 646 677	Fax: +973 17 646 676
Galleria Mall	Tel: +973 17 166 600	Fax: +973 17 911 844

Website: www.albaraka.bh

Subsidiaries

Al Baraka Bank Pakistan Limited
Mohammed Atif Hanif
Chief Executive Officer
Plot No. 162, Bangalore Town Block 7 & 8
Shahrah-e-Faisal Karachi, Pakistan

Tel: +9221 34 315 851
000 307 34 +9221
Fax: +9221 34 323 761
465 546 34 +9221
Email: albaraka@albaraka.com.pk
Website: www.albaraka.com.pk

Danaat Al Baraka
Mr. Tariq Mahmood Kazim,
Chairman
Flat 10, Building 2504, Road 2832,
Block 428, Kingdom of Bahrain

Tel: +973 17 535300
Fax: +973 17 533993

You can find more information on our corporate website
www.albaraka.bh

Licensed as an Islamic retail bank by the Central Bank of Bahrain

TABLE OF CONTENT

Strategic Report

Governance

Consolidated Financial Statements

His Highness
Shaikh Isa Bin Salman Al Khalifa

Late Amir of
The Kingdom of Bahrain

His Majesty
King Hamad Bin Isa Al Khalifa

The King of
The Kingdom of Bahrain

His Royal Highness
Prince Salman Bin Hamad Al Khalifa

Crown Prince and Prime Minister of
The Kingdom of Bahrain

The Group offers **innovative products and services based on Islamic Sharia Principles, including Corporate and Retail financing, investments, international trade finance, and managment of short-term liquidity.**

Corporate Profile

Al Baraka Islamic Bank ("AIB" or "the Group") is one of leading financial institutions in the Islamic banking sector. Throughout its history of more than three decades (since its establishment in 1984), the Group has played a prominent role in building the infrastructure of the Islamic finance industry. The Group also played a significant role in promoting the Islamic finance industry and publicizing its merits. The Group enjoys a good reputation and high standing with the community in the Kingdom of Bahrain in particular, and in the GCC, Arab and Islamic worlds in general.

AIB offers innovative financial products, including investments, international trading, management of short-term liquidity and consumer financing, all of which are all based on Islamic financing modes. Such financing include Murabaha, Wakala, Istisna, Musharaka, Mudarabah, Salam, and Ijara Muntahia Bittamleek.

The Group had achieved excellent results in its banking operations, thanks to its vast wealth of knowledge in the area of Islamic Fiqh (Jurisprudence), the diverse experience of its executive management team, and the strong and deep financial position of its Ultimate Parent (Al Baraka Group). Since its inception, AIB is managing funds onbehalf of many large financial institutions and high net worth clients (who sought rewarding long-term and financial returns) by deploying Sharia compliant instruments.

In 2010, AIB completed the merger of its branches in Pakistan (whose operations started back in 1992) with Emirates Global Islamic Bank Limited, to establish Al Baraka Bank Pakistan Limited ("ABPL"). Thereafter, in 2016, ABPL acquired and merged with Burj Bank Limited leading to the addition of 74 new branches.

As for its strategic plans, the Group continued to maintain the pace of growth in its business operations with particular focus on commissions and fee-based income. The Group also expanded its investment portfolio, continued to develop its infrastructure, particularly in modernizing its information technologies (IT) and related services, improved its customer services, provided training and coaching to its employees and maintained its special relationship with its customers as "Partners in Achievement".

AIB is a retail Islamic bank licensed by the Central Bank of Bahrain and registered with Bahrain's Ministry of Industry, Commerce, and Tourism under Commercial Registration No. 14400. The Group has an authorized capital of USD 600 million and issued and paid-up capital of USD 151.5 million.

AIB is one of the banking units of ABG (which is a Bahraini Joint Stock Company listed in Bahrain stock exchange. Al Baraka Group B.S.C ("ABG" / the "Ultimate Parent") is licensed as an Investment Business Firm – Category 1 (Islamic Principles) by the Central Bank of Bahrain. It is a leading international Islamic financial group providing financial services through its banking subsidiaries in 15 countries offering retail, corporate, treasury and investment banking services, strictly in accordance with the principles of Islamic Sharia.

The Ultimate Parent has a wide geographical presence with operations in Jordan, Egypt, Tunisia, Bahrain, Sudan, Turkey, South Africa, Algeria, Pakistan, Lebanon, Syria, Morocco and Germany, in addition to two branches in Iraq and a representative office in Libya and provides its services in more than 600 branches. ABG's network serves a population totalling around one billion customers.

The authorized capital of ABG is USD 2.5 billion.

Vision, Mission and Values

OUR VISION

To be a global leader in innovative participation finance, offering an agile ethical financial system built for the digital age.

OUR MISSION

To fulfill the financial needs of communities across the globe by conducting business through an ethical customer-centric approach tailored for the digital age, based on our core beliefs and aimed at sharing the mutual rewards with our partners in business success: our customers, our employees, our shareholders, and our communities at large

OUR VALUES

1 **Partnership**
Our shared beliefs create strong bonds that form the basis of long-term relationships with customers and staff

2 **Agility**
We are fleet-footed to adapt to the Digital Age to meet the fast changing customer behavior and needs in a dynamic and challenging environment.

3 **Innovation**
We recognize that an 'INNOVATION FIRST' culture is necessary to be able to serve our customers on a 'here and now' basis in a fast changing world.

4 **Trust**
Our customers can experience peace of mind and rest assured that their financial interests are being managed by us to the highest ethical standards of participation finance.

5 **Development**
By banking with our banking subsidiaries, our customers make a positive contribution to a better society - their growth and ours will sustain the greater good of society.

Board of Directors

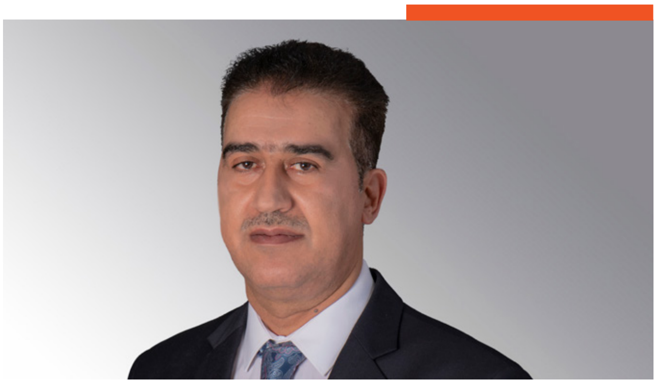
Saleh Salman Al Kawari
CHAIRMAN

Yousf Ali Bin Fadil
VICE CHAIRMAN

Abdullatif Abdulrahim Janahi
BOARD MEMBER

Abdulrahman Abdulla Mohamed
BOARD MEMBER

Dr. Khalid Abdulla Ateeq
BOARD MEMBER



Abdulrahman Abdulla Al Sayed
BOARD MEMBER

Abdulrazzaq Abdulkhaleq Abdulla
BOARD MEMBER

Adnan Abdulla Al Bassam
BOARD MEMBER

Hamad Abdulla Al Oqab
BOARD MEMBER AND CHIEF EXECUTIVE OFFICER

Sharia Supervisory Board

Shaikh Essam Mohamed Ishaq
CHAIRMAN

Shaikh Nedham Mohamed Saleh Yaqoobi
MEMBER

Shaikh Judge Waleed Abdulmonem Al Mahmood
MEMBER

Financial Highlight

Total Assets (Consolidated)
USD 2,723
(In USD Million)

CAGR @5%

2018	2,180
2019	2,376
2020	2,652
2021	2,863
2022	2,723

Financing (Consolidated)
USD 1,206
(In USD Million)

CAGR @2%

2018	1,086
2019	974
2020	1,068
2021	1,206
2022	1,206

Investments (Consolidated)
USD 1,149
(In USD Million)

CAGR @15%

2018	565
2019	974
2020	1,013
2021	1,142
2022	1,149

Net Income/(Loss) (Consolidated)
16.4
(In USD Million)

2018	-18.2
2019	5.1
2020	7.6
2021	12.6
2022	16.4

Saleh Salman Al Kawari
CHAIRMAN

Directors Report

In the name of Allah, the most beneficent, the most merciful.

Praise be to Allah, Lord of the Worlds, and prayers and peace be upon the last Apostle and Messenger Prophet Mouhamad (Peace be upon him) and his family and companions.

Dear Shareholders, on behalf of the Board of Directors, it is my pleasure to present the annual report of Al Baraka Islamic Bank and its subsidiaries (the "Group") for the financial year ended 31 December 2022.

Global economy is still facing great challenges as a result of the pandemic, the repercussions of the war in Ukraine, the cost of living crisis caused by persistent and broadening inflation pressures, in addition to the economic slowdown in China. Latest studies indicates a stable global growth rate in 2022 at 3.2% expected to decline later to 2.7% in 2023. These studies also expects that one-third of the global economy will witness a state of contraction due to the continued slowdown in the activities of the World's largest economies – the United States, the European Union and China, and many will feel the brunt of this slowdown during 2023.

The global economy suffers from strong imbalances due to the war in Ukraine, as the war caused severe energy crisis in Europe, and led to a sharp rise in the cost of living, the faltering of economic activity, and a rise in food prices in global markets. Further, with the persistent and broadening inflationary pressures, the pace of monetary tightening accelerated simultaneously around the World, tighter global monetary and financial conditions will work their way through the economy, weighing demand down and helping to gradually curb the inflation, however, price pressures are proving quite stubborn and a great concern for policymakers. The global inflation reached its peak in 2022 but to remain elevated for longer than previously expected, to gradually decline by 2024. The frequent lookdowns in China due to the pandemic have taken a toll on the economy that will weigh heavily on global trade and activity due to the size of the Chinese economy and the importance of its role in the global supply chain.

The year 2022 witnessed a strong performance from the Gulf Cooperation Council economies as compared with most other economies, mainly driven by the rise in oil prices and the increase in its production. Analysts expect that this rise will lead to the GCC states achieving the highest GDP levels in a decade, reaching 6.9%, which will result in financial surpluses for GCC states. Despite the expectations of lower oil prices during 2023 and the consequent reduction in production levels, a slowdown in growth in the region is inevitable. However, analysts believe that the performance of the non-oil sectors will be reasonably good, supported by a mixture of oil prices that are relatively high and the progress of structural reforms undertaken by the GCC states, as well as governments initiatives to support investment programs and plans.

Bahrain's economy was able to face a series of regional and global challenges in recent years, due to the high growth rates, the increase in government revenues, the rise in energy prices in international markets, and the positive performance of the financial services; manufacturing; and hospitality sectors, which contributed to position the Kingdom among the most diversified economies in the region. Analysts expect GDP growth rate to reach 5.5% by the end of 2022, to decline to 3.3% by the end of 2023 due to the expected decline in energy prices. Analysts believe that the growth of the non-oil sectors was positive, due to the improved performance of fiscal policies and the governments' commitment towards economic recovery plan, which includes various vital sectors in the Kingdom. Latest statistics indicates an increase in the rate of Bahrainization in the private sector by 4.3% on an annual basis, which confirms the governments' steady progress towards achieving its goals aimed at developing the labour market; creating sustainable job opportunities; and qualifying the national workforce. Standard & Poor's revised Bahrain's outlook from stable to positive during the year, due to the improvement in the performance of financial policies and economic reforms adopted by the government.

On the other hand, the rise in interest rates; price of food and energy; in addition to the severe flood wave that swept the Islamic Republic of Pakistan during 2022 is expected to weaken the economic and financial results and create refinancing challenges in the medium term. Financial reform efforts undertaken by the Pakistani government has been witnessing economic challenges and political and social pressure against the plan to phase-out social support for low-income groups. The deficit in the current account amounted to USD 3.1bn, compared to a deficit of USD 7.2bn in the previous year. State Bank of Pakistan has recently kept interest rates at 17%. Standard & Poor's modified Pakistan's outlook from negative to stable during the year with a downgrade rating due to continued decline and weakness of financial and economic metrics, These economic prospects are expected to affect the financial performance of the Group.

With all challenges posed by market fundamentals and conditions, the Group was able - thanks to Allah the Almighty - to continue its strong performance and journey towards achieving its strategic goals, which focuses on establishing a flexible and sustainable revenue base; maintaining the quality of financing portfolio; increasing returns to shareholders; and improving efficiency of operations. The Pakistani Rupee depreciated approximately by 27% as compared with last year, leading to a decline in total assets of the Group by approximately 5%, i.e. from USD 2,863mn in 2021 to USD 2,723mn in 2022, the same reason led to a decline in customer deposits from USD 2,462mn in 2021 to USD 2,328mn in 2022. On the other hand, the growth in financing activities during 2022 contained the currency depreciation and maintained the portfolio as it was in 2021, i.e. at USD 1,206mn.

Over the past few years, the Group managed to build a flexible and sustainable revenue base that significantly contributed to stabilize its performance. As a result, the Group was able to report a 23% increase in its total revenues to reach USD 204mn for the year ended 31 December 2022 as compared with USD 167mn reported last year. The Group also conducted a comprehensive review over its expenditures aiming to rationalize them without compromising quality of service and was able to reduce these expenses by 3% as compared with last year. The large increase in interest rates raised by the US Federal Reserve and its contagious effect on the global economies, including the Kingdom of Bahrain, had significantly affected profit margins alongside with intense competition in the market. The Group continued to adopt its cautious and conservative approach and continued to increase its coverage against both specific losses as well as expected credit losses.

As a result of all the above, the Group announced achieving the highest net profit in its history, amounting to USD 16.4mn for the year ended 31 December 2022 compared with USD 12.6mn reported in the previous year, i.e. an increase of 30%, which indicates that the Group's core performance is moving in a positive trajectory.

The Islamic International Rating Agency has maintained Al Baraka Islamic Bank's international scale investment grade credit rating of BB (long term)/A3 (short term) with a stable outlook and a national scale rating of BBB+ (long term)/A3 (short term) with a stable outlook. At the same time, the VIS Credit Rating Company Limited reaffirmed long term/short term credit rating of A+/A-1 on a national scale. Such

Directors Report

ratings reflects the strong capacity of the Group to meet its financial obligations and commitments and the presence of a strong compliance and governance environment.

The Group continues to adopt its philosophy of sustainability and social responsibility and considers it as a fundamental pillar of its strategy that is built on adopting and establishing commercial activities with sustainable resources that contribute to improving the income and living standards. The Group was among the first participants and supporters of the new housing projects and services provided by the Ministry of Housing and Urban Planning in the Kingdom. The Group had also successful projects and partnerships with governmental and private agencies to develop and build affordable housing for low-income citizens at an affordable cost, such as Danaat Al-Baraka project, which achieved unparalleled success. The Group also directed its resources towards providing job opportunities and focusing on projects of social importance, such as education financing, health care services, and others, with very low profit margins.

In the context of implementing its social commitments and responsibilities, the Group supported various health, educational and sports activities and programmes. The Group also reduced the burden of the most common diseases by donating insulin pumps to children, in addition to supporting educational institutions, hospitals, orphanages and other charitable institutions. The Group have contributed significant amounts of donations to educational institutions, hospitals, orphanage and other charitable institutions. In addition, the Group provided on-job training to university students and school students under INJAZ Bahrain program. Furthermore, the Group remained a partner in many Islamic finance and banking events and conferences organized by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

During 2022, the Group won seven awards in different categories and sectors, including personality of the year (Chief Executive Officer); best retail bank; best product; best bank for women empowerment; in addition to a number of awards related to marketing campaigns.

The World is expected to face large and complex challenges in 2023. The effects of the pandemic have not yet abated, Ukraine war is ongoing, the increase in prices and cost of living continues, the interruption of global supply chains has become commonplace, the inflation and deflation pressures continue. It has become necessary for governments to contain the impact of these challenges. The Group will continue to develop its financial systems to maintain its competitiveness and to take advantage of the available opportunities. Furthermore, the Group will continue investing in its human capital, which is our utmost priority to develop its efficiency and raise the level of its skills in coming period. The Group is also working on developing a system of contemporary solutions that meet the needs of our customers in various sectors.

We praise Allah the Almighty for facilitating another year of accomplishments and success, and we ask Allah the almighty to grant us strength and wisdom and to facilitate the necessary resources for the Group to conduct its work in the coming years. In this context, and on behalf of the Board of Directors, I would like to express my sincere gratitude and appreciation to His Majesty King Hamad bin Isa Al Khalifa, and to His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister for their great support for the advancement of the banking sector in Bahrain.

Our sincere gratitude to the Central Bank of Bahrain; Ministry of Industry and Commerce; the State Bank of Pakistan, and all government agencies for their continued assistance and support. We are grateful to our shareholders, valued customers and business partners for trust and loyalty reposed on us. We offer sincere regards to our parent company and our Sharia Supervisory Board for their patronage.

A special thanks and appreciation goes to our employees for the hard work and dedication that supported the organization to achieve these remarkable results despite the challenges and difficulties faced by the Group.

As part of the Group's commitment towards its shareholders, and in compliance with the provisions of the Commercial Companies Law promulgated by Decree No. (21) of 2001 and its amendments and pursuant to the provisions of Article No. (188) thereto, and in compliance with the Executive Regulations of the Commercial Companies Law issued by the order of the Minister of Industry and Commerce No. (6) of 2002 and its amendments and pursuant to the provisions of Article No. (125) thereto, we are pleased to attach herewith tables that shows the remuneration of the Board of Directors and the Executive Management for the year ended 31 December 2022:

Directors Report

Name	Fixed Remunerations					Fixed Remunerations (1)					End of service award(1)	Aggregate amount (excluding expenses allowance)	Expenses allowance
	Remunerations of the chairman and Board (2)	Total allowance for attending Board and committee meetings	Salaries	Others	Total	Remunerations of the chairman and Board	Bonus	Incentive plans	Others	Total			
First: Independent Directors:													
Saleh Salman Al Kawari	15,000	15,834	-	-	30,834	15,000	-	-	-	30,834	-	30,834	-
Yousef Ali Bin Fadil	15,000	14,703	-	-	29,703	15,000	-	-	-	29,703	-	29,703	5,348
Abdulrahman Abdulla Mohamed	15,000	16,965	-	-	31,965	15,000	-	-	-	31,965	-	31,965	-
Abdulrahman Abdulla Al Sayed	15,000	15,834	-	-	30,834	15,000	-	-	-	30,834	-	30,834	-
Adan Abdulla Al Bassam	15,000	16,965	-	-	31,965	15,000	-	-	-	31,965	-	31,965	-
Second: Non-Executive Directors:													
AbdullatifAbdulrahim Janahi	15,000	14,703	-	-	29,703	15,000	-	-	-	29,703	-	29,703	-
Dr. Khalid Abdulla Ateeq	15,000	16,965	-	-	31,965	15,000	-	-	-	31,965	-	31,965	-
Abdulrazzaq AbdulkhaleqAbdulla	15,000	14,703	-	-	29,703	15,000	-	-	-	29,703	-	29,703	-
Third: Executive Directors:													
Hamad AbdullaAl-Oqab(3)	15,000	14,703	-	-	29,703	15,000	-	-	-	29,703	-	29,703	-
Total	**135,000**	**141,375**	-	-	**276,375**	**135,000**	-	-	-	**276,375**	-	**276,375**	**5,348**

(1) The Group did not payany variable remunerations or end-of-service awards during the year

(2) Recommended remunerations for the year ended 31 December 2022 to be paid after securing all necessary approvals and after been approved by the Annual General Meeting.

(3) Salaries and remunerations received in his capacity as Chief Executive Officer are included in the details of the Executive ManagementRemunerations table below.

Details of the Executive Management Remunerations

All amounts in Bahraini Dinars (unlessotherwise stated)

Executive Management	Total paid salaries and allowances	Total paid remuneration (Bonus)(4)	Any other cash/in-kind remuneration for 2022	Aggregate Amount
Remuneration of to 6 executives (including the Chief Executive Officer and the Chief Financial Officer)	921,672	161,090	-	1,082,762

(4) This amount is paid according to the "Variable Remuneration Policy" approved by the AGM, amount includes BD 64,436 upfront remunerations and BD 96,654 deferred remunerations.

Saleh Salman Al Kawari
Chairman

Hamad Abdulla Aloqab
Chief Executive Officer and Board Member

Executive Management

Hamad Abdulla Al Oqab
CHIEF EXECUTIVE OFFICER & BOARD MEMBER

Khalid Mahmood AlAli
DCEO - SUPPORT GROUP

Mohamed Abdulla Abdulrahim
CHIEF FINANCIAL OFFICER

Hasan Abdulwahab Al Khan
HEAD OF OPERATIONS

Fatema Moosa AlAlawi
CHIEF RETAIL OFFICER

Kamran Hussain
CHIEF RISK OFFICER

Fahad Abdulhameed Albalooshi
CHIEF CORPORATE & INSTITUTIONAL BANKING OFFICER

Ahmed Isa Al Khayyat
CHIEF TECHNOLOGY OFFICER

Dr. Adel Atieya Hasan
CHIEF LEGAL OFFICER & CORPORATE SECRETARY

Bader Isa Al Shetti
CHIEF COMPLIANCE OFFICER & MLRO

Raeda Asghar Murad
HEAD OF SPECIAL ASSETS

Duaij Khalifa Abulfateh
HEAD OF INTERNAL SHARIA AUDIT

Mohammed Jasim Ebrahim
HEAD OF SHARIA COORDINATION & IMPLEMENTATION

Mohamed Ali Qudrat
CHIEF TREASURER

Abdulla Abdulaziz Suwaileh
HEAD OF HUMAN RESOURCES & ADMINISTRATION

Salman Mahmood Sayyar
CHIEF INTERNAL AUDITOR

Khaled Abdulla Al Awadhi
HEAD OF INTERNAL CONTROL

Khalid Waheed Abdulrahman
CHIEF INFORMATION SECURITY OFFICER

Hamad Abdulla Al Oqab

CHIEF EXECUTIVE OFFICER & BOARD MEMBER

Executive Management Report

Based on a flexible business model with well-defined strategic objectives, the Executive Management of Al Baraka Islamic Bank Group ("AIB" or "the Group") succeeded, with the blessings of Allah the Almighty, and the wise directives of the Board of Directors, in recording another year of notable achievements thanks to our teams' tireless efforts which enabled us to continue building on a solid and sustainable profit base by raising the efficiency of our operations and maintaining the quality of the financing portfolio in order to increase profits attributable to our shareholders.

Despite the numerous fluctuations witnessed in the past year, including the soaring interest rates and its impact on reducing profit margins, the heavy repercussions of the Russian-Ukrainian war on world economies, and supply chain crises and inflation of basic commodity prices and logistics services, the Group was able to absorb all these shocks and maintain the stability of its financial and operational performance. This has been supported by an innovative strategy, rationalisation of expenses and performing a comprehensive review on our overheads while bolstering the high quality of the banking services and solutions of the Group. As a result, the Group succeeded in reducing its expenses by 3% in 2022 compared to 2021, in addition to continuing to take vigilant steps in increasing coverage against identified losses and expected credit losses.

Throughout the year 2022, the Group tailored another exceptional success story, as its net profit hit an all-time record, amounting to USD 16.4 million for the financial year ended 31 December 2022, compared to USD 12.6 million in 2021, with an increase of 30%. The Group also achieved an increase in its total revenues by 23%, rising from USD 167 million in 2021 to USD 204 million in 2022.
A further confirmation to our successful approach is the fact that the Group registered an increase in the number of depositors and beneficiaries of banking services and solutions in the Kingdom. As for the Group's activity in the Islamic Republic of Pakistan, the positive growth of financing operations during the year 2022 effectively contributed to containing the currency depreciation and maintaining its financing portfolio as it was in 2021 at USD 1,206 million. The depreciation of the Pakistani Rupee by 27% caused the Group's total assets to decrease by around 5% from USD 2,863 million in 2021 to USD 2,723 million in 2022. The same cause also led to a drop in the customer deposits portfolio from USD 2,462 million in 2021 to USD 2,328 million in 2022.

Moreover, the Group has demonstrated its remarkable ability to meet all its financial obligations and to adopt a strong compliance and governance environment, as it maintained its credit rating at the International Islamic Rating Agency "IIRA" at BB (long-term) / A3 (short-term) on the international scale with a stable outlook. It also maintained a rating of BBB+ (long term) / A3 (short term) on

Executive Management Report

the national scale with a stable outlook. As for Al Baraka Bank Pakistan Limited, it has retained a rating of A+ (long-term) / A1 (short-term) on the national scale as determined by the VIS Credit Rating Company Limited.

In terms of its successful partnership with the Government, represented by the Ministry of Housing, to provide social housing solutions, the Group succeeded in completing the final phase of "Danat Al Baraka" project in Jannusan area; AIB's first real estate project, at a total cost of BD 19 million and encompassing 210 housing units, 90% of which fall under the requirements of the Ministry's social housing programme "Mazaya".

"Danat Al Baraka" was met with great demand from citizens for its offered housing opportunities and specifications, thanks to which all the units have been sold out. The project is an impressive success story for the Group in the real estate development sector, as works began in 2016 and the project was completed according to the specified schedule, despite the several unfavorable circumstances witnessed.

Additionally, the Group has successfully completed exiting from Itqan Capital; a closed joint stock company registered in the Kingdom of Saudi that engages in asset and portfolio management as well as custody and research and advisory services. Since its launch of Itqan Capital in 2012, the Group has been keen to ensure the best returns upon exit, which embodies its ability to attract the best profitable transactions and exits, and achieve targeted returns for shareholders and investors. Itqan Capital has been a major gateway for the Group to reach a wide segment of investors in a very promising market in the form of the Saudi market, while offering a variety of innovative investment products and services that are compatible with the Islamic Shari'a.

Our human capital is the most valuable asset possessed by the Group, believing in their potentials to move the Group forward towards broader horizons. On this occasion, I would like to express my profound gratitude and sincere appreciation to all our human cadres working in the Group for their remarkable contributions to the AIB's success and improving its operational performance to achieve the best gains and accomplishments. We promise all our loyal and dedicated cadres to continue exerting efforts to create a positive and flexible work environment that protects the rights of all and provides them with more privileges and incentives, as this stems from the Group's deep belief in the essentiality of developing the human element to deliver sustainable growth.

Furthermore, we are honored to announce the establishment of an internal committee for women empowerment in AIB late last year, with the aim to ensure the continuity of support dedicated to Bahraini women, by creating an enabling work environment for women to successfully advance their careers to accomplish Bahrain's Economic Vision 2030. This comes in conjunction with AIB winning the Best Bank for Women Empowerment Award 2022 from The Global Economics, owing to the efforts made to promote gender justice and the advancement of Bahraini women in various departments, while contributing to raising the level of their career growth and encouraging their participation in stimulating development. The Group firmly believes in the importance of providing equal opportunities for all our cadres to develop and advance the AIB's course, in a way that is commensurate with their competencies, without any discrimination.

In line with its commitment and continuous efforts towards the future development of the youth of the Kingdom of Bahrain, AIB announced during the past year the launch of its "Aspire" platform and the successful conclusion of the first youth training programme, which was specifically designed to meet the needs of trainees and enable them to contribute to strengthening the Kingdom's position as a leading regional hub in the Islamic banking sector. The initiative to launch the platform comes within the framework of the Youth Committee that was recently formed by AIB based on the directives of His Highness Shaikh Nasser bin Hamad Al Khalifa, Representative of His Majesty the King for Humanitarian Works and Youth Affairs, to establish a committee for youth empowerment in the public and private sectors, with the aim of motivating and inspiring the younger generation to participate in the development of the Kingdom in its various sectors.

In this context, the first output of "Aspire" platform was the launch of an interactive training programme which was designed to pave the way for the enrolled students to enjoy an interactive educational banking-based environment.
The programme featured theoretical and practical training courses on the nature of banking services, its operational processes, products and services, as well as visits to various branches in order to equip the enrollees with right knowledge and skills to help them start their careers in the banking sector on the right foot.
As part of its strategic plan to enhance the approach towards digital transformation, AIB successfully launched its new electronic app "Al Baraka Bahrain" in 2022, providing its integrated digital financial services through "Omnichannel" digital banking channel. The app is specially designed to meet customers' banking needs by providing them with easy access to seamless banking transactions, as well as a wide range of products and services without having to visit the branch. Launched in four phases, "Al Baraka Bahrain" provides customers with an exceptional banking experience at their fingertips. The app's features include customers' digital onboarding by scanning their personal documents such as CPR cards, passports, and driver's licenses, enabling them to seamlessly and safely make local transfers, bill payments through Fawri, Fawri +, Fawateer, international and internal transfers within the bank, top-up using multiple payment services, credit card payments, and other features.

In terms of social responsibility, the Group remained unconditionally committed to serving the Bahraini community to improve the well-being of its members by carrying out numerous projects supporting the concepts of community solidarity in the sectors of housing, education, healthcare and sports, and to aid several charitable works and humanitarian initiatives.

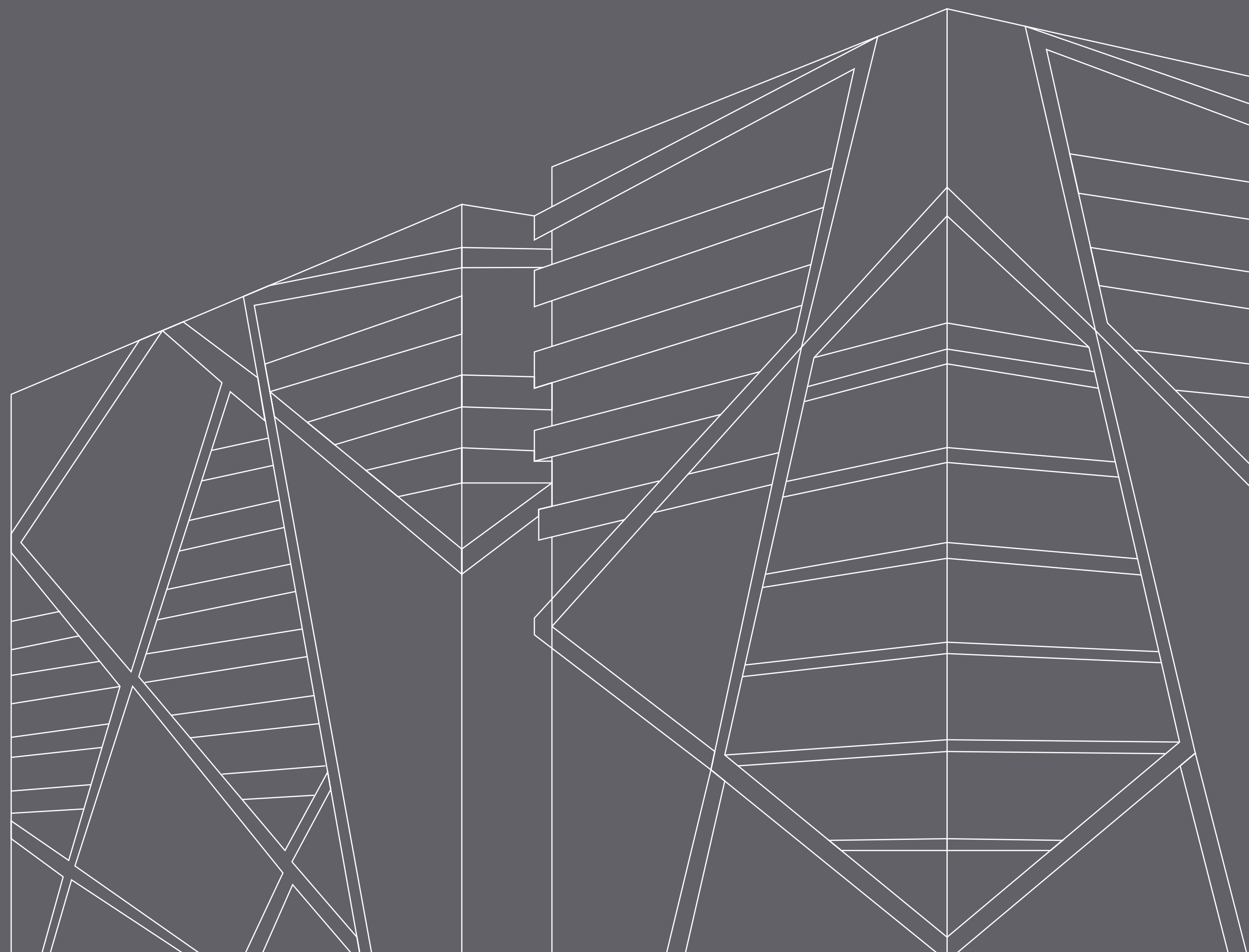
In this context, AIB donated insulin pumps for children with diabetes, and extended a helping hand to a number of hospitals, orphanages, schools, and other charities, in addition to projects that contribute to creating job opportunities for Bahrainis and providing financing products with nominal profit margins for several service sectors.

Moreover, the Group also takes pride in winning seven awards throughout the year 2022, covering several categories and sectors, such as the Personality of the Year (Chief Executive Officer), Best Retail Bank, Best Product, Best Bank for Women Empowerment awards, in addition to a number of accolades related to marketing campaigns.

In conclusion, we thank Allah the Almighty for the blessings of success, righteousness, and steadfastness. I would also like to express our sincere gratitude and appreciation to His Majesty King Hamad bin Isa Al Khalifa, King of the Kingdom of Bahrain, and to His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince and Prime Minister, their wise directives to sustain the development and the prosperity of the Kingdom's economy. Sincere thanks and appreciation to the Central Bank of Bahrain for the advanced regulatory and supervisory environment it provides in the financial and banking sector, and to the Ministry of Industry and Commerce for the support it dedicates to the commercial sector. I would also like to extend my profound gratitude and appreciation to our shareholders, clients and employees for their support and assistance, which contributed to achieving this success despite the various challenges.

ANNUAL REPORT

GOVERNANCE



Corporate Governance

1. Philosophy, Strategy and objectives

Al Baraka Islamic Bank ("AIB" or "the Group") strongly believes that a good corporate governance and its ongoing development is an essential part of maintaining stability and enhancing the solid foundations of the Group. It is a fundamental part of how thwe Group discharge its duties and responsibilities towards protecting and enhancing shareholder's value as well as ensuring the achievement of a sustainable financial performance. The Group's governance framework extends beyond legislative and regulatory compliance, and aims at creating a strong governance culture across all segments to protect the interests of all stakeholders. The Group aspires to the highest ethical standards by delivering promise to clients, reporting financial results accurately and transparently and maintaining full compliance with all laws, rules and regulations governing the Group's business.

The Group's governance and compliance strategies, objectives, and structures are designed to ensure that it complies with all relevant legislations and simultaneously extending beyond accountability and assurance issues to value creation and resource utilization issues. Internally the function has expanded into five complementary directions:

- Enterprise-wide corporate governance;
- Business governance;
- Corporate accountability and ethics;
- Sustainability management and reporting; and
- Compliance.

The Group's Compliance Department works closely with Legal, Company Secretary, Risk Management, and Internal Audit departments in promoting a strong culture of governance and compliance within the Group and has taken all necessary steps to improve its corporate governance to ensure conformity with best practices.

The Board of Directors adopted and approved its Corporate Governance Policy ("the Policy") covering Group-wide corporate governance framework, matters related to the Board, and the principles and rules of Central Bank of Bahrain ("CBB") on Corporate Governance for Islamic Retail Licensed Institutions ("HC Module"). Moreover, the Group conducts a detailed self-assessment on annual basis to ensure its compliance with HC Module requirements, and sets specific milestones for implementation of any shortfalls whenever they exist, including continuous reviews and upgrades for strong corporate governance practices, and any amendments to any requirements and milestones are reported to the CBB, shareholders, and the Board of Directors. Corporate governance is a fixed item on the agenda of the Annual General Meeting since 2011.

These disclosures should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2022. To avoid any duplication, information required under the CBB Rulebook PD Module but already disclosed in other sections of the annual report have not been reported in these disclosures.

2. Governance Framework

2.1. Ownership Structure

Al Baraka Islamic Bank is a Bahraini licensed Islamic Retail Bank and operates as a subsidiary of Al Baraka Group ("ABG" or "Ultimate Parent"). ABG is the dominating shareholder. The existing shareholding structure is transparent and consists entirely of ordinary shares, which is the only class of shares issued. The Group confirms that the non-controlling interests are sufficiently represented in the Board of Directors, either directly or through independent Directors.

During 2022, the Group issued 150,000 ordinary shares as a rights issue to its existing shareholders, and the full amount was participated by the Ultimate Parent. As at 31 December 2022, the composition and distribution of shares are set out in the following table:

Corporate Governance

2.1. Ownership Structure (continued)

	Name	Relation	Nationality	No. of shares	Share %
1	ABG	Ultimate Parent Director,	Bahraini	1,405,755	92.816
2	Abdullatif Abdulrahim Janahi	Non-Executive	Bahraini	1,250	0.083

Other than the above, none of the other directors at the end of 2022 had any interest in the Group shares or its subsidiaries. Other shareholders are as follows:

3	Hussain Mohsin Alharthe	Shareholder	Saudi	50,000	3.301
4	Bahrain Islamic Bank	Shareholder	Bahraini	10,000	0.660
5	Ibdar Bank	Shareholder	Bahraini	10,000	0.660
6	Suleiman Abdulaziz Al Rajhi	Shareholder	Saudi	5,000	0.330
7	Saleh Abdulaziz Al Rajhi	Shareholder	Saudi	5,000	0.330
8	Abdulla Abdulaziz Al Rajhi	Shareholder	Saudi	5,000	0.330
9	Mohamed Abdulaziz Al Rajhi	Shareholder	Saudi	5,000	0.330
10	Heirs of Dr. Hassan Abdulla Kamel	Shareholder	Saudi	5,000	0.330
11	Dubai Islamic Bank	Shareholder	UAE	5,000	0.330
12	Saeed Ahmed Lotah & Sons Group	Shareholder	UAE	5,000	0.330
13	Jordan Islamic Bank	Shareholder	Jordan	2,500	0.165
14	Sheikh Saleh Abdulla Kamel	Shareholder	Saudi	73	0.005
	Total			**1,514,578**	**100.000**

2.2. Ownership by nationality:

Country	No. of shares	Share %
Bahrain	1,427,005	94.218
Jordan	2,500	0.165
Saudi Arabia	75,073	4.957
UAE	10,000	0.660
Total	**1,514,578**	**100.000**

2.3. Ownership by size of shareholding:

Category	No. of shares	Share %
Less than 1%	58,823	3.884
1% up to less than 5%	50,000	3.301
5% and above	1,405,755	92.816
Total	**1,514,578**	**100.000**

3. The Board of Directors

The adoption and implementation of a sound corporate governance practice is the direct responsibility of the Board of Directors ("the Board" or "the Director" or "Directors") who shall continue its endeavor to enhance shareholder's value, protect their interests, and defend their rights.

Corporate Governance

3. The Board of Directors (continued)

Risk Management strategy is based on principles approved by the Board, and is underpinned by a system of delegations passing from the Board to the Board Committees, to the Chief Executive Officer ("CEO"), to the Executive Management Committees, and to all departments within the Group.

The Board is accountable to the shareholders and Executive Management is accountable to the Board. Directors apply due care in exercising their duties to the Group and are subject to fiduciary duties, they ensure that Executive Management acts in the best interest of the Group and its shareholders by working to enhance the Group's performance. The Board authorizes Executive Management to execute approved strategies. The Board oversees the conduct of the Group's business activities to ensure that Executive Management is properly managing these activities with highest standards of professionalism.

3.1. Principal functions of the Board

- Review and approves Executive Management proposals on strategic plans including business plans and activities, and monitor the implementation of such strategies.
- Approves the annual budget and conducts a regular business performance reviews and ensures that business activities and action plans are within the guidelines of the Group's overall strategy.
- Sets up Group's corporate values and lines of responsibility/ accountability, and ensures that such lines are properly communicated across the Group.
- Ensures the existence of a proper and effective process for selecting and appointing Executive Management team based on qualifications and professional competence, and approves a succession planning policy.
- Ensures the implementation of an effective internal controls and processes to measure and manage all business risks.
- Establishing comprehensive policies and processes to ensure compliance with Sharia principles in all activities.
- Sets up an effective audit functions staffed with qualified personnel to perform audit activities that covers financial, management and Sharia audits.
- Establishes procedures to avoid self-serving practices and conflicts of interests.
- Assures equitable treatment of shareholders including non-controlling interests.
- Ensures protection of the interests of depositors (particularly Equity of Investment Accountholders).
- Establishes and ensures the effectiveness of Board Committees.
- Ensures that operations of the Group are conducted within the framework of relevant regulations, laws, and policies.
- Ensures that the Group has a beneficial influence on the economic well-being of its community.
- Approves material transactions outside the normal course of business or in excess of the Executive Management delegated limits.

The Board has approved certain policies, which authorizes the Executive Management to approve certain transactions. The Board has delegated specific authority to the CEO and to Management Committees to manage the activities of the Group within its pre-defined limits. All credit and investment applications exceeding these pre-defined limits in the form of amount or tenor requires approval of the Board. Board meetings are held on a scheduled basis ensuring relevant policies, strategy, and business performance issues are discussed and accordingly tracked and monitored. The Board and its Committees are supplied with full and timely information to enable them to discharge their responsibilities. Special Board meetings are also convened whenever needed.

3.2. The term of the Board of Directors
The current term of the Board of Directors will expire in March 2023. The Annual General Meeting ("AGM") will re-elect/appoint a new Board in its meeting in March 2023.

Corporate Governance

3. The Board of Directors (continued)

3.3. Termination of Board membership
The termination of membership from the Board of Directors is stated in Article (32) of the Articles of Association as follows:

3.3.1. If the member was appointed in violation to the provisions of the law.
3.3.2. If the member loses any of the conditions provided for in the Articles (e.g. lack of legal capacity, convicted in bankruptcy, crimes of honor or breach of trust).
3.3.3. If a member uses his membership to conduct a competitive business or causes real damages to the Group.
3.3.4. If a member is absent (from the Board meeting) for four consecutive meetings without legitimate reason.
3.3.5. If a member resigns or discharged from office.
3.3.6. If a member occupies another salaried position other than an executive position, which the Board decided to pay salary to him.

If the office of a Director becomes vacant, the Board may appoint a temporary Director to fill the vacancy. Such an appointment shall be presented to the ordinary AGM in its first meeting for ratifying the appointment.

3.4. Composition of the Board of Directors
The Directors have broad experience across a number of industries and business sectors, and provide valuable input and an external perspective to matters of business strategy. The Board currently has nine members, comprising five independent non-executive directors (including the Chairman), three non-executive directors, and one executive director. The Board meets on quarterly basis to review and evaluate corporate strategy, major operational and financial plans, risk policies, financial performance, and monitors the implementation and performance to ensure it is in line with all applicable laws and regulations and within best practices.

The role of the Chairman of the Board is fundamentally distinct from that of the CEO. The separation of powers between the Chairman and the CEO ensures a balance of power and authority, which provides a safeguard against the exercise of unrestrained powers in decision-making. The Chairman is responsible for ensuring the Board's effectiveness, as well as representing the Board to the shareholders. The CEO acts in accordance with the authorities delegated by the Board. Board composition, independence of Directors, and membership in the Board Committees are set out below:

			Board Committees			
Name	Nationality	Board Membership Designation & Position	Audit	Nomination, Remuneration, and Governance	Executive	Risk Management
Saleh Salman Al-Kawari	Bahraini	Chairman, Independent	-	Chairman	-	Member
Yousif Ali Bin Fadil	Emirati	Vice Chairman, Independent	-	-	Chairman	-
Abdullatif Abdulrahim Janahi	Bahraini	Member, Non-Executive	-	-	Member	-
Abdulrahman Abdulla Mohamed	Bahraini	Member, Independent	Chairman	-	-	Member
Dr. Khalid Abdulla Ateeq	Bahraini	Member, Non-Executive	Member	-	-	Member
Abdulrahman Abdulla Al-Sayed	Bahraini	Member, Independent	-	Member	-	Chairman
Abdulrazzaq Abdulkhaleq Abdulla	Bahraini	Member, Non-Executive	-	-	Member	-
Adnan Abdulla Al-Bassam	Bahraini	Member, Independent	Member	Member	-	-
Hamad Abdulla Al-Oqab	Bahraini	Member, Executive	-	-	Member	-

The Group has obtained permission and approval on exceptional basis to consider two members as independent directors (namely Yousif Ali Bin Fadil and Abdulrahman Abdulla Mohamed). All Directors receive accurate, timely and clear information on all relevant matters, and have access to the advice and services of the Head of Legal and Corporate Secretary who (together with the Head of Compliance) is responsible for ensuring that Board complies with the applicable rules and regulations.

Corporate Governance

3. The Board of Directors (continued)

3.5. Induction and engagement letters

In line with CBB Rulebook, the Group conducts a formal induction program for its new members. Re-elected members also attend such induction. The induction program includes detailed presentation on the business of the Group, its activities, and Organizational Structure. It also covers the duties and responsibilities of the Board in accordance with the Memorandum and Articles of Association, the Charter of the Board, and the CBB Rulebook.

In addition, all members of the Board signs individual letters of engagement with the Group specifying their rights, duties, and entitlements. All members are provided with copies of the corporate governance code, the policy on entitlements, and confidentiality and non-disclosure undertaking along with all Charters of the Board Committees.

3.6. Board meetings and attendances

In line with the nature and demand of the Group's business, the Board meets at least every quarter unless further meetings are required. During 2022, the Board held six meetings (the minimum required number of meetings that must be held during the year is four meetings), and the number of meetings attended by each member were as follows:

Director's name	Meeting Dates					
	22 Nov	20 Apr	11 Aug	10 Nov	29 Nov	15 Dec
Saleh Salman Al-Kawari	✔	✔	✔	✔	✔	✔
Yousif Ali Bin Fadil	✔	✔	✔	✔	✔	✔
Abdullatif Abdulrahim Janahi	✔	✔	✔	✔	✔	✔
Abdulrahman Abdulla Mohamed	✔	✔	✔	✔	✔	✔
Dr. Khalid Abdulla Ateeq	✔	✔	✔	✔	✔	✔
Abdulrahman Abdulla Al-Sayed	✔	✔	✔	✔	✔	✔
Abdulrazzaq Abdulkhaleq Abdulla	✔	✔	✔	✔	✔	✔
Adnan Abdulla Al-Bassam	✔	✔	✔	✔	✔	✔
Hamad Abdulla Al-Oqab	✔	✔	✔	✔	✔	✔

3.7. Performance evaluation

In line with its Corporate Governance Policy, the Group adopts a procedure undertaken by the Board to evaluate its own performance and that of its Committees and individual Directors. At the end of each financial year, the Board distributes evaluation forms to all members to evaluate:

- The Board of Directors itself;
- The Committees of the Board of Directors;
- The Chief Executive Officer;
- The Secretary of the Board.

The result of the evaluations forms are then discussed in the Nomination, Remuneration, and Governance Committee ("NRGC"), and in the Board of Directors meeting, and during the AGM.

3.8. Board Committees

According to its Charter, the Board (principally through its Committees) is responsible to oversee the establishment of risk management systems by approving accounting policies; financial statements and reports; credit and risk management policies; and systems of internal controls, taking into account the Group's risk appetite, the overall business strategy, management expertise, and the external environment. The Board has defined general parameters to manage its Group-wide risk profile to comply with the approved Group's risk appetite and tolerances, which considers both downside risk and opportunities.

Corporate Governance

3. The Board of Directors (continued)

3.8. Board Committees (continued)

The Board has approved policies that support the implementation of a risk oversight and management framework for the Group. Board Committees oversees these policies with each Committee operating under a Board approved charter that is reviewed during each term of the Board unless there is a need for earlier review.

Each Committee has established a reporting structure that describes relevant responsibilities in respect to oversight and monitoring of Board-approved risk management policies. These Committees evaluate developments in respect to the Group's structure and operations, as well as economic, industry, and market developments that may affect the Group's risk management.

The Board Committees meet regularly and consists of independent, executive, and non-executive directors. The Board consists of the following Committees:

3.8.1. Audit Committee

The Audit Committee (appointed by the Board of Directors) consists of three members. The Chief Internal Auditor directly reports to the Chairman of the Committee. Audit Committee is regularly informed about significant projects aimed at further improving processes and receives regular updates on major litigations as well as significant regulatory and compliance matters. The primary function of the Audit Committee is to assist the Board in fulfilling its oversight role by:

- Monitoring and assessing the integrity of the consolidated financial statements as well as disclosures of the financial condition, results of operations and cash flows;
- Monitoring processes designed to ensure the existence of an appropriate internal control system, including compliance with legal and regulatory requirements; and
- Monitoring the activities and performance of the internal audit function.

The Audit Committee reviews and (as appropriate) approves and recommends for the approval of the Board of Directors:

- The interim and annual consolidated financial results;
- Status updates on implementation on various regulatory reports;
- Internal and external audit reports and status of their implementation (as appropriate);
- New accounting and regulatory pronouncements and their implications.

An independent non-executive Director chairs the Audit Committee. The composition of the Committee, the number of meetings held, and attendance of members are as follows:

Director's name	Meeting Dates				
	1 Feb	8 May	3 Aug	6 Nov	26 Nov
Abdulrahman Abdulla Mohamed (Chairman)	✔	✔	✔	✔	✔
Dr. Khalid Abdulla Ateeq (Member)	✔	✔	✔	✔	✔
Adnan Abdulla Al-Bassam (Member)	✔	✔	✔	✔	✔

3.8.2. Nomination, Remuneration & Governance Committee

This Committee is responsible for assisting the Board in reviewing and overseeing the following responsibilities:

- Board of Directors and individual Directors' performance;
- Effectiveness of (and compliance with) the Group's corporate governance policies and practices;

Corporate Governance

3. The Board of Directors (continued)

3.8.2. Nomination, Remuneration & Governance Committee (continued)

- Succession planning for the Board and Executive Management;
- Staff remuneration policy and fees for Non-Executive Directors and Sharia Supervisory Board;
- Approve, monitor, and review the remuneration system to ensure the system operates as intended;
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits;
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-term profit but take different amount of risk on behalf of the Group;
- Ensure that for Material Risk-takers, variable remuneration forms a substantial part of their total remuneration;
- Review the stress testing and back-testing results before approving total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits;
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The Committee will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment;
- Ensure that (for approved persons in Financial Control, Risk Management, Internal Audit, Sharia Review, Internal Sharia Audit, Compliance, and Operations functions) the mix of fixed and variable remuneration is weighted in favor of fixed remuneration;
- Recommend Board members remuneration based on their attendance and performance and in compliance with the provisions of the Commercial Companies Law promulgated by Decree No. (21) of 2001 and its amendments and pursuant to the provisions of Article No. (188) thereto;
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.
- Advise the Board of Directors and monitor the implementation of a robust governance framework by working together with Executive Management and the Sharia Supervisory Board.

The Board is ultimately responsible for the approval of the remuneration package. The Committee is guided by the need to (attract and retain) and at the same time link the rewards to clearly articulate corporate and individual performance parameters. The composition of the Committee, the number of meetings held, and attendance of members are as follows:

Director's name	Meeting Dates			
	26 Jan	13 Jun	29 Sep	26 Dec
Saleh Salman Al-Kawari (Chairman)	✔	✔	✔	✔
Abdulrahman Abdulla Al-Sayed (Member)	✔	✔	✔	✔
Adnan Abdulla Al-Bassam (Member)	✔	✔	✔	✔

Shaikh Esam Ishaq (Chairman of Sharia Supervisory Board) is a member of the Committee with a voting right in respect of Sharia governance issues. He attends at least one meeting during the year or whenever necessary to provide guidance and advice on Sharia-related matters. He also coordinates and links complementary roles and functions of corporate governance and Sharia Supervisory Board.

3.8.3. Executive Committee

The primary purpose of this Committee is to consider specific matters delegated by the Board and make recommendations thereto or take decisions based on authorities specifically delegated by the Board. The Board Executive Committee also has the power and authority to approve certain credit and investment proposals. The composition of the Committee, the number of meetings held, and attendance of members are as follows:

Corporate Governance

3. The Board of Directors (continued)

3.8.3. Executive Committee (continued)

Director's name	Meeting Dates						
	21 Feb	30 May	15 Aug	20 Sep	9 Nov	28 Nov	25 Dec
Yousif Ali Bin Fadil (Chairman)	✔	✔	✔	✔	✔	✔	✔
Abdullatif Abdulrahim Janahi	✔	✔	✔	✔	✔	✔	✔
Abdulrazzaq Abdulkhaleq Abdulla	✔	✔	✔	✔	✔	✔	✔
Hamad Abdulla Al-Oqab	✔	✔	✔	✔	✔	✔	✔

3.8.4. Risk Management Committe

The Board Risk Management Committee ("BRMC") is mandated to ensure that integrated risk management functions within the Group are effectively discharged. The Committee has the following overall responsibilities:

- Ensure that sound risk management policies, frameworks and practices are in place for addressing and managing the material risks, and report the results of the Committee's activities to the Board of Directors.
- Ensures day-to-day operations are executed within the boundaries set by the business and risk strategy, and risk appetite. Breaches of the risk appetite will result in immediate action at the appropriate management level.
- Ensure that Executive Management understand and accepts its responsibility for identifying, assessing and managing risk.
- Periodically review and monitor risk mitigation processes and periodically review and report to the Board of Directors:
- the magnitude of all material business risks;
- the processes, procedures and controls in place to manage material risks; and
- the overall effectiveness of the risk management process.

The composition of the Committee, the number of meetings held, and attendance of members are as follows:

Director's name	Meeting Dates			
	27 Feb	9 Jun	1 Sep	4 Dec
Abdulrahman Abdulla Al-Sayed (Chairman)	✔	✔	✔	✔
Saleh Salman Al-Kawari	✔	✔	✔	✔
Abdulrahman Abdulla Mohamed	✔	✔	✔	✔
Dr. Khalid Abdulla Ateeq	✔	✔	✔	✔

3.9. Conflict of interest

Directors avoid any action, position, or interest that conflicts with an interest of the Group, or gives the appearance of a conflict. The Group annually solicits information from Directors in order to monitor potential conflict of interest, and Directors are expected to be mindful of their fiduciary obligations towards the Group. In the event of a situation involving a potential conflict of interest, Directors are encouraged to seek advice from the Group's Compliance Officer.

4. Management Committees

In addition to the Board Committees, the Group has in place the following management committees with the CEO and/or his delegate functioning as the Chairman of these committees. Members of committees comprise of heads of relevant departments and functions.

Corporate Governance

4. Management Committees (continued)

4.1. Executive Management Committee ("EMC")
EMC role is to oversee the implementation of the strategic objectives of the Group in relation to its business direction, operations, risk, expansion plans and overall policies and procedures.

4.2. Credit Committee ("CC")
The management of credit risk starts with appointing experienced key personnel. The CC approves major credit decisions, guidelines and procedures to manage, control and monitor credit risk. All financing applications of significant amounts are approved at the Head Office or by the CC, while experienced senior credit officers at branches are given authority to approve financing with lower-risk exposure.

4.3.Asset Liability Management Committee ("ALCO")
ALCO is the primary committee responsible for liquidity and funding risk management. The ALCO make decisions and proposes guidance to force the structure of the Group's assets and liabilities, funding requirements, and liquidity management in line with its overall strategic objectives.authority to approve financing with lower-risk exposure.

4.4. Special Assets Committee ("SAC")
The primary purpose of the SAC is to timely monitor and manage non-performing credit exposures, which show signs of weaknesses or default and place into question the full and timely recovery of all amounts due to the Group, in addition to monitoring the repossessed assets and investments and recommending action plans and classifications.

4.5. Provisioning Committee ("PC")
The PC is responsible for ensuring proper implementation of FAS 30 approved policy. It is mainly responsible to take decisions related to provisioning on the Group's non-performing assets.

4.6. Digital and IT Information Committee ("ITSC")
The ITSC role is to govern the Group's short and long-term information technology strategies, investments, projects and initiatives to ensure they are enabling the Group's business objectives and aligned with the its strategies.

4.7. Executive Compliance Committee ("ECC")
The ECC role is to ensure compliance with all relevant guidelines including internal policies, CBB guidelines, audit related observations, and AML programs.

4.8. Human Resources and Compensation Committee ("HRCC")
The objective of HRCC is to setup and maintain a sound human resources framework and to oversee the Group's recruitment and compensation processes to ensure its alignment with its overall strategy and objectives.

4.9. Zakat and Charity Committee ("ZCC")
The primary purpose of ZCC is to manage the Group's zakat and charity payments and contributions.

4.10. Executive Risk Management Committee ("ERMC")
The primary purpose of ERMC is to support the Executive Management in performing the role of risk oversight, framework development, policy and methodology formulation, and independent monitoring and reporting of key risk issues.

4.11. Anti-fraud and Cyber Security Committee ("CSC")
The primary purpose of CSC is to oversee the development and implementation of necessary policies, procedures, guidelines, standards and controls to protect the Group from possible fraud and Cyber Security risks, to be in line with the overall Group acceptable risk appetite and management frameworks. CSC is further responsible to review the effectiveness of Information and Cyber Security controls, data governance, privacy protection and related compliance requirements.

Corporate Governance

4. Management Committees (continued)

4.12.Business Continuity Planning Committee ("BCPC")
The BCPC is responsible for the development and implementation of strategic framework to ensure the effective continuance of the Group operations in the event of a major crises or potential catastrophic event. It is further responsible for regular testing of the effectiveness of the business continuity planning activities across the Group premises, and the development, implementation and maintenance of the emergency management, response plans and related training.

4.13. Follow-up Committee for pending internal and external issues
The primary purpose of this Committee is to prompt the closure and resolution of pending internal and external findings reported by multiple stakeholders.

There is a clear division of responsibility between the Board and Management. The CEO is supported by his team of Executive Management team who is responsible for the implementation of Board resolutions, overall responsibilities of day-to-day operations, and operational efficiency. The Directors are kept abreast of the Group's performance through various monthly reports presented during the Board and its Committee's meetings.

5. Remuneration

In line with CBB's issued regulations related to Sound Remuneration Practices, the Group's compensation strategy (which includes variable remuneration policy) sets out its policy on remuneration for Directors and Executive Management along with the key factors that are taken into account in setting the policy.

5.1. Remuneration strategy
The quality and long-term commitment of employees is fundamental to the Group's success. There is a robust and effective governance framework in place to ensure that the Group operates within clear parameters of its compensation strategy and policy for remunerating the Board of Directors, the Sharia Supervisory Board, and the Executive Management in accordance with the remuneration policies and procedures approved by the Board. All compensation matters and overall compliance with regulatory requirements are overseen by NRGC.

The Group's basic compensation philosophy is to provide a competitive level of compensation to attract and retain qualified and competent employees who are committed to maintain a career with the Group, and who will perform their role in the long-term interest of the Group and its shareholders. The Group's reward package comprises of fixed pay, benefits, performance bonus and a long-term performance incentive plan. The Group's variable remuneration policy is performance-based driven primarily by a culture that aligns employee interests with those of the Group's shareholders. These elements support the achievement of the Group objectives through balancing rewards for short-term results with long-term sustainable performance. The Group's strategy is designed to share success and align employees' incentives with risk framework and outcomes.

5.1. Remuneration strategy
The quality and long-term commitment of employees is fundamental to the Group's success. There is a robust and effective governance framework in place to ensure that the Group operates within clear parameters of its compensation strategy and policy for remunerating the Board of Directors, the Sharia Supervisory Board, and the Executive Management in accordance with the remuneration policies and procedures approved by the Board. All compensation matters and overall compliance with regulatory requirements are overseen by NRGC.

In order to ensure the alignment between compensating people and business strategy, the Group assesses individual performance against annual and long-term financial and non-financial objectives summarized as part of its performance

Corporate Governance

5. Remuneration (continued)

management system. This assessment also considers adherence to the Group's values, risks and compliance measures, and above all, ethics and integrity. Performance is evaluated based on short-term and long-term achievements as we as on how it is achieved, the NRGC believes the latter contributes to the long-term sustainability of the business. In particular, the Group uses capital and solvency ratios, key profitability measures, quality of earning parameters and strategic growth indicators as performance metrics for key business line managers and individuals.

The Group's remuneration policy considers the role of each employee and set's guidance on whether an employee is a Material Risk-taker or an Approved Person in a business line, control function, or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of his/her role within the Group. An employee is considered a Material Risk-taker if he/she is the Head of a significant business line or an individual who has (within his/her control) a material impact on the Group's risk profile.

The Group provides fixed annual fees to the Sharia Supervisory Board and does not provide any performance linked incentives.

The NRGC oversees all reward policies of the Group employees. The NRGC is the supervisory and governing body for the compensation policy, practices and plans. NRGC is responsible for determining, reviewing and proposing the variable remuneration policy that is approved by the Board, it is also responsible for setting the principles and governance framework for all compensation decisions. The remuneration policy is periodically reviewed to reflect changes in market practices, business plans, and the risk profile of the Group. The NRGC ensures that all employees are remunerated fairly and responsibly.

In addition to its responsibilities mentioned elsewhere in this report, NRGC is entrusted with specific and detailed responsibilities with regards to the Group's variable remuneration policy and oversight of its implementation. These includes (but not limited to) ensuring that the system operates as intended especially for Material Risk-takers, ensuring that variable remuneration forms a substantial part of their total remuneration and is adjusted for all types of risks by reviewing the stress testing and back-testing results. The NRGC is also responsible for ensuring that Approved Persons in Financial Control, Risk Management, Internal Audit, Sharia Review, Internal Sharia Audit, Compliance, and Operations functions have the mix of fixed and variable remuneration with more weight in favor of fixed remuneration. In addition, NRGC recommends Board remuneration based on their attendance and performance in compliance with the provisions of the Commercial Companies Law promulgated by Decree No. (21) of 2001 and its amendments and pursuant to the provisions of Article No. (188) thereto.

The NRGC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remains uncertain. The NRGC demonstrates that its decisions are consistent with an assessment of the Group's financial condition and future prospects.

The aggregate remuneration paid to NRGC members during the year (in the form of sitting fees) amounted to USD 36 thousand [2021: USD 36 thousand] for four meetings held during the current and prior year.

5.2. Board remuneration

Remuneration for the Group's Board of Directors is determined in line with the provisions of the Commercial Companies Law promulgated by Decree No. (21) of 2001 and its amendments and pursuant to the provisions of Article No. (188) thereto. Board remuneration is subject to the approval of the shareholders during the AGM. Remuneration of Non-Executive Directors does not include performance-related elements (e.g. share grants, share options, deferred share-related incentive schemes, bonuses, or pension benefits, etc.).

Non-Executive Directors level of remuneration reflects the experience and level of responsibilities they take in the Group. The CEO's remuneration is structured to link the remuneration and other rewards and benefits to contributions and achievements, in line with the Group's and the Ultimate Parent's corporate objectives, culture, and strategy.

Corporate Governance

5. Remuneration (continued)

Except for contracts mentioned in related sections of the Group's financial statements, no director has received (or become entitled to receive) any benefit from contracting with the Group or its related entities, or from entities in which a Director is a member, or from any entity in which a Director has a substantial financial interest.

5.3. Directors' interests in the Group shares

Remuneration for the Group's Board of Directors is determined in line with the provisions of the Commercial Companies

	Shareholding during 2022		
Director's name	1 January	31 December	Changes
Abdullatif Abdulrahim Janahi	1,250	1,250	-

5.4. Board of Directors, Sharia Supervisory Board, and CEO remuneration:

	Head count	2022	Head count	2021
Directors				
Remuneration(1)		374		286
Sitting fees		375		369
Allowances and others(2)		52		46
Total		801		701
Sharia Supervisory Board members				
Staff inclusive of Chief Executive Officer				
Fixed remuneration:				
Approved Persons and Material Risk takers (Business lines)	25	3,640	23	3,510
Approved Persons (Others)	17	3,536	15	2,536
Other staff (Bahrain Operations)		9,069		9,638
Staff (Overseas subsidiary)		14,354		16,643
Total fixed remunerations		30,599		32,327
Variable remuneration:				
Approved Persons and Material Risk-takers (Business lines)	25	374	23	533
Approved Persons (Others)	17	383	15	401
Other staff (Bahrain Operations)		632		668
Staff (Overseas subsidiary)		719		611
Total variable remunerations		2,108		2,213
Total staff remunerations		32,707		34,540
Sharia Committee Members		77		61

(1) The amounts represent remuneration paid to the Board of Directors during the year based on the prior year performance.
(2) Others includes reimbursement of air tickets and per-diem for attending Board and its Committees meetings.

Corporate Governance

5. Remuneration (continued)

Total fixed remuneration for covered persons affected by the policy, having salaries and benefits exceeding BD 100 thousand amount to USD 2,702 thousand (2021: USD 2,833 thousand) applicable to six employees (2021: seven employees). Total variable remuneration during 2022 paid to these employees was USD 427 thousand (2021: USD 640 thousand), such remuneration comprises upfront cash amounted to USD 171 thousand (2021: USD 256 thousand) and deferred shares amounted to USD 256 thousand (2021: USD 383 thousand). Total amount paid as severance or retirement benefits to covered persons retired during 2022 was USD 1,138 thousand (2021: USD Nil).

5.5. Staff variable remuneration
The Group's variable remuneration is performance-related and consists primarily of the annual performance bonus. As a part of the Group's staff variable remuneration, annual bonus compensates for the delivery of annual operational and financial targets, employees individual performance in achieving such targets and their contribution to delivering the Group's strategic objectives.

The Group has adopted a Board approved framework that assures a transparent link between variable remuneration and performance. The framework is designed on meeting both satisfactory financial performance and achieving other non-financial factors that will (assuming all other factors being equal) deliver a target bonus pool for employees prior to consideration of any allocation to business lines and employees individually. Within this framework, NRGC aims to balance the distribution of the Group's profit between shareholders and employees.

Key performance metrics at the Group-level consists of a combination of short-term and long-term measures including profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Group starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to account for risks using risk-adjusted measures (including forward-looking considerations).

The Group uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the Group's objective to pay out bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit-base could be adjusted based on the discretion of the NRGC.

For the Group to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is considerably contracted where subdued or negative financial performance of the Group occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linked with the framework.

5.6. Remuneration of control functions
The staff remuneration level in control and support functions allows the Group to employ qualified and experienced personnel in these functions. The Group ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is based on function-specific objectives and not determined by business financial performance they monitor.

The Group's performance management system plays a major role in deciding the performance of the support and control units based on the objectives set for them. Such objectives are more focused on non-financial targets that includes risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks, which are specific to each unit.

5.7. Alignment with risk
The policy aims to align variable remuneration to the risk profile of the Group. In its endeavor to do so, the Group considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and

Corporate Governance

5. Remuneration (continued)

5.7. Alignment with risk
human judgment plays a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the designed remuneration policy reduces employee incentives to take excessive and undue risks, is symmetrical with risk outcomes, and delivers an appropriate mix of remuneration that is risk aligned.

The NRGC considers whether the variable remuneration policy is in line with the Group's risk profile and ensures that through the Group's ex-ante and ex-post risk assessment framework and processes, remuneration practices (where potential future revenues whose timing and likelihood remain uncertain) are carefully evaluated.

Risk adjustments take into account all types of risks, including intangible and other risks such as reputation risk, liquidity risk, and cost of capital. The Group undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Group ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the Group's current capital position and ICAAP.

The bonus pool takes into account the performance of the Group, which is considered within the context of its risk management framework. This ensures that the variable pool is shaped by risk considerations and Group-wide notable events.

The size of variable remuneration pool and its allocation within the Group takes into account the full range of current and potential risks, including:

- Cost and quantity of capital required to support the risks taken;
- Cost and quantity of the liquidity risks assumed in the conduct of business; and
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRGC keeps itself abreast with the Group's performance against risk management framework. NRGC will use this information when considering remuneration to ensure alignment of returns, risks, and remuneration. The Group has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Group suffers material losses in its financial performance, the risk adjustment framework will work as follows:

- There will be considerable contraction of the Group's total variable remuneration;
- At an individual level, poor performance by the Group means individual KPI's are not met, and hence, employee performance ratings will be lower;
- Reduction in the value of deferred shares or awards;
- Possible changes in vesting periods and additional deferral applied to unvested rewards; and
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

Based on Board's approval, NRGC can rationalize and make the following discretionary decisions:

- Increase/decrease the ex-post adjustment;
- Consider additional deferrals or increase the quantum of non-cash awards; and
- Recovery through malus and clawback arrangements.

The Group's malus and clawback provisions in the policy allows the NRGC to determine that (if appropriate) unvested elements under the deferred bonus plan can be forfeited/adjusted or the delivered variable remuneration be recovered

Corporate Governance

5. Remuneration (continued)

5.7. Alignment with risk (continued)

in certain situations. The intention is to allow the Group to appropriately respond to performance factors (on which reward decisions were based) if they turned out not to reflect the corresponding performance in the long-term. All deferred compensation awards contain provisions that enables the Group to reduce or cancel awards of employees whose individual behavior had a materially detrimental impact on the Group during the concerned performance year.

Any decision to take back an employee's award can only be made by the NRGC. The Group's malus and clawback provisions allows the NRGC to determine that (if appropriate) vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations.

These events includes:

- Reasonable evidence of willful misbehavior, material error, negligence or incompetence of the employee causing the Group to suffer a material loss in its financial performance, material misstatement of the Group's financial statements, material risk management failure or reputational loss, or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year; and
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Group during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

5.8. Incentive plans

The employees of the Group are eligible for a variety of incentive plans to achieve a direct linkage amongst the remuneration and current/future performance. In this respect, the separate short-term incentive plans ("STIP") and long-term incentive plans ("LTIP"), are duly devised in the light of prevailing laws and regulations. The main components of said remuneration are:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of three years.
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of phantom shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable compensation that is awarded and paid in the form of phantom shares on a pro-rata basis over a period of three years.

All deferred awards are subject to malus provisions. All awarded phantom shares are released to the employee after a six-month retention period from the date of vesting.

The employees in business lines and other functions can avail remuneration, under the short-term incentive plan ("STIP"), as follows:

Corporate Governance

5. Remuneration (continued)

5.8. Incentive plans (continued)

Element of variable remuneration	Constitutions	Vesting period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Deferred share awards	60%	3 Years	6 Months	Yes	Yes

The NRGC (based on its assessment of role, profile, and risk taken by an employee) could increase the coverage of employees that will be subject to deferral arrangements. There are no signing or guaranteed bonuses awarded during the current and prior year.

In addition to non-cash short-term incentives and in order to motivate and align employees with its long-term business plans, the Group may decide to selectively award LTIP to employees contingent on the delivery of future performance targets. The NRGC will confirm the employees eligible for the LTIP scheme on annual basis. The performance horizon and quantum of awards will also be determined on an annual basis, based on the performance requirements. All LTIP awards will be delivered as non-cash instruments and are delivered on assessment of results achieved at the end of the performance period. LTIP vest immediately at the end of the performance period (a minimum of three years) and are subject to a six-month retention period post vesting.

The Group has decided to remunerate all covered staff having annual salary exceeding BD 100 thousand and those who occupies grade 3 level, by using the STIP option effectively from year 2021. In this respect, the following table further elaborates on the remuneration scheme:

Element of variable remuneration	Constitutions	Vesting period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Deferred share awards	60%	3 Years	6 Months	Yes	Yes

5.9. External consultants

The Group had appointed consultants at the time of formulation of policy and framework along with approved regulations. Thereafter, they are being appointed on time to time to provide technical advice when required.

6. Internal Control

The Board is responsible for the adequacy and effectiveness of the Group's system of internal control, which is supported by segregation of duties, enhanced systems of internal control process across all aspects of business, as well as strong support functions covering legal, regulatory, governance, finance, information technology, human resources, and strategy. Such system ensures to manage the Group's key risk areas within an acceptable risk profile rather than eliminating the risk of failure to achieve the policies and business objectives. The Group's system of Internal Control includes:

- An organization structure with clearly defined authority limits and reporting mechanisms to Executive Management and the Board.
- A risk management function with responsibility to ensure that risks are identified, assessed, and managed throughout the Group.
- A set of policies and guidelines relating to credit risk management, asset and liability management, compliance, operational risk management, and business continuity planning.

Corporate Governance

6. Internal Control (continued)

- An annual budgeting and monthly financial reporting system for all business units, which enables monitoring progress against plans, trends to be evaluated, and variances to be justified.
- An internal audit function to evaluate the adequacy and effectiveness of governance, risk and control systems, and to review management's compliance with policies and procedures.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal control with respect to financial reporting include the following:

- Board established committees that assist in ensuring the effectiveness of the Group's daily operations, and ensures they are in accordance with the corporate objectives, strategic plans and annual budgets as well as approved policies and business directions.
- The Internal Audit Department checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audit is carried out on all departments and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Board Audit Committee. Findings of audits are submitted to the Committee for review during their periodic meetings.
- The Board Audit Committee reviews internal control issues identified by the Internal Audit Department, regulatory authorities, Executive Management, and external auditors and evaluate the adequacy and effectiveness of the risk management and internal control systems. The Committee also reviews the Internal Audit function with particular emphasis on the scope and quality of deliverables and observations. The minutes of the Committee meetings are presented to the Board of Directors on periodic basis.

The governance arrangements, systems and controls employed by the Group also ensure Sharia compliance and how these meets applicable standards, and if there is less than full compliance, an explanation of the reasons for non-compliance.

The Group is committed to avoid recognizing any income generated from non-Sharia compliant sources. Accordingly, all non-Sharia compliant income is transferred to a charity fund where the Group uses these funds for social welfare activities. The statement of sources and uses of charity fund (disclosed within the Annual Report) provides further information.

7. Risk Management

7.1. Risk Management Framework

The Group is committed to comply with Basel and IFSB guidelines and to CBB requirements. Risk management framework aims at proactive management of risks throughout the life cycle of a financial transaction including its operating circumstances from origination to final disposal from the books of the Group.

The Group's risk management framework is regularly reviewed and continuously enhanced to facilitate a comprehensive assessment of the various types of risk that the Group is (and may be) exposed to; risks such as credit, market, operational, liquidity, profit rate, concentration, reputation, compliance, etc.

The contagion effect of Covid-19 pandemic has continued during 2021 affecting the global economy. In order to minimize the impact of pandemic-related stress in the Kingdom of Bahrain, the Government and CBB have continued to provide support and several forbearance measures, including deferral of instalments, relaxations on Expected Credit Losses, as well as relief on liquidity ratios and capital buffers. Keeping in mind the uncertain market conditions, the Group has been closely monitoring its liquidity and funding profile, the impact of the pandemic on its financing

Corporate Governance

7. Risk Management (continued)

7.1. Risk Management Framework (continued)

customers. The Group also carried out extensive stress testing to assess its ability to withstand continued and even worsening economic conditions. The results of the stress tests and scenario analysis reinforced the strength of the Group's capital and liquidity profile.

In line with the regulatory guidelines and best practices, the Group has taken initiatives to enhance its risk management framework, which consists of aligning policies and procedures, reviewing various processes and controls, creating awareness sessions, and enhancing reporting culture across the Group. The Group's already established Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP") continued to aid the management of both daily and larger, strategic risks.

The aim of the Bank's ICAAP and ILAAP is to manage all risks that could impact the capital and liquidity positions in a structured way, using internally developed approaches to measure, monitor and manage these risks at all times. The Bank maintains a prudent and disciplined approach to risk taking by upholding a comprehensive set of risk management policies, processes and limits, employing professionally qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels.

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

The Board has an overall responsibility for validating and approving the policies, defining the risk tolerance, and establishing the risk strategy for an effective risk management framework. The responsibility of risk governance lies with the different Board and Management Committees, who in turn, define and monitor the relevant risks to the organization (both financial and non-financial risks, including credit ,market, liquidity, operational, compliance, strategic, reputational, and legal). The Group has constituted various management committees with specific roles and responsibilities to review and endorse relevant risk parameters on an ongoing basis.

The Group follows a policy of Enterprise-wide Risk Management ("ERM"), which aligns strategy, policies, charters, people, processes, technology and knowledge in order to evaluate and manage the opportunities, threats and uncertainties that the Group may face in its ongoing efforts to create shareholder value. The ERM places emphasis on accountability, responsibility, independence, reporting, communications, and transparency. The risk management framework of the Group is structured upon:

- Core risk principles - overriding principles governing all activities and risk monitoring procedures; and
- Specific risk policies - appropriate policies, framework documents, procedures and processes implemented to manage specific risks to which the Group is exposed.

The Group's ERM process is based on three lines of defense:

- Business and Support Management. Each of the Group's business and support units, including Material Risk-takers, own and manage the risks, including compliance risks, inherent-in/or arising-from the business process, and are responsible for having controls in place to mitigate key risks and promoting a culture of compliance and control.
- Independent Control Functions. The Group's independent control functions, including Compliance, Legal, Information Security, and Risk, set standards according to which the Group and its business units are expected to manage and oversee risks, including compliance with applicable laws, regulatory requirements, policies and standards of ethical conduct. The Risk Management Department ("RMD") is responsible for formulating and monitoring the Group's policies related to all aspects of risk, developing the framework for risk measurement and coordinating with the relevant departments for all necessary steps for adhering to Basel requirements under CBB rules, and guidelines of the Ultimate Parent. RMD is also responsible for introducing and implementing risk

Corporate Governance

7. Risk Management (continued)

7.1. Risk Management Framework (continued)

measurement software/tools, monitoring the Group's compliance with risk measurement standards, providing the management with reports on various risks, and providing subject matter expertise on their respective risk areas. The Head of RMD reports directly to the BRMC and provides regular updates on the Group's risk profile and recommendations. In addition, among other things, the independent control functions provide advice and training to the Group's businesses and establish tools, methodologies, processes, and oversight of controls used by the businesses to foster a culture of compliance and control, and to satisfy risk management standards.

- Internal Audit. The Group's Internal Audit function independently reviews activities of the first two lines of defense discussed above based on a risk-based audit plan and methodology approved by the Board of Directors.

The risk appetite statement reflects the level and type of risk that the Group is willing to assume, in order to achieve its strategic and business objectives, keeping in mind the obligations to its stakeholders. The Group has a well-defined risk appetite framework, which consists of the risk appetite statement (with both qualitative and quantitative measures) along with:

- Well-defined performance metrics in the form of KPI's;
- Risk limits, exposure criteria, restrictions and controls, financing and investment standards as laid out in the internal risk policies and procedures manual;
- Capital and liquidity benchmarks monitored in the ALCO meetings;
- Key business and risk management objectives, goals, and strategy, defined in business, investment, and risk management strategies; and.
- Management and oversight structures in the Group through Executive Management and Board Committees.

The risk appetite defines the desired performance levels, which in turn are embedded into management of the various risks within the Group as well as the capital of the Group and is integrated into the strategic, capital, and risk management planning process across the business verticals.

Further, the Board periodically reviews the risk management policies, limits, and risk strategies to cope with the changing economic environment and Group's risk appetite.

The Group believes that accurate, reliable, and timely information is vital to support decisions regarding risk management at all levels. On an ongoing basis, the Group will also continue to strengthen its risk management processes and invest in relevant risk management infrastructure in order to be more robust and responsive to the increasingly complex business environment. The requirements span a diverse range of risk functionality including review of credit and market risk analysis systems, strategic planning, asset and liability management, performance measurement, operational risk and regulatory reporting, as well as trading and trade-processing systems and staff supporting systems. Further, it employs Information and cyber security measures to protect the confidentiality, integrity, and availability of Group's information when required by the business.

Data reconciliation is established to provide the integrity of the information used and appropriate security controls around all systems. The Group has a Board approved comprehensive business continuity framework in place and the plan is tested periodically to ensure that the impact of any potential disaster on its operations is minimal.

The Group is committed to meeting the highest levels of ethical standards in all areas of its operations. The Compliance Department ensures the Group's operations are in line with all applicable laws and regulations, sending periodic regulatory information to the supervisory bodies, advises and keeps Executive Management informed on the implication of compliance laws and regulations on the Group's operations.

7.2.Credit Risk Management

The Group's risk management philosophy is based on a well-defined policy, trained and experienced employees, and effective systems. The Credit Risk Management Policy dictates the credit risk strategy. This policy spells out the target

Corporate Governance

7. Risk Management (continued)

7.2.Credit Risk Management (continued)

markets, risk acceptance/avoidance levels, risk tolerance limits, preferred levels of diversification and concentration, credit risk measurement, monitoring and controlling mechanisms. The Group has tailored credit approval processes to suit the customer, product, sector and exposure types. The credit policy articulates the Credit Risk Management Framework, including:

- key credit risk management principles;
- delegation of authority;
- credit risk management program;
- counterparty credit risk management for financing, trading and investment activities;
- aggregate limits, beyond which credit applications requires higher level of approvals ; and
- single name/aggregation exposures, beyond which exposures must be reported to the Board.

The credit policy is reviewed regularly to ensure up to date guidelines for new credit approvals, renewals or changes in the existing terms and conditions of the previously approved credit policies. The Group has a dedicated team of experienced credit review professionals who identify risk at an early stage and take proactive measures to minimize the impact. The Group uses a state-of-the-art rating system to support the internal credit models to estimate Probability of Default, Loss Given Default, and Exposure at Default parameters.

RMD tracks arrears to ensure operational efficiency and compliance with the granting and follow-up policy by identifying changes in trends and variances from tolerance levels. Arrears percentages are reported regularly and are evaluated on various verticals such as product, branch, industry levels, etc., Branch performance and targets include arrear targets, appropriately balanced with sales and profit targets.

Proactive Credit Risk Management practice in the form of studies of rating distribution, portfolio analysis of all financing assets, periodic review of industry, country, currency, counter-party, single-obligor and concentration of exposures are only some of the prudent measures; the Group is engaged in mitigating risk exposures.

7.3. Market, Liquidity, and Profit Rate Risk Management

The Group manages market, liquidity, and profit rate risks through its ALCO process. The ALCO is primarily entrusted with the task of market and liquidity risk management. The Committee decides on product pricing, mix of assets and liabilities, stipulates liquidity and profit rate risk limits and monitors them, articulates Group's profit rate view and determines the Group's business strategy.

The Group has a well-established framework for market and liquidity risk management with the asset liability management, Funds Transfer Pricing ("FTP"), profit rate risk and the Treasury Policies forming the fulcrum for procedures, processes and structure. It has a major objective of protecting the Group's net profit in the short run and equity value in the long run for enhancing shareholders wealth.

According to Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: (1) normal business, reflecting day-to-day expectations regarding the funding of the Group; and (2) crisis scenario, reflecting simulated extreme business circumstances in which the Group's survival may be threatened. The Group also carries out behavior analysis of customer funds to measure the retention rate of funds with different time buckets, using statistical techniques. The important aspect of market risk management includes profit rate risk management and the pricing of assets and liabilities.

ALCO has determined the most appropriate liquidity horizon for the Group as three months for the normal business scenario and six months for the crisis business scenario. This means that holding sufficient liquid funds for three months is acceptable for normal business purposes but six months would be more prudent in the event of a liquidity crisis.

Corporate Governance

7. Risk Management (continued)

7.3. Market, Liquidity, and Profit Rate Risk Management (continued)

The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon, plus its forecast investment commitments over the liquidity horizon. The Group continues to strengthen its liquidity management activities in order to ensure that it maintains a stable funding base and strong liquidity during the prevailing period of global market crisis.

In addition, the Group ensures the availability of adequate liquidity at all times through systematic funds planning, maintenance of liquid investments and focus on more stable funding sources. The Group implements regular stress testing and review of its liquidity strategy and report results regularly to the Board.

7.4. Operational Risk Management

The objectives of operational risk management is to identify, measure, mitigate, and monitor operational risk, and promote risk awareness and a healthy risk culture within the Group. Risk quantification and awareness helps management set priorities in their actions and allocate people and resources.

The Group manages operational risk through internal controls and standard operating procedures that are updated regularly to reflect the current business environment. The Group systematically reviews its business areas to minimize the risk of financial losses due to sanctions, claims, or reputational damages resulting from non-compliance with legislation, rules, and standards.

Operational risk management within the Group aims to have a healthy balance between the exposure to these risks and tools to manage them. The Group has established a consistent framework for monitoring, assessing, and communicating operational risks and the overall operating effectiveness of the internal control environment. The operational risk management framework has been developed with the objective to ensure that operational risks within the Group are identified, monitored, managed, and reported in a structured, systematic, and consistent manner.

The management of operational risk has two key objectives:

- To minimize the impact of operational losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering an extreme (or unexpected) loss; and
- To improve the effective management of the Group and strengthen its brand and external reputation through efficient delivery of services.

A key component of the operational risk framework is a set of a core operational risk standards, which provides guidance on the baseline control to ensure a controlled and sound operating environment. The process for operational risk management includes the following steps:

- Identify and assess key operational risks;
- Design controls to mitigate identified risks;
- Establish key risk and control indicators;
- Implement a process for early problem recognition and timely escalation;
- Produce a comprehensive operational risk report; and
- Ensure that sufficient resources are available to actively improve the operational risk environment and mitigate emerging risks.

The Group has a comprehensive system of internal controls, systems and procedures to monitor and mitigate risk, it also institutionalized the approval process of new product, services, and outsourcing to identify the risk inherent in such activities.

Information Technology ("IT") risk is managed in accordance to an IT policy (which covers risk governance,

Corporate Governance

7. Risk Management (continued)

7.4. Operational Risk Management (continued)

communication, monitoring, assessment, mitigation and acceptance). Centralized functional control is exercised over all computer system developments and operations. The Group employs information and cyber security controls in accordance to regulatory requirements and best practices to manage the risk and ensure protection of the Group products and services from all cyber threats, in line with the business directions and digital transformation strategy.

Moreover, the Group has a security operations center, digital protection and threat informed intelligence tools to proactively protect the business with the increase demand on data protection, privacy and continuity of services. The Group closely monitors cyber threats and data privacy, and as mitigating actions:

- Continues to strengthen and significantly invest to enhance its ability to prevent, detect, and respond to the ever-increasing and sophisticated threat of cyber-attacks. Specifically, the Group enhanced its capabilities to protect against increasingly sophisticated malware, denial of service attacks and data leakage prevention, and enhanced security event detection and incident response processes.
- Cyber risk is a Board priority topic and is regularly reported at Board-level to ensure appropriate visibility, governance, and executive support for ongoing cybersecurity program.
- Participate in intelligence sharing with both law enforcement and industry schemes to help improve understanding of/and ability to respond to the evolving threats faced by the Group and peers within industry.

The Compliance Officer, who is approved by CBB, manages compliance in the Group. The main responsibility of the Compliance function is to ensure that the Group is complied with all applicable rules and regulations. The Internal Audit function through the Risk-based Internal Audit, compliments the Group's ability to control and mitigate risk.

The Group has nominated a dedicated officer to look after the business continuity framework on an ongoing basis and carryout periodic tests to ensure its preparedness to manage the operations with minimum/no disruptions in the event of any unforeseen situation.

The Group continually refines and strengthens existing policies, procedures, and internal control measures; conduct internal reviews, compliance monitoring, and comprehensive audits to prevent or minimize unexpected losses, and when necessary to cope with the growth in Group's size and complexity.

7.5. Capital Management

Capital management is an ongoing process of ensuring adequate capital is available to meet regulatory capital requirements and ensure optimum capital usage. The Group has implemented a dedicated capital management system, which calculates the capital adequacy ratios in line with CBB and Basel guidelines. Using this system, exposures are measured so that account level data is correctly used for calculating risk weights, credit conversions and allocation of credit risk mitigants.

7.6. Compliance

Compliance risk is the potential that the procedures implemented by the entity to ensure compliance with relevant statutory, regulatory, and supervisory requirements are not adhered to, inefficient, or ineffective. The Group manages compliance risk through the following key activities:

- Creating awareness through the training of employees and other affected stakeholders on the impact and responsibilities related to legislative requirements;
- Monitoring and reporting on the level of compliance with legislative requirements; and
- Providing assurance that the risks related to regulatory requirements are identified, understood, and effectively managed.

The Group is committed to (and requires all its employees to display) the highest standards of integrity, professionalism,

Corporate Governance

7. Risk Management (continued)

7.6. Compliance (continued)

and ethical behavior, and to comply with all relevant laws, rules, and standards when conducting the business. The Group's Compliance function is an independent function that identifies, evaluates, advises on, monitors and reports on compliance risk. The Risk Management Department (together with Internal Audit and Compliance Departments) provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

8. Code of Business Conduct and Ethics for members of the Board of Directors

The Group maintains a Board approved policy on the employment of relatives, which establishes minimum standards regarding the employment of immediate family members or other relatives throughout every phase of the employment relationship (such as recruiting, hiring and internal transfers). The Group needs to obtain NRGC approval for any appointment of first or second-degree relatives if they relates to any Board member, Sharia Supervisory Board, or Executive Management. Recruitment of third or fourth degree relatives may be allowed. However, should not work in positions where there is an actual, potential, or perceived conflict of interest or opportunity for collusion, this includes (but not limited to) where one individual may be able to assign, process, review, approve, audit financial transactions, or otherwise affect the work of the others through direct oversight on each other. Human Resources Department and Risk Management Department are both responsible to examine applications before recruitments to ensure no actual or potential conflict of interest exists according to the approved policies, particularly the Code of Conduct and Conflict of Interest policies. Accordingly, any hiring decision relating to a relative must be made in consultation with the Internal Audit. The principles of this policy also apply to transferring employees from one Department to another, promoted, or upgraded.

The Group's Code of Business Conduct and Ethics applies to members of the Board, as well as Executive Management, officers, employees, agents, consultants and others, when they are representing for the Group. The Board of Directors and Executive Management acts ethically at all times and acknowledge their adherence to the approved policies. Any waiver of the Code of Business Conduct and Ethics for a Director or Executive Officer may be granted only by the Board or the appropriate Board Committee, and must be promptly disclosed to the shareholders.

The Code is intended to focus the Board and each Director on areas of ethical risks, provide guidance to Directors to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct, and help foster a culture of honesty and accountability. Each Director must comply with this Code. Directors should communicate any suspected violations of this Code promptly to the Chairman of the Audit Committee. Violations will be investigated by the Board or by a person delegated by the Board and appropriate action will be taken in the event of any violations of the Code.

The Code is intended to serve as a source of guiding principles for Directors, who are encouraged to bring questions about particular circumstances that may implicate one or more of the provisions of this Code to the attention of the Chairman of the Audit Committee, who may consult with inside or outside legal counsel as appropriate.

8.1. Expectations from the Board

- Adherence to the highest standards of honest and ethical conduct, including proper and ethical procedures in dealing with actual or apparent conflicts of interest between personal and professional relationships
- Full, fair, accurate, sensible, timely and meaningful disclosures in the periodic reports required to be filed with the regulatory authorities;
- Compliance with applicable laws, rules, and regulations;
- To redress misuse or misapplication of the Group's assets and resources;
- The highest level of confidentiality and fair dealing within and outside the Bank.

Corporate Governance

8. Code of Business Conduct and Ethics for members of the Board of Directors (continued)

8.2. Conflict of interest

A conflict of interest occurs when personal interest of any Board member interferes (or appears to interfere in any way) with the interests of the Group. Every Board member has a responsibility to the Group, its shareholders and to each other. Although this duty does not prevent them from engaging in personal transactions and investments, however, it demands they avoid situations where a conflict of interest might occur or appear to occur. They are expected to perform their duties in a way thaat do not conflict with the Group's interest, some of the more common conflicts from which directors must refrain, however, are set out below:

- Business interests – any Board member considers investing in securities issued by the Group's customer, supplier or competitor, must ensure that these investments do not compromise their responsibilities to the Group. Many factors including size and nature of the investment; ability to influence the Group decisions; access to confidential information of the Group or of the other entity, and the nature of the relationship between the Group and the customer, supplier or competitor should be considered in determining whether a conflict exists. Additionally, Board members should disclose to the Group any interest that they have which may conflict with Group's business.
- Related parties - as a rule, Board members should avoid conducting Group's business with a relative or any counterparty in which the relative or other person is associated in any significant role. If such a related-party transaction is unavoidable, Board members must fully disclose the nature of the related party transaction to the appropriate authority as per the corporate governance guidelines approved by the Board. Any dealings with a related party must be conducted in such a way that no preferential treatment is given to that party.
- Use of Group's assets and resources - each Board member has a duty to the Group to advance its legitimate interests while dealing with Group's assets and resources. Board members are prohibited from:
    - Using the Group property, information, or position for personal gain;
    - Acting on behalf of the Group in any transaction in which they or any of their relative(s) have a significant direct or indirect interest;
- Gifts - soliciting, demanding, accepting or agreeing to accept anything where any such gift is more than modest in value, or where acceptance of the gifts could create the appearance of a conflict of interest;

In the case of any other transaction or situation giving rise to conflicts of interest, the appropriate authority should after due deliberations decide on its impact.

8.3. Confidentiality

Board members should maintain the confidentiality of information entrusted to them and any other confidential information about the Group that comes to them, from whatever source, in their capacity as a Board members, except when disclosure is authorized or legally mandated.

8.4. Communication Policy

The Group uses all available avenues to communicate with its stakeholders, in line with the principle of transparency and disclosure that is integral to good corporate governance. This includes wide use of corporate publications, website, direct mailers, electronic mail and local and regional media (through press releases), for the purposes of advertising and providing information on the Group's progress.

The Group's commitment to provide timely, accurate, and balanced disclosure of all material information to a broad audience is guided by the relevant regulatory guidelines and disclosure policies of the Ultimate Parent.

Furthermore, the Group maintains a website (www.albaraka.bh), which includes information of interest to various stakeholders including regulatory authorities. Information available on the website includes annual reports, quarterly reviewed financial statements, and carries updates of any significant events and regulatory requirements. The Group's quarterly results are published in Arabic and English newspapers, are posted on the Group's website.

The Board acknowledges the importance of continuous communication with shareholders, including AGM's.

Corporate Governance

8. Code of Business Conduct and Ethics for members of the Board of Directors (continued)

8.4. Communication Policy (continued)

Shareholders are therefore encouraged to participate in such meetings. The Board oversees communications with shareholders and other stakeholders. This includes reviewing and/or approving key disclosure documents (e.g. financial statements, etc.).

The Group communicates with shareholders through the annual report and by providing information at the AGM. Individual shareholders can raise matters related to their shareholdings and the business of the Group. The Group provides detailed information about its corporate governance structure and other related information. Shareholders are given the opportunity to ask questions at the AGM.

According to the Group's policy, the Chairman and the CEO are the primary spokespersons responsible for communicating company's information to the community and the media. For the purpose of these guidelines, the community refers to existing and potential investors of the Group, analysts and market professionals. Where appropriate, the Group may authorize other officers to communicate with the community or the media as part of its investor relations or public communications program.

Executive Management and Relationship Managers deals (on case-by-case basis) with investors and customers queries. Additional information for the community is provided through:

- One-to-one meetings and conference calls with Executive Management;
- Road shows, investor conferences and conference calls; and
- Financial and subject-specific presentations.

9. Customer Centric Initiatives

As always, efficient customer service and customer satisfaction are the primary objectives of the Group in its day-to-day operations. The Group is highly responsive to the needs and satisfaction of its customers, and is committed to the belief that all technology, processes, products, and skills of its people must be leveraged to deliver superior banking experience to its customers.

The Group is focused towards providing excellent customer service through all delivery channels and has been working to enhance the scope of digital banking services as alternative delivery channels to the diverse needs of different customers. The varied interests and expectations of customers are taken care of by improving various processes and procedures.

All stakeholders (including investors) may use the Group's website for logging a query or a complaint. The query is automatically channeled to the appropriate responsible department to handle the issues when completed using the online form, or can be sent using the available complaints email.

The Group maintains a comprehensive whistleblowing policy (approved by the Board) for handling of customer complaints. All employees are aware of and abide by this policy. The Group has a designated whistleblowing and customer complaints team for handling all internal and external complaints and its contact details are displayed on the website and at all branches. Persons not directly related to the complaints normally investigates them. The Group endeavors to address all complaints within acceptable timeframe. Wherever this is not possible, the customer is directly contacted and a specific rectification timeframe is advised. A periodical report on status of complaints is also submitted to CBB and the Board of Directors.

Corporate Governance

9. Customer Centric Initiatives (continued)

9.1. Legal and Regulatory Risk and Anti-Money Laundering

Strict compliance with all relevant regulations is one of the Group's core values. Legal risks are mitigated through legal counsel review of transactions and documentation, as appropriate. Where possible, the Group uses standard formats for transaction documentation. To prevent potential association with any money laundering activities, the Group has designed and implemented a comprehensive set of policies and procedures. Adherence to the Group's policies and procedures is reinforced through periodic and regular staff training, along with internal reviews and external auditors review.

The Anti-Money Laundering ("AML") and Combating Financing Terrorism ("CFT") policy is the foundation on which the Group's implementation of KYC norms, AML standards, CFT measures; and obligation of the Group according to regulation and directives issued by CBB. The roles of the MLRO and his Deputy is to oversee the proper implementation of the requirements of the Anti-Money Laundering Law, as amended, on covered and suspicious transactions as well as freezing of accounts, and to ensure complying with the requirements and obligations set out in relevant legislations, rules, and industry guidance for the financial services sector. The Group continuously review the policies and the adopted measures to ensure the ongoing application of (and adherence to) best practices. Regular training sessions are conducted on KYC, AML, and CFT guidelines for all the staff.

10. Sharia Compliance and Supervision

Based on Board of Directors recommendations, the Sharia Supervisory Board ("SSB") is elected for a three-year term by the shareholders during the AGM. The SSB has the following responsibilities:

- Overseeing the operations and activities of the Group to ensure compliance with Islamic Sharia principles;
- Monitoring and supervising transactions to ensure full compliance with the SSB decisions; and
- Reviewing files, records, and documents at any time. SSB can request any information deemed necessary and approves all relevant documents relating to new products and services including contracts, agreements, marketing and promotional material, or other legal documents used in the Group operations.
- The SSB comprises of three scholars specialized in Fiqh Al-Mu'amalat. These members have extensive experience in the Islamic banking and finance and meet the fit and proper criteria specified by the CBB. The structure of the SSB is as follows:

Name	Nationality	Qualifications
Shaikh Essam Mohamed Ishaq (Chairman)	Bahraini	- Graduate from McGill University, Montreal, Canada. -Member of Board of AAOIFI.
Shaikh Dr. Nedham Mohamed Saleh Yaqoobi (Member)	Bahraini	- Graduate from McGill University, Montreal, Canada. - Ph.D. in Sharia.
Shaikh Judge Waleed Abdulmonem Al-Mahmood (Member)	Bahraini	- B.Sc. in Sharia and Law. - High Diploma in Comparative Fiqh. - Master's Degree.

- SSB meetings as and when SSB meets at least quarterly and each member attends at least ¾ of the meetings during a calendar year. Further, in addition to the regular meetings, the SSB Chairman may convene it is necessary:

Corporate Governance

10. Sharia Compliance and Supervision (continued)

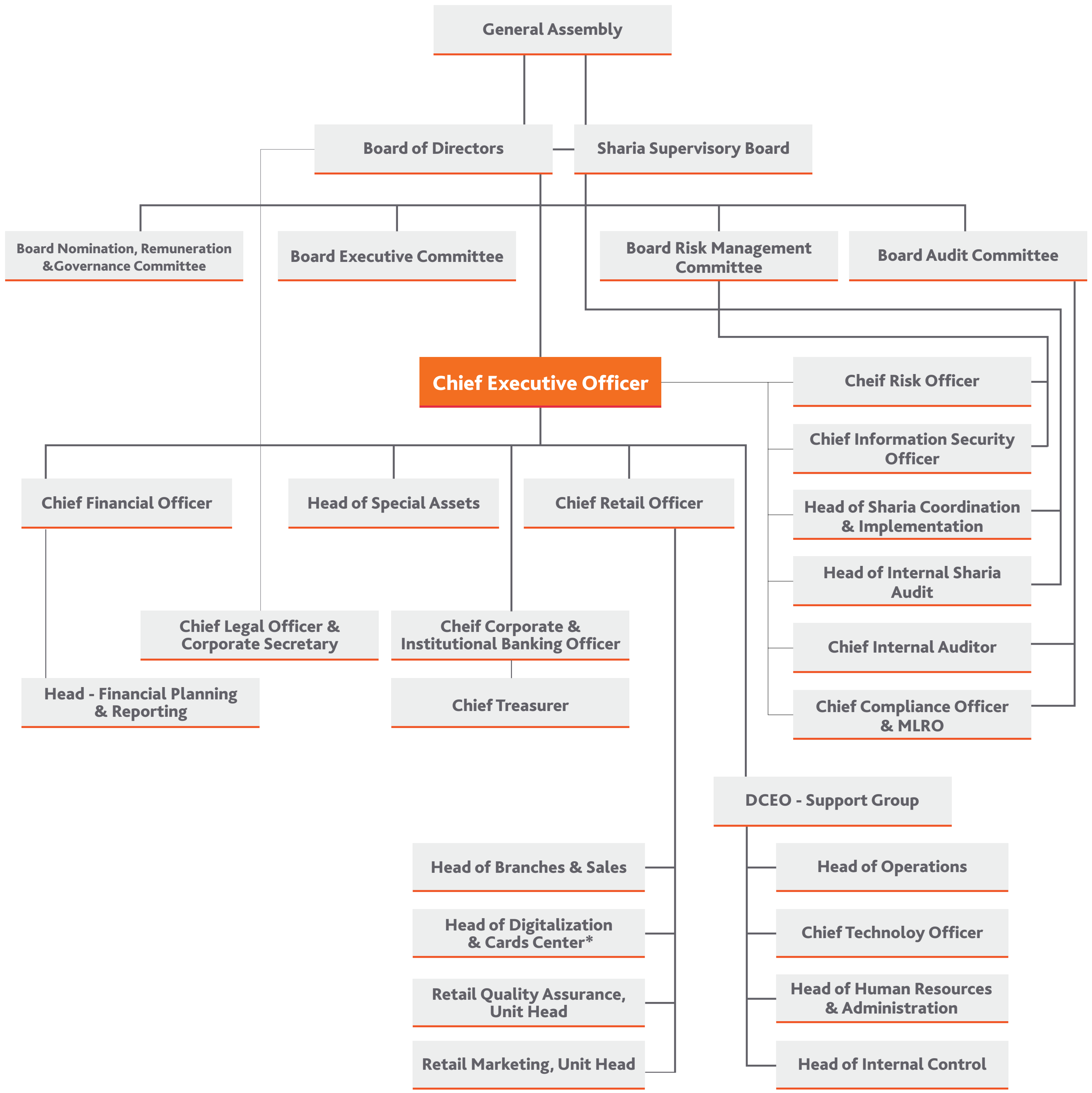
Director's name	Meeting Dates			
	1 Feb	17 May	12 Sep	12 Dec
Shaikh Esam Mohamed Ishaq (Chairman)	✓	✓	✓	✓
Shaikh Dr. Nedham Mohamed Saleh Yaqoobi (Member)	✓	✓	✓	✓
Shaikh Judge Waleed Abdulmonem Al-Mahmood (Member)	✓	✓	✓	✓

SSB operates in accordance with its internal regulations, which clarify its policies, procedures and responsibilities. In carrying out its duties, the SSB has the full right to communicate with the Board of Directors, the Executive Management, and the management and staff of the Subsidiary. In addition to supervising, advise on Sharia compliance in all products and services. It is worth noting that the Internal Sharia Audit function is an independent department reporting functionally to the SSB, and administratively to the CEO. In addition, the Sharia Coordination and Implementation function is an independent department that reports functionally to the SSB and administratively to the CEO. Sharia Officer and the Head of Sharia Audit are working in conformity with a charter that defines their technical duties in accordance with the instructions of CBB.

The Bank also appoints – on annual basis – an independent external Sharia auditor ("IESCA") approved by the CBB, to assess the existence of Sharia controls and their effectiveness in implementation by the Bank's Executive Management of the policies, procedures and decisions of the SSB to achieve Sharia compliance.

The Group places great importance on Sharia compliance, whether in the transactions of the Group or of its subsidiary. The compliance policy of the Group is in compliance with Sharia rules and principles stipulated in the AAOIFI standards and the decisions of the Ultimate Parent Centralized Sharia Supervisory Board. The Group and its subsidiary are committed to comply with AAOIFI Sharia standards and fatwas and decisions circulated by the Sharia Board to the extent that they do not conflict with local laws.

Organisational Chart



*CBB approval was obtained for the new designation on 6 February 2023

Thin Line: Functional Reporting
Bold line: Administrative Reporting

Board of Directors Profile

Saleh Salman Al Kawari
Chairman

Mr. Saleh Salman Al-Kawari was previously the Chief Executive Officer of HSBC Bahrain (1997-2007). Mr. Al-Kawari joint HSBC Bahrain in 1965, during this long period of career, he held number senior positions in the Bank, including manager of corporate banking retail banking and manager of various branches. He was also tasked a special project to explore the establishment of retail and commercial banking in Awal Bank (2007-2008). He served as board member in the Benefit Company, BIBF, and the Bankers Society of Bahrain (BSB). He has over 40 years' experience in the banking Industry. A Bahraini national, he holds a Master of Business Administration Degree from Durham University, UK (1994) and he is Fellow of The Chartered Banker Institute 1995.

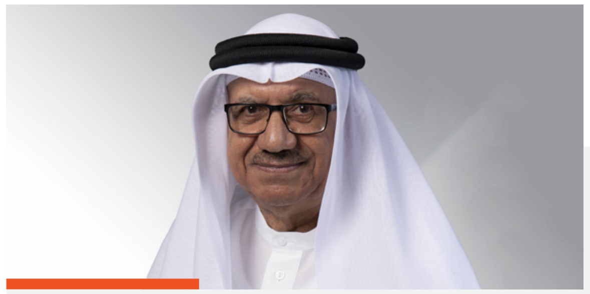
Yousf Ali Bin Fadil
Vice Chairman

Mr. Yousef Bin Fadil is a Board Member, Al Baraka Islamic Bank, Bahrain, Ajman Bank. Previously, General Manager of the Emirates Financial Company and before that Executive Manager for Investment, Dubai Islamic Bank and a number of senior positions at National Bank of Umm Al Qaiwain. Mr. Bin Fadil has also served as Member of the Boards of Directors of several financial institutions including, Union Insurance Company, U.A.E., Bahrain Islamic Bank, Bosnia International Bank and Dubai Islamic Insurance Company. He has more than 35 years of experience in the banking field. Mr. Bin Fadil, a UAE national, holds Bachelor's Degree in Mathematics & Computer Science from Gonzaga University, Spokane, Washington State, USA.

Board of Directors Profile

Abdullatif Abdulrahim Janahi
Board Member

and Islamic insurance. He authored a number of books on these topics and prepared more than 60 studies and work papers presented at numerous events, conferences, seminars and, universities. He worked hard to promote the idea of Islamic banking, insurance and re-insurance in Bahrain and was behind the establishment of a number of banks, financial institutions and insurance and reinsurance companies in Bahrain and outside Bahrain. He has practical experience of more than 47 years in the areas of banking, insurance and reinsurance. He holds a diploma in insurance and is a recognized expert in conventional insurance, Takaful (Islamic insurance), Islamic banking and Islamic economics. Mr. Janahi is the founder and Chief Executive Officer of the Safwa International, Bahrain (consultancy), and board member of many Islamic banking and investment institutions such as the Islamic Bank of Bangladesh - Dhaka, Khaleej Finance and Investment (being the Chairman of the Board of Directors) and the Islamic Arab Bank and Islamic Insurance and Reinsurance Company.



Abdulrahman Abdulla Mohamed
Board Member

Mr. Abdulrahman holds a Master of Business Administration Degree (MBA) from University of Hull, United Kingdom, around 40 years of experience in Banking Industry. Present Positions, Board member of Al Baraka Islamic Bank, Vice Chairman of Takaful International (June 2015 – until present) and Vice Chairman of Bahrain Middle East bank from (January 2019 until present). His past positions were General Manager in National Bank of Bahrain, Board Member – Bahrain commercial facilities company, and Chairman of the Board – National Motors Company. Board Member at TAIB Bank (Aug 2011until November 2019).

Board of Directors Profile

Dr. Khalid Abdulla Ateeq
Board Member

Dr. Khalid is currently the Chief Executive Officer and Board Member of Family Bank. Dr. Khalid has over 36 years of experience in banking, finance, auditing and accounting. Prior to join Family Bank, he was the Deputy CEO of Venture Capital Bank for seven years. Before that, he was Executive Director of Banking Supervision at the Central Bank of Bahrain before (BMA) for thirteen years, where he was responsible for the licensing, inspection and supervision of financial institutions, insuring that all banks and financial institutions, either operating or incorporated in Bahrain, complied with promulgated laws and regulations. Before joining the CBB, he was Assistant Professor at Bahrain University. In addition, through his diversified experience, Dr. Khalid served in senior posts with a number of reputable banks and firms. He holds a Ph.D. in Philosophy of Accounting from UK. Dr. Khalid is a Board Member at Med Gulf Insurance Company, and ABG Group.

Abdulrahman Abdulla Al Sayed
Board Member

Mr. Abdulrahman Abdulla Abdulrahim Al-Sayed is a board member and the CEO of ITQAN Financial Services (W.L.L), Bahrain. Previously, he worked for the Central Bank of Bahrain for 10 years (1998 – 2008) in different senior positions, the lately was Director of Islamic Financial Institutions. Mr. Al-Sayed served as a board member in several institutions including, Bank ABC Islamic and Bahrain Saudi Bank. He served also as Audit Committee Expert – Audit Committee, Al Salam Bank, Bahrain. He is also represented the Central Bank of Bahrain in several IFSB working groups, Malaysia. He has more than 22 years of experience in the banking and regulatory fields. Mr. Al Sayed, a Bahraini national, holds Master Degree in Business Administration, University of Dundee, UK. He also passed all the CPA subjects, State of California, USA.

Board of Directors Profile

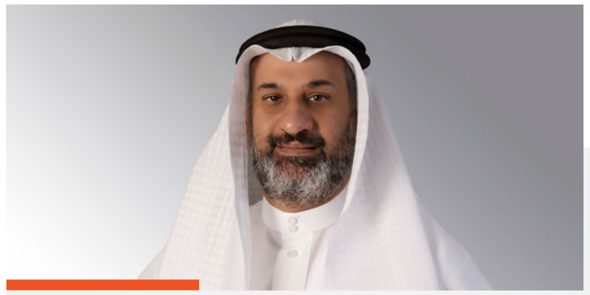
Abdulrazzaq Abdulkhaleq Abdulla
Board Member

Mr. Abdulrazaq Abdulkhalek Abdulla is a highly experienced banking professional with almost 40 years of banking experience in various capacities. He has worked for Standard Chartered Bank in Bahrain for over five years and was working with Bahrain Islamic Bank from 1981 until 2015 during this period he had demonstrated experience in commercial banking, branch management, marketing, HR, and internal audit. He worked as Assistant General Manager Central Operations and oversees many departments including IT department. At present, Mr. Abdulrazak serves as board member of various Companies in Kingdom of Bahrain and K.S.A, including BENEFIT Company, Bahrain, SINNAD Company, Bahrain and ITQAN Capital Investment Company (K.S.A). Mr. Abdulrazak, a Bahraini national, has various internationally recognized accounting qualifications and has undergone Gulf Executive Program University of Virginia U.S.A. Darden Business School.

Adnan Abdulla Al Bassam
Board Member

Mr. Adnan Al Bassam is the Vice Chairman and the Managing Director of Al Bassam Investment Company W.L.L, Bahrain since 2005. Previously, he was Senior Manager – Internal Audit, Bahrain Islamic Bank (2000-2005). He served also as Senior Accountant at Ernst & Young (1997-2000). Mr. Al Bassam is a board member of several institutions including, Jordan Islamic Bank, Jordan, and the Malls Real Estate Development B.S.C (c), Bahrain. He is also a member of the board of trustees of Gulf University, Bahrain. He has more than 25 years of experience in the banking and auditing fields. Mr. Al Bassam, a Bahraini national, holds Bachelor's Degree in Business Administration with concentration in Accounting, Southern Oregon State College, USA and Certified Public Accountant (CPA), Oregon State Board of Accountancy, USA.

Board of Directors Profile



Hamad Abdulla Al Oqab
Chief Executive Officer & Board Member

Mr. Hamad Abdulla Al-Oqab has over 28 years of experience in banking, finance and auditing. Mr. Al-Oqab was appointed as the Chief Executive Officer of Al Baraka Islamic Bank effective March 2019, and he was also designated as a Board Member in March 2021, after having held several positions during the 16 years in Al Baraka Banking Group as a Chief Financial Officer and Deputy Chief Executive.

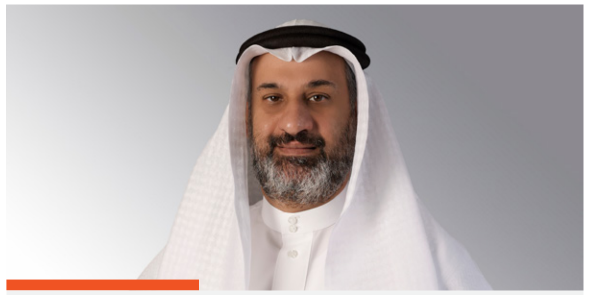
He is currently the Chairman of Al Baraka Syria Bank and Vice Chairman of Jordan Islamic Bank. He is also Board Member in Banque Al Baraka D'Algerie. He serves as a member of various Board committees of these banking subsidiaries. He also previously served as a Board Member in Al Baraka Turk Participation Bank and Al Baraka Bank Egypt. He is also the Chairman of the Accounting Standards Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Board Member in Bahrain Association of Banks and Board Member in Bahrain Association of Banks (BAB).

Before joining Al Baraka Banking Group in 2005, He worked in Shamil Bank (currently Ithmaar Bank), Arthur Andersen, Unilever and Bahrain Monitory Agency (currently Central Bank of Bahrain). Mr. Al Oqab Hold a Bachelor of Science degree in Accounting from the University of Bahrain and is a Certified Public Accountant, Chartered Global Management Accountant, and a Certified Islamic Professional Accountant from the Accounting Standards Board of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Mr. Al Oqab rewarded from the Islamic Retail Banking Awards (IRBA) as "CEO of the year" for the year of 2021.

YOUR PARTNER BANK

Executive Management Profiles



Hamad Abdulla Al-Oqab
Chief Executive Officer & Board Member

Experience:
- Chief Executive Officer of Al Baraka Islamic Bank.
- Chairman of Al Baraka Bank Syria and Chairman of the Accounting Standards Board of AAOIFI.
- Served as a the Chairman of Al Baraka Bank Lebanon.
- Served as a Vice Chairman of Jordan Islamic Bank.
- Serves as a Director in Bahrain Association of Banks.
- Served as director in Al Baraka Turk Participation Bank, Al Baraka Egypt and Banque Al Baraka D'Algerie.
- Joined Al Baraka Banking Group in 2005 as Group Chief Financial Officer, and was appointed as Deputy Chief Executive in 2018.
- Worked in Shamil Bank of Bahrain, Arthur Andersen, Unilever, and Central Bank of Bahrain.

Qualification:
- B.Sc. in Accounting from University of Bahrain.
- Certified Public Accountant (CPA), from Michigan State Board of Accountancy.
- Certified Global Management Accountant (CGMA), from the American Institute of Certified Public Accountants (AICPA).
- Certified Islamic Professional Accountant (CIPA) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Honors and Awards:
- Rewarded as "CEO of the Year 2021" from the "Islamic Retail Banking Awards".
- Rewarded as The Personality of the Year 2022 (CEO) from the "Islamic Retail Banking Awards".

Khaled Mahmood AlAli
Deputy CEO – Support Group

Experience:
- Over 26 years of experience in Islamic banking, banking operations, corporate governance, and auditing.
- Joined the Group in June 2019.
- Worked in Bahrain Islamic Bank, Arthur Andersen, and Bahrain National Gas Company (BANAGAS).

Qualification:
- B.Sc. in Accounting from University of Bahrain.
- Certified Public Accountant (CPA), from Michigan State Board of Accountancy.
- Attended Leadership Development Program organized by the University of Virginia Darden School Foundation, USA.

Executive Management Profiles

Mohamed Abdulla Abdulrahim
Chief Financial Officer

Experience:
- Over 22 years of experience in Islamic banking and finance.
- Joined the Group in December 2016.
- Serves as a Director in Danaat Al Baraka Company, Chairman of Audit Committee.
- Worked in Khaleeji Commercial Bank, Kuwait Finance House, and Ministry of Finance and National Economy.

Qualification:
- B.Sc. in Accounting from University of Bahrain.
- Certified Public Accountant (CPA), licensed from Colorado State Board of Accountancy, a regular member of the American Institute of Certified Public Accountants (AICPA).
- Certified Islamic Professional Accountant (CIPA) from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- Attended Leadership Grooming Program organized by Ivey Business School (University of Western Ontario, Canada), a program sponsored by the Waqf Fund of Central Bank of Bahrain.

Hassan Abdulwahab Al Khan
Head of Operations

Experience:
- Over 23 years of experience in retail and banking operations.
- Joined the Group in July 2018.
- Worked in Bahrain Islamic Bank.

Qualification:
- MBA from Ahlia University.
- B.Sc. in Accounting from University of Bahrain.
- Certified Islamic Professional Accountant (CIPA) licensed from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
- Certified in International Trade Finance (CITF) from London Institute of Banking and Finance.
- Attended Leadership Grooming Program organized by Ivey Business School (University of Western Ontario, Canada), a program sponsored by the Waqf Fund of Central Bank of Bahrain.

Executive Management Profiles

Fatema Moosa AlAlawi
Chief Retail Officer

Experience:
- Over 23 years of experience in retail and investment banking, product development, and digital transformation.
- Joined the Bank in January 2019.
- Worked in Aion Digital, Bahrain Islamic Bank, International Islamic Rating Agency, and Islamic Development Bank Infrastructure Fund.

Qualification:
- MBA from University of Bahrain.
- Attended Gulf Executive Program organized by Darden Business School, University of Virginia, USA.
- Certificate in Fiqh al-Mu'amalat from University College of Bahrain.
- Certificate in Project Management from Boston University, Massachusetts.
- Completed a leadership program from University of California, Los Angeles, USA.

Honors and Awards:
- Awarded by HRH Princess Sabeeka bint Ibrahim Al Khalifa, wife of His Majesty the King and President of the Supreme Council for Women, for contributing through a leading role to the banking and financial sector.
- Received Future Leader Excellence Award by the Middle East Awards Institute.

Kamran Hussain
Chief Risk Officer

Experience:
- Over 28 years of experience in banking industry.
- Joined the Group in September 2020.
- Worked in Bank ABC Bahrain, Banque Saudi Fransi and National Commercial Bank in KSA.

Qualification:
- MBA from Institute of Business Administration (IBA), Karachi, Pakistan.
- B.Sc. in Computer Science from National University of Computer and Emerging Sciences, Karachi, Pakistan.

Executive Management Profiles

Fahad Abdulhameed Al-balooshi
Chief Corporate & Institutional Banking Officer

Experience:
- Over 21 years of experience in banking industry.
- Joined the bank in January 2020.
- Worked in Bahrain Islamic Bank, and Arab Bank.

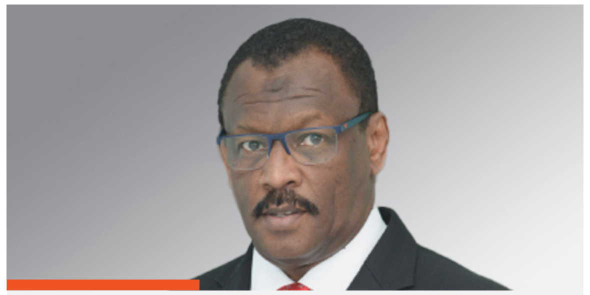
Qualification:
- MBA from AMA International University.
- B.Sc. in Banking & Finance from University of Bahrain.
- Chartered Financial Analyst (CFA) from the CFA Institute, USA, and member of CFA Bahrain Society.
- Professional Risk Manager (PRM) and member in the Professional Risk Managers International Association (PRMIA).
- Attended Leadership Grooming Program organized by Ivey Business School (University of Western Ontario, Canada), a program sponsored by the Waqf Fund of Central Bank of Bahrain.

Ahmed Isa Al-Khayyat
Chief Technology Officer

Experience:
- Over 14 years of experience in information technology and digital transformation.
- Joined the Group in February 2018.
- Worked in Seera Bank, and e-Government Authority.

Qualification:
- B.Sc. in Business Information Systems from University of Bahrain.
- Certified Project Management Professional (PMP) from the Project Management Institute.
- Designated as an Oracle Database Administrator Certified Professional (OCP)

Executive Management Profiles



Dr. Adel Atieya Hasan
Chief Legal Officer & Corporate Secretary

Experience:
• He has over 25 years of experience in the Islamic Banking industry.
• He is the Secretary of the Board of Directors at Al Baraka Islamic Bank Bahrain.
• He previously worked as the Head of Legal in Al Barak Group and Director of Al Baraka Bank Sudan's legal department and he was the Head of Legal Department in Al Baraka Bank (Sudan) before he joined ABG in 2007.
• He has served as a part-time lecturer in different universities in Sudan, including National Ribat University, Sudan University for Science and Technology, and Sudan University College for Girls.

Qualification:
• He earned his Ph.D. from the University of Khartoum, Sudan in 2004, with his thesis on "Automobile Accident Compensation System in Sudan."
• He has also worked as a lecturer and assistant professor in the faculty of law at multiple universities in Sudan for over 15 years.
• He wrote a book called "The Law of Insurance in Sudan," which was published by the Open University of Sudan.

Bader Isa Al Shetti
Chief Compliance Officer & MLRO

Experience:
• Over 19 years of experience in regulatory compliance, anti-money laundering, and combating financial crimes.
• Joined the Group in September 2016.
• Worked in HSBC Bahrain, Al Salam Bank, and Ernst & Young.

Qualification:
• B.Sc. in Financial Management from the University of Arab League in Alexandria (Egypt).
• Certified Compliance Officer (CCO).
• Certified Anti-money Laundering Professional (CAMS).
• Certified expert in Combating Financing of Terrorism by the Union of Arab Banks.

Executive Management Profiles

Raeda Asghar Murad
Head of Special Assets

Experience:
• Over 18 years of experience in corporate banking relations and administration management.
• Joined the Group in June 2008.
• Worked in BMI Bank, Nomura Investment Bank, AXA Insurance, and Aluminum Bahrain (ALBA).

Qualification:
• B.Sc. in Business Information Systems from University of Bahrain.
• Advanced Diploma in Islamic Finance from Bahrain Institute of Banking and Finance.
• Attended Graduate Training Program arranged by Bahrain Institute of Banking and Finance.

Duaij Khalifa Abulfateh
Head of Internal Sharia Audit

Experience:
• Over 14 years of experience in Islamic banking and finance.
• Joined the Bank in October 2008.

Qualification:
• MBA from New York Institute of Technology.
• B.Sc. in Managerial Accounting from New York Institute of Technology.
• Certified Sharia Advisor and Auditor (CSAA) licensed from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
• Advanced Diploma in Islamic Finance from Bahrain Institute of Banking and Finance.
• Advanced Diploma in Islamic commercial jurisprudence from Bahrain Institute of Banking and Finance.

Executive Management Profiles

Mohammed Jasim Ebrahim
Head of Sharia coordination and Implementation

Experience:
• 14 years of experience in Islamic banking sector.
• Joined the Group in February 2009.

Qualification:
• Bachelor Degree in Islamic Law from College of Sharia of the Islamic University of Al Madinah Al Munawarah.
• Certified Sharia Advisor and Auditor (CSAA) licensed from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Mohamed Ali Qudrat
Chief Treasurer

Experience:
• Over 20 years of experience in Islamic banking.
• Joined the Group in March 2016.
• Worked in Bahrain Islamic Bank, and Ithmaar Bank.

Qualification:
• Advanced Diploma in treasury and capital markets from Bahrain Institute of Banking and Finance.
• Advanced Diploma in banking and finance from Bahrain Institute of Banking and Finance.

Executive Management Profiles

Abdulla Abdulaziz Suwaileh
Head of Human Resources & Administration

Experience:
• Over 14 years of experience in human resources and administration.
• Joined the Group in June 2015.
• Worked in Eskan Bank.

Qualification:
• MBA from University of Bahrain.
• B.Sc. in Business with Human Resources Management from University of the West of Scotland.
• Chartered Institute of Personnel and Development (CIPD) level 3.
• Chartered Management Institute (CMI) level 5.
• Certified Trainer from International Academy for Training and Consulting (IATC).

Salman Mahmood Sayyar
Chief Internal Auditor

Experience:
• Over 14 years of experience in Islamic banking, finance, and internal audit.
• Joined the Group in June 2021.
• Worked in Al Baraka Banking Group, Bahrain Islamic Bank, and Khaleeji Commercial Bank.

Qualification:
• B.Sc. in Accounting from University of Bahrain.
• Certified Public Accountant (CPA), licensed from Colorado State Board of Accountancy, a regular member of the American Institute of Certified Public Accountants (AICPA).
• Certified Islamic Professional Accountant (CIPA) licensed from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).
• Certified Global Management Accountant (CGMA), from the American Institute of Certified Public Accountants (AICPA)

Executive Management Profiles

Khaled Abdulla Al-Awadhi
Head of Internal Control

Experience:
- Over 20 years of experience in Internal Audit, Internal Control and Financial Control.
- Joined the Group in November 2013.
- Worked in Bahrain Islamic Bank.

Qualification:
- B.Sc. in Accounting and Finance from Kingdom University.
- Certified Islamic Professional Accountant (CIPA) licensed from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

Khaled Waheed Abdulrahman
Chief Information Security Officer

Experience:
- Over 15 years of experience in information security and technology.
- Joined the Bank in April 2021.
- Worked at Al Baraka Banking Group.
- Served as Board member of the institute of Information Systems, Audit and Control association (ISACA).
- Member of Information Systems Security Certification Consortium.

Qualification:
- B.Sc. in Information Systems from University of Bahrain.
- Certified Information Security Manager (CISM).
- Certified Information Systems Security Professional (CISSP).
- Certified Control Objectives for Information and Related Technology (COBIT).

Honors and Awards:
- Rewarded as "CISO of the Year 2020" from the International Data Cooperation (IDC).

Sharia Supervisory Board's Report

alBaraka

Date: 14th Rajab 1444 A.H.
Corresponding to: 5th February 2023

In the Name of Allah, the Most Gracious, the Most Merciful

Report of the Fatwa and Sharia Supervisory Board From 01.01.2022 to 31.12.2022

To the Shareholders of alBaraka Islamic Bank Praise be to Allah, the Almighty, and Peace and Blessings be upon our Prophet Muhammad, his Family, and Companions.

In accordance with the General Assembly Resolution appointing the Sharia Supervisory Board of Al Baraka Islamic Bank and entrusting us with this task, we present to you the following report:

We have independently and under no duress reviewed the applicable principles, contracts, financial reports, relating to the Bank's activities and products offered by Al Baraka Islamic Bank during the period from January 1st until the end of December 2022. We have done the necessary reviewing to express an opinion as to whether the Bank has complied with the provisions and principles of Islamic Sharia as well as the Fatwa, resolutions and guidelines that we have issued within this period, in addition to reviewing the report issued by IESCA "PWC" and approving the observations included in it.

We also have monitored the procedures of the Bank on the basis of testing each type of transactions, either directly or through the Sharia Officer or the Sharia Auditor. This was achieved through convening 4 meetings of SSB and reviewing: ("118" documents), (audits on "1794" executed transactions), (Sharia training program for staff, trainees), ("482" new advertisement and promotional material).

Additionally we carried out the necessary planning and arrangements in order to obtain all the information and explanations that we deemed essential to provide us with sufficient evidence to give reasonable assurance that the Bank did not violate the provisions and principles of Islamic Sharia.

In our opinion:

1. The contracts, transactions and services entered into and provided by the Bank during the financial year ended 31st December 2022 which we reviewed (except those we decided as a non-halal income) were made in compliance with the provisions and principles of Islamic Sharia.
2. The management has committed itself to segregate all the unintended gains obtained from sources or means prohibited by the provisions and principles of Islamic Sharia and disburse of it towards charitable causes under the supervision of the Sharia Supervisory Board.
3. The allocation of profits and charging of losses related to investment accounts conform to the basis that has been approved by us in accordance with Sharia provisions and principles.
4. The bank's management has obtained authorization from the shareholders to pay zakat on their behalf through the Zakat and Charitable Donations Committee. Accordingly the Zakat calculation approved by us was evaluated at USD 0.338 per share.

We pray to Allah Almighty to guide us to the righteous path.

Shaikh Esam Ishaq
Chairman of Sharia Supervisory Board

Shaikh Dr. Nedham Yaqoobi
Member of Sharia Supervisory Board

Shaikh Judge Waleed Al Mahmood
Member of Sharia Supervisory Board

Mohamed Jasim Ebrahim
Saria Officer & Secretory of Sharia Supervisory Board

Social Responsibility

The group remained dedicated to their altruistic endeavors by making substantial donations and providing financial assistance to aid the well-being of the community. the efforts extended to funding insulin pumps for diabetic children, supporting education and medical expenses, and contributing to various charitable, scientific, and religious organizations. In 2022, the group actively participated in the Al Baraka Sustainability and Social Responsibility Program, which included the Economic Opportunities, Social Investments, and Qard Hasan programs, demonstrating their commitment to promoting social welfare and sustainable development.

68% Healthcare

11% Education

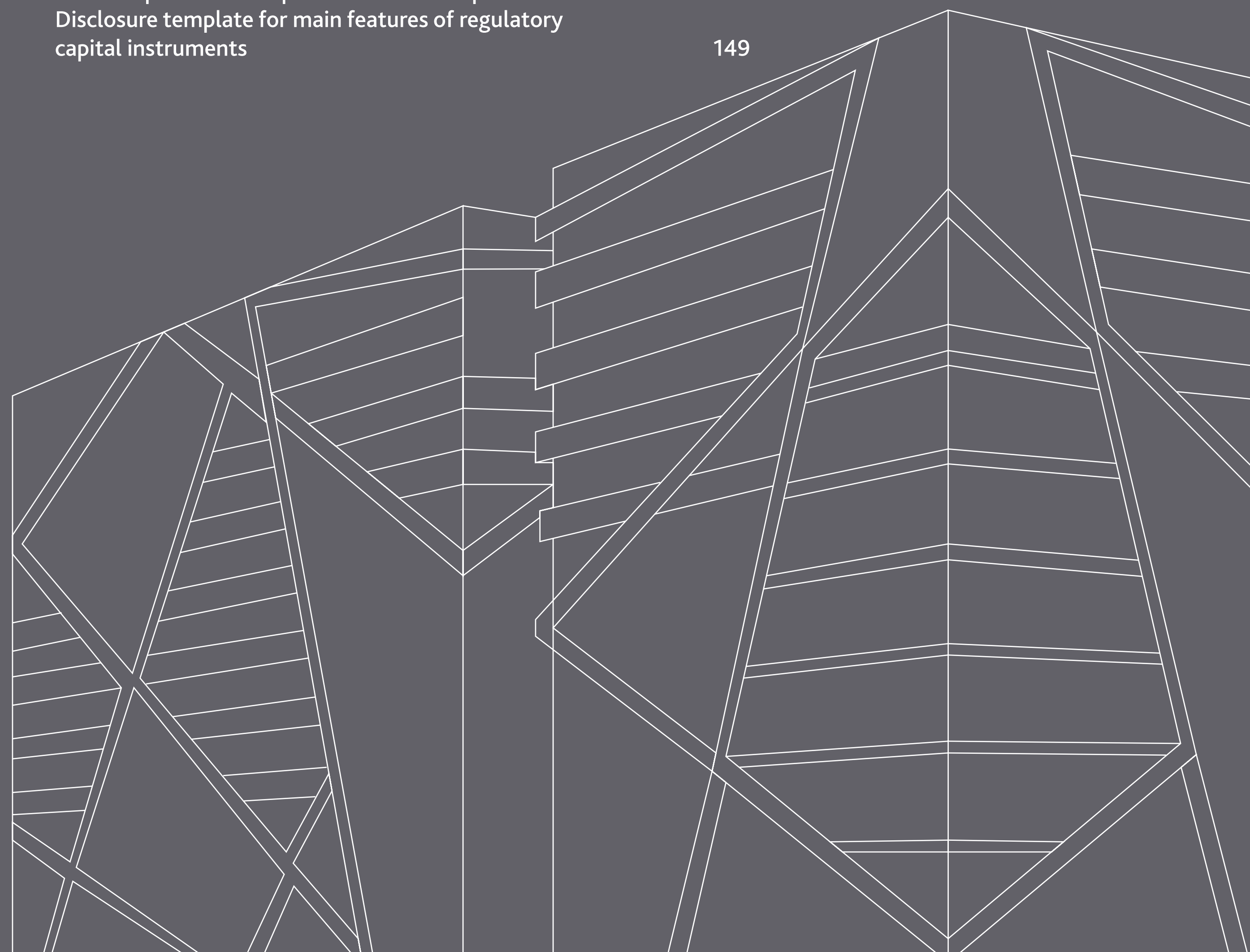
9% Sustainale Energy

3% Job Creation

9% Other

ANNUAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS



Independent auditor's report to the shareholders of Al Baraka Islamic Bank B.S.C. (c)

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Al Baraka Islamic Bank B.S.C. (c) (the "Bank") and its subsidiary (together the "Group") as at 31 December 2022, its consolidated financial performance, its consolidated cash flows and consolidated statement of changes in off-balance sheet equity of investment accountholders for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of income for the year then ended;
- the consolidated statement of changes in owners' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in off-balance sheet equity of investment accountholders for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions (AAOIFI Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain. We have fulfilled our other ethical responsibilities in accordance with these requirements and the AAOIFI Code.

Other information

The Board of Directors is responsible for the other information. The other information comprises the Report of the Fatwa and Sharia Supervisory Board and the Board of Directors' Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report and the Annual Report which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Independent auditor's report to the shareholders of Al Baraka Islamic Bank B.S.C. (c)

Report on the audit of the consolidated financial statements (continued)

Other information (continued)

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of those charged with governance for the consolidated financial statements

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Sharia' Rules and Principles are the responsibility of the Board of Directors.

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the FAS and the Bahrain Commercial Companies Law number (21) of 2001, as amended (the "Commercial Companies Law"), the Central Bank of Bahrain ("CBB") Rulebook (Volume 2) and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, i.e., the Board of Directors, are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Auditing Standards for Islamic Financial Institutions issued by AAOIFI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Auditing Standards for Islamic Financial Institutions issued by AAOIFI, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

Independent auditor's report to the shareholders of Al Baraka Islamic Bank B.S.C. (c)

Report on the audit of the consolidated financial statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory and Sharia' requirements

As required by the Commercial Companies Law and the CBB Rulebook (Volume 2), we report the following:

i. The Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

ii. The financial information contained in the Report of the Fatwa and Sharia Supervisory Board and the Board of Directors' Report is consistent with the consolidated financial statements;

iii. Nothing has come to our attention which causes us to believe that the Bank has, during the year, breached any of the applicable provisions of the Commercial Companies Law, CBB and the Financial Institutions Law, CBB Rulebook (Volume 2) and CBB directives or the items of its Memorandum and Articles of Association that would have a material adverse effect on its activities for the year ended 31 December 2022 or its financial position as at that date; and

iv. Satisfactory explanations and information have been provided to us by the Board of Directors in response to all our requests.

Further, we report that the Bank has complied with the Islamic Sharia' Principles and Rules as determined by the Sharia' Supervisory Board of the Group during the period under audit.

PricewaterhouseCoopers

Elias Abi Nakhoul
Partner's registration number: 196
PricewaterhouseCoopers M.E Limited
Manama, Kingdom of Bahrain
21 February 2023

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 US $ '000	2021 US $ '000
ASSETS			
Cash and balances with banks and financial institutions (FI)	3	**162,440**	312,606
Receivables	4	**448,846**	485,237
Ijara muntahia bittamleek and ijara receivables	5	**561,955**	461,475
Musharaka	6	**239,444**	329,021
Investments	7	**1,122,139**	1,113,627
Investment in joint venture	8	**18,430**	18,700
Investments in real estate	9	**8,836**	9,526
Premises and equipment	10	**98,320**	56,361
Goodwill	11	**9,917**	12,722
Other assets	12	**52,274**	64,167
TOTAL ASSETS		**2,722,601**	2,863,442
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND OWNERS' EQUITY			
Liabilities			
Current accounts		**243,052**	353,429
Murabaha and other payables		**171,796**	243,264
Other liabilities	13	**113,185**	109,646
Total liabilities		**528,033**	706,339
Equity of investment accountholders (IAH)	14	**1,912,969**	1,865,416
Subordinated mudaraba	15	**15,600**	19,439
Owners' equity			
Share capital	16	**151,458**	136,458
Additional tier-1 capital		**96,000**	111,000
Reserves		**(17,467)**	(4,747)
Retained earnings		**16,153**	5,107
Equity attributable to parent's shareholders		**246,144**	247,818
Non-controlling interest		**19,855**	24,430
Total equity		**265,999**	272,248
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND OWNERS' EQUITY		**2,722,601**	2,863,442
OFF-BALANCE SHEET ITEMS:			
EQUITY OF INVESTMENT ACCOUNTHOLDERS		**830,692**	673,212
CONTINGENCIES AND COMMITMENTS	17	**340,782**	500,949

Saleh Salman Al Kawari
Chairman

Hamad Abdulla Aloqab
Chief Executive Officer and Board Member

The attached explanatory notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

At 31 December 2022

	Notes	2022 US $ '000	2021 US $ '000
INCOME FROM JOINTLY FINANCED ASSETS			
Financings	18	95,244	81,657
Investments	19	43,300	16,473
Income from jointly financed assets		138,544	98,130
Return on equity of investment accountholders before			
Group's share as a Mudarib		(122,331)	(82,941)
Group's share as a Mudarib		20,297	24,374
Return on equity of investment accountholders		(102,034)	(58,567)
Group's share as a Mudarib and Rabalmal		36,510	39,563
INCOME FROM SELF FINANCED ASSETS			
Financings	18	7,898	6,976
Share of income from investment in joint venture	8	3,249	4,069
Investments	19	40,214	39,689
Income from self financed assets		51,361	50,734
INCOME FROM BANKING SERVICES AND OTHERS			
Revenue from banking services	20	9,386	11,360
Other income	21	4,929	6,498
Group's mudarib / agency fee			
from off-balance sheet			
equity of investment accountholders		173	129
Income from banking services and others		14,488	17,987
TOTAL OPERATING INCOME BEFORE OTHER FINANCING COST		102,359	108,284
Other financing costs		(4,195)	(5,693)
TOTAL OPERATING INCOME		98,164	102,591
OPERATING EXPENSES			
Staff expenses		(32,658)	(34,540)
Depreciation and amortization	10	(8,092)	(9,946)
Other operating expenses	22	(30,282)	(28,131)
TOTAL OPERATING EXPENSES		(71,032)	(72,617)
NET OPERATING INCOME		27,132	29,974
Expected credit losses / Allowances for impairment - net	23	(5,841)	(17,335)
INCOME BEFORE TAXATION		21,291	12,639
Taxation	24	(4,852)	(45)
INCOME FOR THE YEAR		16,439	12,594
Attributable to:			
Equity shareholders of the parent		12,791	10,088
Non-controlling interest		3,648	2,506
		16,439	12,594

Saleh Salman Al Kawari
Chairman

Hamad Abdulla Aloqab
Chief Executive Officer and Board Member

The attached explanatory notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

At 31 December 2022

	Equity attributable to shareholders of the parent											
			Reserves									
	Share capital US $ '000	Additionaltier-1 capital US $ '000	Statutory US $ '000	General US $ '000	Employee defined benefit plan US $ '000	Cumulative changes in fair value of US $ '000	Revaluation of premises and equipment US $ '000	Foreign exchange US $ '000	Retained earnings US $ '000	Total US $ '000	Non-controlling interest US $ '000	Total owners' equity US $ '000
Balance at 1 January 2022	136,458	111,000	24,840	8,687	(99)	4,342	471	(42,988)	5,107	247,818	24,430	272,248
Cumulative changes in fair value	-	-	-	-	-	(378)	-	-	-	(378)	(404)	(782)
Translation of foreign												
currency operations	-	-	-	-	-	-	-	(13,452)	-	(13,452)	(7,701)	(21,153)
Remeasurement loss on												
defined benefit plan	-	-	-	-	(41)	-	-	-	-	(41)	(29)	(70)
Revaluation of land							(128)			(128)	(89)	(217)
(Net off deferred tax)	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of Zakah	-	-	-	-	-	-	-	-	(466)	(466)	-	(466)
Redemption of AT1 Capital	-	(15,000)	-	-	-	-	-	-	-	(15,000)	-	(15,000)
Issuance of ordinary shares	15,000	-	-	-	-	-	-	-	-	15,000	-	15,000
Income for the year	-	-	-	-	-	-	-	-	12,791	12,791	3,648	16,439
Allocation to statutory reserve	-	-	1,279	-	-	-	-	-	(1,279)	-	-	-
Balance at 31 December 2022	151,458	96,000	26,119	8,687	(140)	3,964	343	(56,440)	16,153	246,144	19,855	265,999
Balance at 1 January 2021	136,458	111,000	23,831	8,687	(94)	1,560	-	(36,345)	(3,502)	241,595	25,833	267,428
Cumulative changes in fair value	-	-	-	-	-	2,782	-	-	-	2,782	(392)	2,390
Translation of foreign												
currency operations	-	-	-	-	-	-	-	(6,643)	-	(6,643)	(3,838)	(10,481)
Remeasurement loss on												
defined benefit plan	-	-	-	-	(5)	-	-	-	-	(5)	(4)	(9)
Distribution of Zakah	-	-	-	-	-	-	-	-	(470)	(470)	-	(470)
Revaluation of land										-		-
(Net off deferred tax)	-	-	-	-	-	-	471	-	-	471	325	796
Income for the year	-	-	-	-	-	-	-	-	10,088	10,088	2,506	12,594
Allocation to statutory reserve	-	-	1,009	-	-	-	-	-	(1,009)	-	-	-
Balance at 31 December 2021	136,458	111,000	24,840	8,687	(99)	4,342	471	(42,988)	5,107	247,818	24,430	272,248

The attached explanatory notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

At 31 December 2022

	Notes	2022 US $ '000	2021 US $ '000
OPERATING ACTIVITIES			
Income before taxation		21,291	12,639
Adjustments for:			
Depreciation and amortization	10	8,092	9,946
Expected credit losses / Allowances for impairment - net	23	5,841	17,335
Gain on sale of premises and equipment		(31)	(41)
Share of income from investment in joint venture	8	(3,249)	(4,069)
Gain on sale of investments		(1,023)	(3,638)
Unrealized loss on revaluation of investment properties		97	116
Operating profit before changes in operating assets and liabilities		31,018	32,288
Net changes in operating assets and liabilities:			
Balances with central banks in mandatory reserves		476	(13,189)
Receivables		6,798	(35,834)
Ijara muntahia bittamleek and ijara receivables		(100,432)	(139,116)
Musharaka		86,700	19,818
Other assets		8,884	(7,339)
Other liabilities		349	(19,869)
Murabaha and other payables		(71,468)	58,056
Current accounts		(110,377)	(30,708)
Equity of investment accountholders		47,552	168,509
Taxation paid		(2,058)	(2,055)
Net cash (used in) / generated from operating activities		(102,558)	30,561
INVESTING ACTIVITIES			
Purchase of investments		(298,676)	(373,078)
Investments sold / matured		242,830	254,232
Purchase of premises and equipment		(2,438)	(5,253)
Sale of premises and equipment		583	671
Net cash used in investing activities		(57,701)	(123,428)
FINANCING ACTIVITIES			
Receipt / (repayment) of subordinated mudaraba		(3,839)	6,556
Net cash (used in) / generated from financing activities		(3,839)	6,556
Foreign currency translation adjustments		(11,355)	(491)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(175,453)	(86,802)
Cash and cash equivalents at 1 January		295,984	382,786
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	25	120,531	295,984

The attached explanatory notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

At 31 December 2022

	Balance at 1 January 2022 US $ '000	Net deposits / with drawals US $ '000	Gross income US $ '000	Mudarib's / agency fee US $ '000	Balance at 31 December 2022 US $ '000
Wakala Bi Al-Istithmar	514,685	112,348	24,952	(11,137)	640,848
On balance sheet jointly financed assets	514,685	112,348	24,952	(11,137)	640,848
Others	117,137	36,045	9,603	(172)	162,613
Receivables	41,390	(14,159)	-	-	27,231
Investments	158,527	21,886	9,603	(172)	189,844
	673,212	134,234	34,555	(11,309)	830,692

	Balance at 1 January 2021 US $ '000	Net deposits / with drawals US $ '000	Gross income US $ '000	Mudarib's / agency fee US $ '000	Balance at 31 December 2021 US $ '000
Wakala Bi Al-Istithmar	364,144	145,819	14,538	(9,816)	514,685
On balance sheet jointly financed assets	364,144	145,819	14,538	(9,816)	514,685
Others	136,357	(30,146)	11,055	(129)	117,137
Receivables	22,706	18,684	-	-	41,390
Investments	159,063	(11,462)	11,055	(129)	158,527
	523,207	134,357	25,593	(9,945)	673,212

The attached explanatory notes 1 to 33 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Bank operates under a Retail Bank's licence number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has five commercial branches in the Kingdom of Bahrain. The Bank is 92.81% (2021: 92.03%) owned by Al Baraka Group B.S.C.,(formerly Al Baraka Banking Group B.S.C.) ("Ultimate Parent").

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, Ijara and other Sharia compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain.

Tier 1 Capital amounting to USD 15m was redeemed on 3 August 2022. The extraordinary general assembly (EGA) of the Ultimate Parent has approved increasing the share capital of Bank by 150,000 shares for the par value of USD 100 and to amend the memorandum and the articles of association. The CBB has approved the request through their letter dated 6 July 2022 where the issued and paid-up capital is increased from USD 136,457,800 to USD 151,457,800 with the full amount of USD 15,000,000 allocated to the Ultimate Parent. The Ultimate Parent injected the cash relating to the share capital increase on 4 August 2022. The formalities relating to the Ministry of Industry and Commerce around updating of the Commercial Registration are pending finalization.

The consolidated financial statements were approved by the Board of Directors on 21 February 2023.

2 ACCOUNTING POLICIES

2.1 Basis of preparation
The consolidated financial statements have been prepared on a historical cost basis, except for investment in real estate, equity and debt-type instruments through statement of income, equity-type and debt-type instruments through equity and land occupied by the Group (classified as property and equipment) that have been measured at fair value.

The consolidated financial statements are presented in United States Dollars, being the reporting currency of the Bank. All values are rounded to nearest US Dollar (US$) thousand unless otherwise indicated. However, the functional currency of the Bank is Bahraini Dinars and that of the subsidiary is Pakistani Rupees. Items included in the financial statements of each entity are measured using respective functional currency.

Regulatory non-compliance - CBB rule book volume 2 - High level standards
Rule LR-2.5.2A requires all Bahraini Islamic retail bank licensees to maintain a minimum total shareholders' equity of BD 100 million. Subsequent to the reporting date, the Bank breached the requirement of rule LR-2.5.2A in volume 2 of the CBB Rulebook as the consolidated shareholders' equity became below the minimum capital requirement of BD 100 million (USD 265.252 million). This breach has mainly resulted from the deterioriation of the foreign exchange rate of the Pakistani Rupee against US Dollar, which is the functional currency of the subsidiary incorporated in Pakistan that took place subsequent to the year end date.

2.2 Statement of compliance
The consolidated financial statements of the Group are prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB"). These rules and regulations require the adoption of all Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI). In accordance with the AAOIFI framework, for matters not covered by FAS, the Group uses the requirements of the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). This framework is referred to as "FAS issued by AAOIFI".

2.3 Basis of consolidation
The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses are eliminated in full on consolidation.

Subsidiary is fully consolidated from the date control is transferred to the Bank and continue to be consolidated until the date that control ceases. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in a subsidiary's net assets is reported as a separate line item in the Group's owners' equity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Statement of income and each component of

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

2 ACCOUNTING POLICIES (continued)

2.3 Basis of consolidation (continued)
OCI are attributed to the equity holders of the parent of the Bank and to the non-controlling interests (NCIs), even if this results in the NCIs having a deficit balance.

Transactions with non-controlling interests are handled in the same way as transactions with external parties. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

The subsidiary of the Bank, which is consolidated in these consolidated financial statements is follows:

	Ownership for 2022 / 2021	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2022 / 2021
Held directly by the Bank				
Al Baraka Bank (Pakistan) Limited*	59.13% / 59.13%	2004	Pakistan	180 / 190

*Al Baraka Bank (Pakistan) Limited became a subsidiary on 21 December 2010.

2.4 New standards, interpretations and amendments adopted by the Group

FAS 37 - Financial reporting by Waqf institutions
AAOIFI issued FAS 37 "Financial Reporting by Waqf Institutions" in 2020. The objective of the standard is to establish principles of financial reporting by Waqf institutions, which are established and operated in line with Shariah principles and rules.

FAS 38 Wa'ad, Khiyar and Tahawwut
AAOIFI issued FAS 38 "Wa'ad, Khiyar and Tahawwut" in 2020. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosures in relation to Shariah compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions (the institutions). The Group has adopted this standard and the adoption did not result in any material impact on the consolidated financial statements of the Group.

2.5 New standards, amendments and interpretations issued but not yet effective

2.5.1 FAS 1 (Revised 2021) - General Presentation and Disclosures in the Financial Statements
AAOIFI has issued revised FAS 1 in 2021. The revised FAS 1 supersedes the earlier FAS 1 General Presentation and Disclosures in the Financial Statements of Islamic Banks and Financial Institutions and introduces the concepts of quasi-equity, off-balance-sheet assets under management and other comprehensive income to enhance the information provided to the users of the financial statements. This standard shall be effective for the financial periods beginning on or after 1 January 2024 with early adoption permitted. The Group is currently evaluating the impact of the above standards.

'The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting.
Some of the significant revisions to the standard are as follows:

a) Revised conceptual framework is now integral part of the AAOIFI FAS's;
b) Definition of Quassi equity is introduced;
c) Definitions have been modified and improved;
d) Concept of comprehensive income has been introduced;
e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;
f) Disclosure of Zakah and Charity have been relocated to the notes;
g) True and fair override has been introduced;
h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;
i) Disclosures of related parties, subsequent events and going concern have been improved;
j) Improvement in reporting for foreign currency, segment reporting;
k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar IFI's and third part prescribes the authoritative status, effective date an amendments to other AAOIFI FAS's; and
l) The illustrative financial statements are not part of this standard and will be issued separately.

The Group is assessing the impact of adoption of this standard and expects changes in certain presentation and disclosures in its consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
| At 31 December 2022

2 ACCOUNTING POLICIES (continued)

2.5 New standards, amendments and interpretations issued but not yet effective (continued)

2.5.2 FAS 39 - Financial Reporting for Zakah
AAOIFI has issued FAS 40 in 2021. The objective of this revised standard is to establish financial reporting requirements for Islamic finance windows and applicable to all conventional financial institutions providing Islamic financial services through an Islamic finance window. This standard improves upon and supersedes FAS 18 "Islamic Financial Services Offered by Conventional Financial Institutions". This standard shall be effective for the financial periods beginning on or after 1 January 2024 with early adoption permitted. The Group is currently evaluating the impact of the above standards.

2.5.3 FAS 40 - Financial Reporting for Islamic Finance Windows
AAOIFI has issued FAS 40 in 2021. The objective of this revised standard is to establish financial reporting requirements for Islamic finance windows and applicable to all conventional financial institutions providing Islamic financial services through an Islamic finance window. This standard improves upon and supersedes FAS 18 "Islamic Financial Services Offered by Conventional Financial Institutions". This standard shall be effective for the financial periods beginning on or after 1 January 2024 with early adoption permitted. The Group is currently evaluating the impact of the above standards.

2.6 Summary of accounting policies
The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

2.6.1 Financial contracts
Financial contracts consist of balances with banks and the Central Banks, Due from banks, Sukuk, Murabaha financing (net of deferred profits), Ijarah Muntahia Bittamleek, Musharaka, other assets, financing commitments and financial guarantee contracts. Balances relating to these contracts are stated net of allowance for credit losses.

2.6.2 Cash and cash equivalents
Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash in hand, balances with central banks in non-restricted accounts, balances with other banks and financial institutions and receivables with an original maturity of 90 days or less.

2.6.3 Impairment, Credit Losses and Onerous Commitments
Financial assets consist of cash and balances with banks and financial institution, receivables and Musharaka financing, Investments - debt type instruments at amortised cost, Ijarah Muntahia Bittamleek and certain other assets. Balances relating to these contracts are stated net of allowance for expected credit losses.

The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1:
twelve months ECL
For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL's that represent the ECL that result from default events on a financial contract that is possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months).

Stage 2:
Lifetime ECL - not credit impaired
For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Lifetime ECL is the loss that results from all possible default events over the expected life of the financial contract. ECL's that represent the ECL that result from default events on a financial contract that is possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months).

Lifetime ECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between sum of the present value of all cash shortfalls and the carrying value. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3:
Lifetime ECL – credit impaired
Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.
"For Stage 3 financial contracts, the losses for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. In this respect, the Bank recognises the lifetime expected credit losses

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
| At 31 December 2022

2 ACCOUNTING POLICIES (continued)

2.6 Summary of accounting policies (continued)

2.6.3 Impairment, Credit Losses and Onerous Commitments (continued)
for these financing with the PD set at 100%. "Lifetime ECL is the loss that results from all possible default events over the expected life of the financial contract. ECL's that represent the ECL that result from default events on a financial contract that is possible within 12 months after the reporting date (or a shorter period if the expected life of the financial instrument is less than 12 months).

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the obligor or issuer;
- a breach of contract such as a default or past due event; or
- probability that the borrower will enter bankruptcy or other financial reorganization.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the consolidated statement of income.

Financing contracts together with the associated provisions are written off when there is no realistic prospect of future recovery and collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced in the consolidated statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective profit rate. If a financial asset has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

Measurement of ECL
Following are the key inputs into the measurement of ECL:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure At Default (EAD).

These parameters are generally derived from internally developed models and other historical data. These are adjusted to reflect forward-looking information as follows.

Definition of default
The Group considers a financial asset to be in default when the obligor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or usually when the obligor is past due more than 90 days for any material credit obligation to the Group. In assessing whether a obligor is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment of another obligation by the same issuer to the Group.

Probability of default
Credit risk grades are a primary input into the determination of the term structure of Probability of Default (PD) for exposures. The Group collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Group employs statistical models for analysing the data collected and generates estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Group operates.

Types of PDs used for ECL computation:

- 12-month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12-month ECLs. -
Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECLs for 'stage 2'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

2 ACCOUNTING POLICIES (continued)

2.6 Summary of accounting policies (continued)

2.6.3 Impairment, Credit Losses and Onerous Commitments (continued)

Incorporation of forward - looking information
The Group considers latest available economic forecasts published by the International Monetary Fund (IMF) or other reputed service providers, for 5 years. The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the macro-economic parameters are statistically significant or the results of forecasted PDs are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay shall be used by the management after analyzing the portfolio.

Incorporating forward-looking information increases the level of judgment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). As per the policy the, methodologies and assumptions involved, including any forecasts of future economic conditions, are required to be reviewed periodically.

Loss Given Default
"LGD is a magnitude that determines the amount of loss that will arise if the obligor was to default. This is calculated by looking at the collateral and other recourses available to the Group that can be used to recover the asset in case of default.

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. For Estimation of LGD, the Group considers use of any of the following methods:"

Internal default history: When data is available LGD can be estimated using the historical default information and corresponding recovery data.

Basel LGD: local regulatory recommended Basel LGD adjusted depending on the available collateral.

Collateral-based LGD: for secured financing the Group uses collateral-based LGD, where the Group has effective collateral management framework that is able to assess and provide up to date collateral valuation and establish legal charge and enforceability. However, the Group applies 10% floor regardless of collateral coverage of the exposure.

Exposure At Default (EAD)
EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD is converted to on balance sheet equivalents.

On-balance sheet EADs
"EADs for on-balance sheet items are the amount that is outstanding at the time of default. Outstanding of an on-balance sheet exposure shall be directly taken subject to inclusion of its repayment structure.

Prepayments have to be estimated using previous trends and deducted from EAD while calculating ECL."

Off-balance sheet EADs
Off-balance sheet exposures do not have fixed payout date; thus, the EAD for off-balance sheet is calculated after applying the Credit Conversion Factor (CCF) to the nominal amount of the Off-balance sheet exposure. The Group uses following method to work out CCF for off- balance sheet EADs.

Regulatory CCFs - In absence of internal data, The Group uses same as Basel CCF that are used for calculating the Capital Adequacy Ratio (CAR) as per the CBB regulations. These rates are 20% for exposures with maturity equal to or less than 1 year and 50% for exposures with maturity of more than 1 year.

ECL on individually large exposures and credit-impaired finances are generally measured individually. For retail exposures and other exposures to small sized enterprises, where less client-specific information is available, ECL is measured on a collective basis. This incorporates obligor-specific information, such as delinquency, collective historical experience of losses and forward-looking macroeconomic information.

To assess the staging of exposures and to measure a loss allowance on a collective basis, the Group combines its exposures into segments on the basis of shared credit risk characteristics, such as geography, type of customer, industry, rating, date of initial recognition, maturity and collateral value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

2 ACCOUNTING POLICIES (continued)

2.6 Summary of accounting policies (continued)

2.6.3 Impairment, Credit Losses and Onerous Commitments (continued)

Significant Increase in Credit Risk
When determining whether the risk of default on a financial contracts has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost and efforts. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information, including days past due and risk rating.

The assessment is carried out for specific facility rather than a counterparty. As each facility may have had different credit risk at initial recognition.

The application of above requirements of SICR to various locations of the Group varies depending on a number of circumstances faced by each location and each location applies a robust risk assessment methodology that is commensurate with the size, complexity, structure, economic significance and risk profile of its portfolio.

Renegotiated financial assets
The contractual terms of a financing may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in a derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Group renegotiates financing to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

"The accounts which are performing prior to restructuring but restructured due to financial difficulty are categorised under stage 2. The accounts that are non-performing or meet any criteria for classifying as non-performing, then such restructured accounts are categorized under stage 3.

Backward transition
FAS 30 staging model is of symmetrical nature as movement across stages is a "Two Way" phenomenon. However, backward movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off period, SICR indicators and payment history are considered for migrating customers backwards to Stage 2 or Stage 1. Following factors including cure period are considered for any backward transition:

- The criteria to classify the exposure into Stage 2 (criteria covered in SICR section above) is no longer present;
- Up to date payment with no arrears;
- A minimum cool-off/cure period of 6 months for any stage 2 accounts; and
- A minimum cool-off/cure period of 12 months for restructured accounts.

From stage 3 to stage 2

- The criteria to classify the exposure into Stage 3 (criteria covered in default section above) is no longer present;
- Up to date payment with no arrears; and
- A minimum cool-off/cure period of 12 months for non-performing and restructured facilities.

Credit Conversion Factor
The estimation of EAD takes into account any unexpected changes in the exposure after the assessment date, including estimation of expected drawdowns on committed facilities through the application of a credit conversion factor (CCF). The EAD is estimated using the outstanding exposure adjusted by CCF times undrawn portion of the facilities.

The outstanding exposure is calculated as principal plus profit less expected prepayments. The undrawn portion refers to the portion of the unutilized credit limit. CCF applied to the facilities would be the higher of average behavioral utilization over the last five years or capital charge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

2 ACCOUNTING POLICIES (continued)

2.6 Summary of accounting policies (continued)

2.6.3 Impairment, Credit Losses and Onerous Commitments (continued)

Write-offs
Financing facilities are written-off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the obligor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Presentation of allowance for credit losses in the consolidated statement of financial position
Allowance for credit losses are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
- financing commitments and financial guarantee contracts: generally as a provision included in other liabilities; and - where a financial contract includes both a drawn and undrawn component, and the Group has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, allowance for credit losses on undrawn component is presented as a provision in other liabilities; where the Group has not identified the the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, allowance for credit losses on undrawn component is presented against the drawn commitment.

2.6.4 Investments
Investments comprise equity-type instruments at fair value through statement of income and through equity, debt-type instruments at amortised cost and through statement of income and investment in real estate.

Investment in real estate
Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, Investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

Investment in joint venture
Investment in joint venture is accounted for using the equity method of accounting. Under the equity method, the investment in the joint venture is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the consolidated statement of income.

The consolidated statement of income reflects the share of the results of operations of the joint venture. Where there has been an income or expense recognised in the other comprehensive income of the joint venture, the Group recognises its share of any such income or expense, when applicable, in other comprehensive income. Gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of stake in the joint venture.

2.6.5 Premises and equipment
Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value except for land which is carried at fair value subsequent to initial recognition. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is calculated using the straight-line method at rates intended to write-off the cost of the assets over their estimated useful lives. Any subsequent change in fair value of land (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

2 ACCOUNTING POLICIES (continued)

2.6 Summary of accounting policies (continued)

2.6.5 Premises and equipment (continued)

Losses arising from changes in the fair value of land is first adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the land is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

2.6.6 Financial instruments - initial recognition and subsequent measurement

Date of recognition
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument.

Initial and subsequent measurement of financial instruments
The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through statement of income.

(i) Due from banks
Murabahas are international commodity murabaha transactions. The Bank arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the beneficiary murabeh (after computing a profit margin). The sale price (cost plus the profit margin) is paid either lump sum at maturity or in installments by the murabeh over the agreed period.

Murabaha with banks are stated net of deferred profits and provision for impairment, if any. Wakala with banks are stated at cost less provision for impairment, if any.

(ii) Financing contracts
(a) Murabaha
Murabaha represents the sale of goods at cost plus an agreed profit. Murabaha receivables are stated net of deferred profits, any amounts written off and provision for impairment, if any. Promise made in the murabaha to the purchase orderer is not obligatory upon the customer.

(b) Ijarah Muntahia Bittamleek
Ijarah Muntahia Bittamleek mainly comprise of land and buildings and certain other assets. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijarah (lease term), provided that all ijarah installments are settled.

Assets under Ijarah Muntahia Bittamleek are initially recognised at cost and subsequently depreciated at rates calculated to write off the cost of each asset over its useful life to its residual value.

(c) Musharaka
Musharaka represents a partnership between the Group and a customer whereby each party contributes to the capital in equal or varying proportions to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have a share of profits or losses. These are stated at the fair value of consideration given less any amounts written off and provision for impairment, if any.

(iii) Investments
The Bank accounts for the investments in accordance with the FAS 33 - Investment in sukuk, shares and similar instruments that has been adopted from 1 January 2020. Refer section 2.6 for details.

(iv) Equity of investment account holders
Equity of investment account holders is invested in cash, balances with banks and Central Bank of Bahrain, due from banks, sukuk and financing contracts. No priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the investment account holders funds, 100% of these funds are invested after deductions of mandatory reserve and sufficient operational cash requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

2 ACCOUNTING POLICIES (continued)

2.6 Summary of accounting policies (continued)

2.6.6 Financial instruments - initial recognition and subsequent measurement (continued)

Equity of investment account holders is carried at fair value of consideration received less amounts settled. Expenses are allocated to investment accounts in proportion of average equity of investment account holders to average assets, however, investment related expenses and assets are excluded.

Income is allocated proportionately between equity of investment account holders and owners' equity on the basis of the average balances outstanding during the year and share of the funds invested.

2.6.7 Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability, and the principal or the most advantageous market must be accessible to by the Group.

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

(i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the reporting date.

(ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.

(iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.

(iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

2.6.8 Business combination and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets and liabilities (including contingent liabilities) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the consolidated statement of income in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2.6.9 Equity of investment accountholders

Equity of investment account holders is invested in cash, balances with banks and Central Bank of Bahrain, due from banks, sukuk and financing contracts. No priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the investment account holders funds, 100% of these funds are invested after deductions of mandatory reserve and sufficient operational cash requirements.

All equity of investment accountholders are initially measured at cost being the fair value of consideration received at the inception of contracts. Subsequently, the equity of investment accountholders are carried at cost inclusive of undistributed profit or accumulated losses and reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

2 ACCOUNTING POLICIES (continued)

2.6 Summary of accounting policies (continued)

2.6.10 Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the mudarib share, in order to cater against future losses for equity of investment accountholders.

2.6.11 Profit equalisation reserve

Profit equalisation reserves are amounts appropriated out of the Mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investments for equity of investment accountholders.

2.6.12 Off-balance sheet equity of investment accountholders

Off-balance sheet equity of investment accountholders represents funds received by the Group from third parties for investment in specified products as directed by the investment accountholders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Off-balance sheet equity of investment accountholders are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and off-balance sheet equity of investment accountholders.

2.6.13 Revenue recognition

Murabaha receivable

Profit from sales transactions (murabaha) is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are non-performing is excluded from the consolidated statement of income.

Mudaraba financing

Income on mudaraba financing is recognised when the right to receive payment is established or on distribution by the mudarib, whereas losses are charged to income on declaration by the mudarib.

Wakala financing

Income on Wakala financing is accrued on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Ijara Muntahia Bittamleek

Ijara income is recognised on a time apportioned basis over the Ijara term and is stated net of depreciation. Income related to non-performing ijara muntahia bittamleek accounts that are non-performing is excluded from the consolidated statement of income.

Musharaka

Income on musharaka is recognised when the right to receive payment is established or on distribution.

Salam and Istisna'a receivables

Income on Salam and Istisna'a is recognised on time-apportioned basis when the income from a contract is contractually determinable or quantifiable.

Group's share of income from equity of investment accountholders (as a Mudarib)

The Group's share as a Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related Mudarib agreements.

Fees and commission income

Fees and commission income including structuring fees is recognised when earned.

Dividends

Dividends are recognised when the right to receive payment is established.

Mudarib's share of off-balance sheet equity of investment accountholders

The Group shares profit for managing off-balance sheet equity of investment accountholders based on the terms and conditions of related contracts.

Income from debt type instrument

Income on debt type securities is amortized to profit and loss on effective profit rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

2 ACCOUNTING POLICIES (continued)

2.6 Summary of accounting policies (continued)

2.6.13 Revenue recognition (continued)

Rental income

Rental income is accounted for on a straight-line basis over the Ijara terms.

2.6.14 Return on equity of investment accountholders

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff costs and depreciation. The Group's "mudarib profit" is deducted from the investors' share of income before distributing such income. In some cases, equity of investment accountholders withdrawn before maturity are entitled to income only after deducting a penalty charge.

The basis applied by the Group in arriving at the investment accountholders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and investment accountholders) times average funds of equity of investment accountholders].

2.6.15 Investment pool expenses

Investment pool expenses include business, administrative, general and other expenses.

2.6.16 Taxation

There is no tax on corporate income in the Kingdom of Bahrain. The subsidiary in Pakistan pays tax as per Pakistan tax regulations.

Current

Provision for current taxation is based on taxable income in accordance with the tax laws as applicable in Pakistan.

Deferred

The Group accounts for deferred taxation on material temporary differences using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences. Deferred tax assets are recognised only if there is a reasonable expectation of realisation in the foreseeable future. Deferred tax is reduced to the extent that it is no longer probable that related tax benefits will be realised.

2.6.17 Contingencies and Commitments

Contingencies are possible obligation or assets that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Further, the obligation arisen from past events where the liability cannot be determined with reasonable certainty or probability of outflow of resources cannot be determined are also contingencies.

A commitment is a binding contract for the exchange of a specified quantity of resources at a specific price on a specified future dates or date."extent that it is no longer probable that related tax benefits will be realised.

2.6.18 Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

(i) the right to receive cash flows from the asset has expired;

(ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset; or

(iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

2 ACCOUNTING POLICIES (continued)

2.6 Summary of accounting policies (continued)

2.6.19 Earnings prohibited by Sharia

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non Islamic income is credited to a charity fund where the Group uses these funds for social welfare activities.

2.6.20 Foreign currencies

(i) Transactions and balances

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. All differences are taken to consolidated statement of income at the entity level.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

(ii) Group companies

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollar) at the rate of exchange ruling at the reporting date and their income and expenses are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of owners' equity. On disposal of a foreign operation, the deferred cumulative amount recognised in owners' equity relating to that particular foreign operation is recognised in the consolidated statement of income.

2.6.21 Employees' end of service benefits

Provision is made for leaving indemnity payable under the Bahraini Labour Law applicable to non-Bahraini employees' accumulated periods of service at reporting date. Moreover provision for indemnity payable is also made for Bahraini employees.

Bahraini employees of the Group are covered by contributions made to the Social Insurance Organisation (SIO) as a percentage of the employees' salaries. the Group's obligations are limited to these contributions, which are expensed when due.

The subsidiary in Pakistan also operates a recognised contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the subsidiary and the employees, to the fund at a rate of 10 percent of basic salary.

The subsidiary in Pakistan operates an approved funded gratuity scheme for all its permanent employees. Annual contributions are made to the scheme in accordance with the actuarial recommendation. The actuarial valuation is carried out using the projected unit credit method.

2.6.22 Zakah

The responsibility of payment of zakah is on individual shareholders and investment accountholders. In Pakistan, zakah is deducted at source from accountholders as required by local laws. Zakah per share is presented in the Sharia Supervisory Board Report.

2.6.23 Joint and self financed

Investments, financing and receivable that are jointly owned by the Group and the equity of investment accountholders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivable that are financed solely by the Group are classified under "self financed".

2.6.24 Offsetting

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legal or religious enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.6.25 Sharia supervisory board

The Group's business activities are subject to the supervision of a Sharia supervisory board consisting of three members appointed by the general assembly of shareholders.

2.6.26 Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

2 ACCOUNTING POLICIES (continued)

2.7 Judgements and estimates (continued)

In the process of applying the Group's accounting policies, management has used its judgements and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Classification of investments
Management decides on acquisition of an investment whether it should be classified as equity-type instrument at fair value through statement of income, equity-type instrument at fair value through equity, debt-type instrument at fair value through statement of income or debt-type instrument at amortised cost.

Impairment and uncollectibility of financial assets
In determining impairment on financial assets, judgment is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether credit risk on the financial contract has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses ("ECL").

Impairment of Goodwill
Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU (or group of CGUs) is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Going concern
The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future after consideration of regulatory requirementsand directives. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern including regulatory requirements and directives. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

3 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

		2022 US $ '000	2021 US $ '000
Cash in hand		22,127	33,564
Balances with State Bank of Pakistan			
Current account		8,295	4,748
Mandatory reserves	3.1	50,205	67,551
		58,500	72,299
Balances with CBB			
Current account		5,057	885
Mandatory reserves	3.1	35,533	18,663
		40,590	19,548
Balances with other banks and financial institutions		41,223	187,195
		162,440	312,606

3.1 The mandatory reserves with central banks are not available for use in the day-to-day operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

4 RECEIVABLES

	2022			2021		
	Self financed US $'000	Jointly financed US $'000	Total US $'000	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000
Commodities and wakala placements with FIs	-	43,825	43,825	-	69,611	69,611
Salam financing	-	37,501	37,501	-	55,383	55,383
Istisna'a financing	-	107,883	107,883	-	149,879	149,879
Murabaha	1,125	345,670	346,795	1,125	299,801	300,926
Bills receivable and others	-	15,811	15,811	-	14,270	14,270
Gross receivables	1,125	550,690	551,815	1,125	588,944	590,069
Deferred profits	-	(37,978)	(37,978)	-	(28,991)	(28,991)
	1,125	512,712	513,837	1,125	559,953	561,078
Allowances for expected credit losses (4.2)	(663)	(64,328)	(64,991)	(13)	(75,828)	(75,841)
Net receivables	462	448,384	448,846	1,112	484,125	485,237

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses allowances.

	2022			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Good (1-4)	235,799	22,616	-	258,415
Satisfactory (5-7)	136,579	54,107	-	190,686
Default (8-10)	-	-	64,736	64,736
	372,378	76,723	64,736	513,837

	2021			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Good (1-4)	254,389	19,889	-	274,278
Satisfactory (5-7)	110,354	93,336	-	203,690
Default (8-10)	-	-	83,110	83,110
	364,743	113,225	83,110	561,078

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

4 RECEIVABLES

4.1 Movements in deferred profit from murabaha contracts:

	2022 US $ '000	2021 US $ '000
Balance at 1 January	28,833	18,105
Murabaha sales revenue during the year	752,162	1,153,646
Murabaha cost of sales	(728,271)	(1,129,042)
Profit accrued during the year	(14,248)	(12,437)
Deferred profit written off during the year	(329)	(1,171)
Exchange Differences	(272)	(268)
Balance at 31 December	37,875	28,833

4.2 Allowances for expected credit losses
An analysis of the changes in ECL allowances, is as follows:

	2022			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Balance at 1 January	2,075	8,145	65,621	75,841
Changes during the year:				
- transferred to Stage 1: 12 month ECL	1	(1)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(94)	228	(134)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	(28)	28	-
Net remeasurement of loss allowance	(319)	857	5,962	6,500
Recoveries	-	-	(2,920)	(2,920)
	(412)	1,056	2,936	3,580
Amounts written off during the year	-	-	(4,404)	(4,404)
Foreign exchange (FX) translation	(35)	(112)	(9,879)	(10,026)
Balance at 31 December	1,628	9,089	54,274	64,991

	2021			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Balance at 1 January	1,555	14,666	46,913	63,134
Changes during the year:				
- transferred to Stage 1: 12 month ECL	27	(18)	(9)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(198)	1,408	(1,210)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(1)	(4,136)	4,137	-
Net remeasurement of loss allowance	738	(293)	20,315	20,760
Recoveries	-	-	(4,068)	(4,068)
	566	(3,039)	19,165	16,692
Allocation from investment risk reserve	-	-	277	277
Amounts written off during the year	-	(3,427)	(3,121)	(6,548)
Write back of written off	-	-	5,790	5,790
Foreign exchange (FX) translation	(46)	(55)	(3,403)	(3,504)
Balance at 31 December	2,075	8,145	65,621	75,841

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES

	2022			2021		
	Self financed US $'000	Jointly financed US $'000	Total US $'000	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000
Ijara muntahia bittamleek (5.1)	10,842	517,953	528,795	26,536	400,964	427,500
Ijara receivables (5.2)	3,657	37,322	40,979	9,150	33,690	42,840
	14,499	555,275	569,774	35,686	434,654	470,340
Allowance for expected credit losses (5.3)	(179)	(7,640)	(7,819)	(318)	(8,547)	(8,865)
	14,320	547,635	561,955	35,368	426,107	461,475

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses allowances.

	2022			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Good (1-4)	541,792	3,284	-	545,076
Satisfactory (5-7)	2,791	6,611	-	9,402
Default (8-10)	-	-	15,296	15,296
	544,583	9,895	15,296	569,774

	2021			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Good (1-4)	441,578	11	-	441,589
Satisfactory (5-7)	4,016	6,036	-	10,052
Default (8-10)	-	-	18,699	18,699
	445,594	6,047	18,699	470,340

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

5.1 Ijara muntahia bittamleek

	2022			2021		
	Self financed US $'000	Jointly financed US $'000	Total US $'000	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000
Land and building						
Cost	-	619,760	619,760	-	476,420	476,420
Accumulated depreciation	-	(101,823)	(101,823)	-	(79,330)	(79,330)
Net book value	-	517,937	517,937	-	397,090	397,090
Equipment						
Cost	14,876	16	14,892	35,556	8,846	44,402
Accumulated depreciation	(4,034)	-	(4,034)	(9,020)	(5,230)	(14,250)
Net book value	10,842	16	10,858	26,536	3,616	30,152
Others						
Cost	-	-	-	-	632	632
Accumulated depreciation	-	-	-	-	(374)	(374)
Net book value	-	-	-	-	258	258
TOTAL						
Cost	14,876	619,776	634,652	35,556	485,898	521,454
Accumulated depreciation	(4,034)	(101,823)	(105,857)	(9,020)	(84,934)	(93,954)
Net book value	10,842	517,953	528,795	26,536	400,964	427,500

5.2 Ijara receivables

	2022			2021		
	Self financed US $'000	Jointly financed US $'000	Total US $'000	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000
Ijara receivables	3,657	37,322	40,979	9,150	33,690	42,840
	3,657	37,322	40,979	9,150	33,690	42,840

5.3 Allowances for expected credit losses

An analysis of the changes in ECL allowances, is as follows:

	2022			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Balance at 1 January	778	45	8,042	8,865
Changes during the year:				
- transferred to Stage 1: 12 month ECL	1	(1)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(81)	81	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	(4)	4	-
Net remeasurement of loss allowance	(57)	(11)	864	796
Recoveries / write-backs	-	-	(844)	(844)
	(137)	65	24	(48)
Amounts written off during the year	-	-	(495)	(495)
FX translation	-	(1)	(502)	(503)
Balance at 31 December	641	109	7,069	7,819

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

5.3 Allowances for expected credit losses (continued)

An analysis of the changes in ECL allowances, is as follows:

	2021			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Balance at 1 January	894	227	8,872	9,993
Changes during the year:				
- transferred to Stage 1: 12 month ECL	287	(123)	(164)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	-	662	(662)	-
Net remeasurement of loss allowance	(403)	(721)	479	(645)
Recoveries / write-backs	-	-	(207)	(207)
	(116)	(182)	(554)	(852)
Amounts written off during the year	-	-	(23)	(23)
FX translation	-	-	(253)	(253)
Balance at 31 December	778	45	8,042	8,865

6 MUSHARAKA

	2022			2021		
	Self financed US $'000	Jointly financed US $'000	Total US $'000	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000
Musharakat	32,019	218,255	250,274	52,870	286,354	339,224
Allowances for expected credit losses (6.1)	-	(10,830)	(10,830)	-	(10,203)	(10,203)
	32,019	207,425	239,444	52,870	276,151	329,021

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses allowances.

	2022			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Good (1-4)	214,885	10,396	-	225,281
Satisfactory (5-7)	7,091	8,560	-	15,651
Default (8-10)	-	-	9,342	9,342
	221,976	18,956	9,342	250,274

	2021			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Good (1-4)	258,011	26,270	-	284,281
Satisfactory (5-7)	6,029	37,189	-	43,218
Default (8-10)	-	-	11,725	11,725
	264,040	63,459	11,725	339,224

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

6 MUSHARAKA (continued)

6.1 Allowances for expected credit losses
An analysis of the changes in ECL allowances, is as follows:

	2022			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Balance at 1 January	1,717	2,275	6,211	10,203
Changes during the year:				
- transferred to Stage 1: 12 month ECL	86	(86)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(162)	162	-	-
Net remeasurement of loss allowance	696	190	1,991	2,877
Recoveries / write-backs	-	-	-	-
	620	266	1,991	2,877
FX translation	(378)	(500)	(1,372)	(2,250)
Balance at 31 December	1,959	2,041	6,830	10,830

	2021			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Balance at 1 January	1,645	2,745	5,684	10,074
Changes during the year:				
- transferred to Stage 2: Lifetime ECL not credit-impaired	(88)	88	-	-
Net remeasurement of loss allowance	315	(299)	1,612	1,628
Recoveries / write-backs	-	-	(548)	(548)
	227	(211)	1,064	1,080
FX translation	(155)	(259)	(537)	(951)
Balance at 31 December	1,717	2,275	6,211	10,203

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

7 INVESTMENTS

	2022			2021		
	Self financed US $'000	Jointly financed US $'000	Total US $'000	Self financed US $ '000	Jointly financed US $ '000	Total US $ '000
i) Debt-type instruments at fair value through statement of income						
Quoted						
Sukuk	-	-	-	-	33,653	33,653
ii) Debt-type instruments at fair value through equity (Note 7.1)						
Quoted						
Sukuk	250,672	225,387	476,059	225,722	162,544	388,266
Unquoted						
Sukuk	12,323	7,259	19,582	-	3,506	3,506
	262,995	232,646	495,641	225,722	166,050	391,772
iii) Debt-type instruments at amortised cost (Note 7.1)						
Quoted						
Sukuk	335,009	167,051	502,060	329,661	167,712	497,373
Unquoted						
Sukuk	2,717	64,965	67,682	15,239	73,587	88,826
	337,726	232,016	569,742	344,900	241,299	586,199
Allowances for expected credit losses	(225)	(89)	(314)	(328)	(117)	(445)
	600,496	464,573	1,065,069	570,294	407,232	977,526
iv) Equity-type instruments at fair value through equity - note (Note 7.2)						
Quoted						
Listed equity shares	29,370	242	29,612	30,276	306	30,582
Unquoted						
Unlisted equity shares	8,918	513	9,431	63,260	442	63,702
Managed funds	1,000	-	1,000	1,000	-	1,000
Real estate funds	1,636	20,392	22,028	1,636	11,146	12,782
	40,924	21,147	62,071	96,172	11,894	108,066
Provision for impairment	(4,672)	(329)	(5,001)	(5,196)	(422)	(5,618)
	36,252	20,818	57,070	90,976	11,472	102,448
Total investments	636,748	485,391	1,122,139	661,270	452,357	1,113,627

Included in unquoted investments which are held at fair value through equity are investments amounting to US $ 28.6 million (2021: US $ 73.7 million) which are held at cost less provision for impairment. These are mainly investments in unlisted companies whose shares are not traded on active markets. The investments are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for determining a reliable fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

7 INVESTMENTS (continued)

The Group's investments in sukuk held at amortised cost amounting to US $ 569.7 million (2021: US $586.2 million) has a fair value amounting to US $ 549.4 million (2021: US $584.9 million).

Investments stated at a carrying amount of US $ 481.7 million (2021: US $ 496.0 million) are placed in custody of a financial institution to secure a financing line.

7.1 Debt-type instruments at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses allowances.

	2022		
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Total US $ '000
Good (1-4)	508,771	-	508,771
Satisfactory (5-7)	556,612	-	556,612
	1,065,383	-	1,065,383

	2021		
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Total US $ '000
Good (1-4)	417,670	-	417,670
Satisfactory (5-7)	560,301	-	560,301
	977,971	-	977,971

An analysis of the changes in ECL allowances, is as follows:

	2022		
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Total US $ '000
Balance at 1 January	445	-	445
Changes during the year:			
Net remeasurement of loss allowance	(128)	-	(128)
	(128)	-	(128)
FX translation	(3)	-	(3)
Balance at 31 December	314	-	314

	2021		
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Total US $ '000
Balance at 1 January	456	223	679
Changes during the year:			
- transferred to Stage 1: 12 month ECL	74	(74)	-
Net remeasurement of loss allowance	(83)	(149)	(232)
	(9)	(223)	(232)
FX translation	(2)	-	(2)
Balance at 31 December	445	-	445

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

7 INVESTMENTS (continued)

7.2 Provision for impairment on equity type investments

	2022 US $ '000	2021 US $ '000
Balance at 1 January	5,618	6,190
Charge for the year	-	836
Reversal for the year	(187)	(1,099)
Exchange difference	(430)	(309)
Balance at 31 December	5,001	5,618

8 INVESTMENT IN JOINT VENTURE

	2022 US $ '000	2021 US $ '000
Balance at 1 January	18,700	14,631
Net share of income for the year	3,249	4,069
Dividend received for the year	(3,519)	-
Balance at 31 December	18,430	18,700

Name	Nature of Business	Ownership	
		2022	2021
Danaat Al-Baraka	Real estate development	51%	51%

Summarised statement of financial position

	2022 US $ '000	2021 US $ '000
Non-current assets	5,537	23,218
Current assets	31,907	15,738
Current liabilities	(1,308)	(2,291)
Net assets	36,136	36,665
Group's ownership in equity	18,430	18,700
Net carrying amount	18,430	18,700

Summarised statement of profit and loss

	2022 US $ '000	2021 US $ '000
Total income	7,043	8,716
Total expenses	(672)	(738)
Total comprehensive income	6,371	7,978
Group's net share of profit	3,249	4,069

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

9 INVESTMENTS IN REAL ESTATE

	2022 US $ '000	2021 US $ '000
Balance at 1 January	**9,526**	9,813
Disposals during the year	**(593)**	(171)
Unrealized loss on remeasurement	**(97)**	(116)
Balance at 31 December	**8,836**	9,526

10 PREMISES AND EQUIPMENT

	Land,Building & Right of Use Assets US $ '000	Computer Software & license US $ '000	Office furniture and equipment US $ '000	Vehicles US $ '000	Total US $ '000
Cost:					
At 1 January 2022	56,813	15,494	25,138	486	97,931
Additions (10.1)	53,230	900	3,465	-	57,595
Disposals	(1,760)	-	(545)	(186)	(2,491)
Exchange difference	(9,065)	(2,124)	(2,766)	(107)	(14,062)
At 31 December 2022	99,218	14,270	25,292	193	**138,973**
Accumulated depreciation:					
At 1 January 2022	15,921	7,934	17,429	286	41,570
Depreciation for the year	3,746	1,819	2,500	27	8,092
Related to disposals	(1,325)	-	(523)	(91)	(1,939)
Exchange difference	(3,271)	(1,564)	(2,173)	(62)	(7,070)
At 31 December 2022	15,071	8,189	17,233	160	40,653
Net book values:					
At 31 December 2022	**84,147**	**6,081**	**8,059**	**33**	**98,320**
At 31 December 2021	40,892	7,560	7,709	200	56,361
Estimated useful life for calculation of depreciation	20-30 years	4-5 years	1-10 years	4-5 years	1-10 years

10.1 The Bank has acquired head office building having fair value of US$ 52 million against the transfer of equity stake in majority owned investment in Itqan Capital Company during the current year.

The Bank is still in the process of transferring the title deed related to the additions of Al Baraka Tower, which is still with Al Baraka Group B.S.C. (the Parent) as of the date of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

11 GOODWILL

	2022 US $ '000	2021 US $ '000
Balances at 1 January	**12,722**	14,050
Foreign exchange translation	**(2,805)**	(1,328)
Balance at 31 December	**9,917**	12,722

Goodwill acquired through business combination has been entirely allocated to a single cash generating unit (CGU), Al Baraka Bank (Pakistan) Limited by the Group's management.

The recoverable amount of the CGU was determined based on value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. Management determined budgeted spreads based on the CGU's past performance and its expectation of market development.

The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value in use calculations. Accordingly, management believes that reasonable changes in key assumptions used to determine the recoverable amount of the Group's cash generating units will not result in an impairment.

12 OTHER ASSETS

	2022 US $ '000	2021 US $ '000
Collaterals pending sale	**10,975**	13,319
Deferred tax (12.1)	**13,340**	18,779
Advance against capital expenditure	**4,344**	3,922
Accounts receivable	**20,018**	21,898
Advance tax	**-**	575
Income receivable	**2**	61
Prepayments	**3,277**	3,025
Others	**2,088**	4,859
Total	**54,044**	66,438
Provision for impairment	**(1,770)**	(2,271)
	52,274	64,167

12.1 The above net deferred tax asset has been recognised in accordance with the Group's accounting policy. The management based on financial projections prepared during the year, estimates that sufficient taxable profits would be available in future against which the deferred tax asset could be realised.

13 OTHER LIABILITIES

	2022 US $ '000	2021 US $ '000
Accounts payable	**26,832**	30,549
Margins received	**23,106**	21,615
Security deposit against ijara muntahia bittamleek	**362**	910
Bills payable	**31,699**	27,151
Provision for employees benefits	**8,901**	9,912
Charity fund	**396**	624
Allowance for expected credit losses-unfunded facilities	**92**	718
Operating Ijarah liability	**8,166**	11,306
Others	**13,631**	6,861
	113,185	109,646

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Group invests its own funds separately or jointly with amount received from Equity of Investment Account Holders. These funds received are managed in accordance with Sharia requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Group to exercise its fiduciary responsibilities. The Group is authorised by the Investment Accountholders to invest the funds on the basis of mudaraba, murabaha, salam, ijara transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

	2022 US $ '000	2021 US $ '000
IAH - Non-banks	**1,370,739**	1,371,711
IAH - Banks	**541,819**	493,294
Profit equalisation reserve (note 14.1)	**411**	411
	1,912,969	1,865,416

14.1 Movement in profit equalisation reserve

	2022 US $ '000	2021 US $ '000
Balance at 1 January	**411**	344
Amount apportioned from income allocable to equity of investment accountholders	**-**	67
Balance at 31 December	**411**	411

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

The Group deducts investment risk reserve as per approved policy from the profit distributable to equity of investment accountholders of its Bahrain operations, after allocating the Mudarib share in order to meet future losses for equity of IAH.

The profit equalisation reserve and investment risk reserve will revert to investment accountholders as per terms and conditions of the Mudaraba contract.

As investment accountholder's funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of equity of investment accountholders is upto a maximum of 70% (2020: upto 70%) as per the terms of IAH agreements.

The Group has charged a total administrative expense of US $ 7.5 million (2021: US $ 8.1 million) to equity of investment account holders for the year ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

14.2 Equity of Investment Accountholders by maturity

	2022 US $ '000	2021 US $ '000
Saving Accounts	**686,827**	801,929
One Month Investment Account	**170,007**	183,648
Three Months Investment Account	**427,871**	255,407
Six Months Investment Account	**61,326**	90,097
Nine Months Investment Account	**5,539**	4,366
1 Year Investment Account	**455,324**	482,731
2 Years Investment Account	**10,189**	5,438
3 Years Investment Account	**49,200**	25,003
4 Years Investment Account	**2,824**	-
5 Years Investment Account	**43,862**	16,797
	1,912,969	1,865,416

14.3 Equity of Investment Accountholders by type

	2022 US $ '000	2021 US $ '000
Accounts on demand	**686,827**	801,929
Accounts on a contractual basis *	**1,226,142**	1,063,487
	1,912,969	1,865,416

* These can be withdrawn subject to deduction of profit upon management discretion.

15 SUBORDINATED MUDARABA

	2022 US $ '000	2021 US $ '000
Subordinated Mudaraba	**15,600**	**19,439**
	15,600	**19,439**

Particular	Principal	Profit	Profit Rate	Maturity
Al Baraka Pakistan Limited Tier 2 Sukuk Second issue	Bullet	Semi-Annually	6 M Kibor + 0.75%	2024
Al Baraka Pakistan Limited Tier 2 Sukuk Third issue	Bullet	Semi-Annually	6 M Kibor + 1.50%	2031

16 OWNERS' EQUITY

	2022 US $ '000	2021 US $ '000
(i) Share capital		
Authorised 6,000,000 ordinary shares (2021: 6,000,000) of US$ 100 each	**600,000**	600,000

	2022 US $ '000	2021 US $ '000
Issued and fully paid 1,514,578 ordinary shares (2021: 1,364,578) of US $ 100 each	**151,458**	136,458

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

16 OWNERS' EQUITY (continued)

(i) Share capital (continued)
Additional information on shareholding pattern:
Names and nationalities of the major shareholder having an interest of 5% or more are as follows:

	2022		
Name	Domicile	No. of shares	% holding
Al Baraka Banking Group B.S.C.	Bahrain	1,405,755	92.81%

	2021		
Name	Domicile	No. of shares	% holding
Al Baraka Banking Group B.S.C.	Bahrain	1,255,755	92.03%

The Bank has only one class of shares and the holders of these shares have equal voting rights.
Following is the distribution schedule of shares, setting out the number and percentage of other shareholders along with categories:

	2022			2021		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	58,823	12	3.88%	58,823	12	4.31%
1% up to less than 5%	50,000	1	3.30%	50,000	1	3.66%
	108,823	13	7.19%	108,823	13	7.97%

(ii) Additional Tier 1 (AT1) Capital

	2022 US $ '000	2021 US $ '000
Subordinated Mudaraba	96,000	111,000

The Bank held additional tier 1 capital (subordinated mudaraba) amounted to USD 96 million, received from ultimate parent. Such capital was raised from time to time to ensure compliance with minimum capital requirement (MCR) and capital adequacy requirement (CAR) as prescribed by Central Bank of Bahrain. The Bank raised additional tier 1 capital amounted to USD 81 million against cash consideration and USD 15 million against equity shares.

Summary of terms and conditions are as follows:

- Subordinated mudaraba amounted to US $ 81 million carries expected profit ranging from 6% to 9% per annum, on a semi-annual basis;
- Subordinated mudaraba amounted to US $ 15 million carries expected profit rate, which is 30% of the dividend or profit to be received on underlying equity investments shall be distributed to the Ultimate Parent, subject to and in accordance with terms and conditions, on an annual basis;
- the investor will not have a right to claim the profit and such event of nonpayment of profit will not be considered as event of default;
and.
- such instruments are recognised under equity in the consolidated statement of financial position and the corresponding profits paid to investor are accounted as appropriation of profits.

(iii) Statutory reserve
In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

16 OWNERS' EQUITY (continued)

(iv) General reserve
In accordance with the Bank's articles of association, the Bank may transfer any amount, as approved by the General Assembly, out of net income for the year to the general reserve after appropriating statutory reserve. The general reserve is distributable, subject to the approval of the CBB.

(v) Cumulative changes in fair value
This represents the net unrealised fair value changes relating to the equity of the parent on equity-type instruments at fair value through equity and investment in real estate.

(vi) Revaluation reserve on premises and equipment
This represents the net surplus on revaluation relating to the equity of the parent on premises and equipment carried at fair value.

(vii) Foreign exchange reserve
This represents the translation reserve arising as a result of consolidation of the foreign subsidiary.

(viii) Employee defined benefit plan reserve
This represents the reserve created in lieu of actuarial gains or losses on defined benefit liabilities and planned assets.

17 CONTINGENCIES AND COMMITMENTS

	2022 US $ '000	2021 US $ '000
Letters of credit	62,774	108,005
Guarantees	107,286	108,823
Foreign exchange contracts	156,217	262,447
Acceptances	10,430	16,448
Taxation	4,054	5,200
Others	21	26
	340,782	500,949

18 INCOME FROM FINANCINGS

	2022 US $ '000	2021 US $ '000
Sales and other receivables	37,472	30,004
Ijarah Muntahia Bittamleek	38,440	22,002
Musharaka	27,230	36,627
	103,142	88,633

	2022 US $ '000	2021 US $ '000
Income from jointly financed financings	95,244	81,657
Income from self financed financings	7,898	6,976
	103,142	88,633

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

19 INCOME FROM INVESTMENTS

	2022 US $ '000	2021 US $ '000
Yield, coupon or return on investments	79,484	44,487
Gain on sale of investments	1,023	3,638
Dividends	2,818	6,570
(Loss) / gain on disposal and revaluation of investment properties	(97)	1,288
Rental Income	286	179
	83,514	56,162

	2022 US $ '000	2021 US $ '000
Income from jointly financed investments	43,300	16,473
Income from self financed investment	40,214	39,689
	83,514	56,162

20 REVENUE FROM BANKING SERVICES

	2022 US $ '000	2021 US $ '000
Fees and commissions	6,570	8,077
Letters of credit and acceptances	1,774	2,550
Guarantees	1,042	733
	9,386	11,360

21 OTHER INCOME

	2022 US $ '000	2021 US $ '000
Foreign exchange gain - net	3,773	5,257
Others	1,156	1,241
	4,929	6,498

22 OTHER OPERATING EXPENSES

	2022 US $ '000	2021 US $ '000
Administrative expenses	5,807	5,901
Premises costs	5,744	5,302
Business expenses	17,321	15,686
General expenses	1,410	1,242
	30,282	28,131

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

23 EXPECTED CREDIT LOSSES / ALLOWANCES FOR IMPAIRMENT - NET

	2022 US $ '000	2021 US $ '000
Receivables (note 4)	3,580	16,692
Ijara Muntahia Bittamleek and Ijara Receivables (note 5)	(48)	(852)
Musharakas (note 6)	2,877	1,080
Investments at amortized cost (note 7.1)	(128)	(232)
Investments at fair value through equity (note 7.2)	(187)	(263)
Contingencies and commitments	(505)	366
Others	252	544
	5,841	17,335

24 TAXATION

Taxation relates to subsidiary in Pakistan and comprise:	2022 US $ '000	2021 US $ '000
Consolidated statement of financial position:		
Advance tax - net	-	575
Tax liability	13,340	18,779
Consoliated statement of income:		
Current tax	(3,138)	(1,110)
Deferred tax	(1,714)	1,065
	(4,852)	(45)

25 CASH AND CASH EQUIVALENTS

For the purpose of cash flows, cash and cash equivalents represent:	2022 US $ '000	2021 US $ '000
Cash in hand	22,127	33,564
Balances with central banks (unrestricted accounts)	13,352	5,633
Balances with other banks and financial institutions	41,223	187,195
Receivables, commodities and wakala placements (with an original maturity of 90 days or less)	43,829	69,592
	120,531	295,984

26 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, entities owned or controlled, jointly controlled or significantly influenced by them, companies affiliated by virtue of shareholding in common with that of the Bank, Sharia supervisory board and external auditors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

26 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

The significant balances with related parties at 31 December were as follows:

	Parent and Other Shareholders		Other Related Parties		Total	
Assets:	**2022 US $ '000**	2021 US $ '000	**2022 US $ '000**	2021 US $ '000	**2022 US $ '000**	2021 US $ '000
Cash and balances with banks and financial institutions	**3**	6	**46**	903	**49**	909
Receivables	**-**	-	**836**	5,442	**836**	5,442
Musharaka	**-**	-	**1,370**	1,433	**1,370**	1,433
Investments	**25,443**	22,820	**26,801**	88,155	**52,244**	110,975
Other assets	**6,261**	8,900	**-**	537	**6,261**	9,437
	31,707	31,726	**29,053**	96,470	**60,760**	128,196
Liabilities:						
Current account	**6,450**	5,890	**1,934**	2,988	**8,384**	8,878
Other liabilities	**4,927**	4	**937**	1,765	**5,864**	1,769
	11,377	5,894	**2,871**	4,753	**14,248**	10,647
Equity of investment accountholders	**33,100**	36,326	**26,719**	18,970	**59,819**	55,296
Off-balance sheet equity of investment accountholders	**27,231**	41,389	**162,615**	117,139	**189,846**	158,528
Contingencies and commitments	**2,000**	2,172	**1,049**	10,330	**3,049**	12,502

The transactions with the related parties included in the consolidated statement of income are as follows:

	Parent and Other Shareholders		Other Related Parties		Total	
Income	**2022 US $ '000**	2021 US $ '000	**2022 US $ '000**	2021 US $ '000	**2022 US $ '000**	2021 US $ '000
Income from jointly financed sales						
Income from jointly financed,	**-**	-	**71**	373	**71**	373
other financings and investments						
Group's income from self financed,	**-**	-	**50**	103	**50**	103 w
other financings	**1,637**	550	**383**	294	**2,020**	844
Other income	**325**	319	**32**	41	**357**	360
	1,962	869	**536**	811	**2,498**	1,680
Expenses						
Return on equity of investment accountholders before Group's share as a Mudarib	**172**	48	**878**	818	**1,050**	866
Other expenses	**318**	349	**3,270**	2,674	**3,588**	3,023
	490	397	**4,148**	3,492	**4,638**	3,889

Compensation of key management personnel is as follows:

	2022 US $ '000	2021 US $ '000
Salaries	**4,866**	4,594
Other benefits	**2,008**	1,942
	6,874	6,536

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

27 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees, guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors.

a) Liquidity risk
Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2022 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms.

	Up to 3 months US $ '000	3 to 6 months US $ '000	6 months to 1 year US $ '000	1 to 3 years US $ '000	3 to 5 years US $ '000	5 to 10 years US $ '000	10 to 20 years US $ '000	Over 20 years US $ '000	No fixed maturity US $ '000	Total US $ '000
ASSETS										
Cash and balances with banks and financial institutions	76,702	-	-	-	-	-	-	-	85,738	162,440
Receivables	152,886	114,095	37,675	59,122	38,524	22,676	3,942	5,847	14,079	448,846
Ijara muntahia bittamleek and Ijara receivables	7,703	6,343	13,381	60,872	55,855	111,431	218,104	79,887	8,379	561,955
Musharakas	15,187	3,590	9,840	58,335	93,973	28,541	28,401	-	1,577	239,444
Investments	49,503	2,717	321	413,343	433,978	186,293	-	1,000	34,984	1,122,139
Investments in real estate	-	-	-	8,836	-	-	-	-	-	8,836
Investment in Joint Venture	-	-	-	-	-	-	-	-	18,430	18,430
Premises and equipment	-	-	-	-	-	-	-	-	98,320	98,320
Goodwill	-	-	-	-	-	-	-	-	9,917	9,917
Other assets	25,044	682	9,575	-	15,471	-	-	-	1,502	52,274
Total assets	327,025	127,427	70,792	600,508	637,801	348,941	250,447	86,734	272,926	2,722,601
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND OWNERS' EQUITY										
Current accounts	243,052	-	-	-	-	-	-	-	-	243,052
Murabaha and other payables	36,818	60,276	64,759	532	189	9,222	-	-	-	171,796
Other liabilities	96,183	853	1,504	10,217	2,478	1,950	-	-	-	113,185
Total liabilities	376,053	61,129	66,263	10,749	2,667	11,172	-	-	-	528,033
Equity of investment accountholders	1,390,187	209,957	212,748	64,635	35,442	-	-	-	-	1,912,969
Subordinated mudaraba	1,314	-	-	6,625	-	7,661	-	-	-	15,600
Total owners' equity	-	-	-	-	-	-	-	-	265,999	265,999
Total liabilities, Equity of investment accountholders, subordinated mudaraba and owner's equit	1,767,554	271,086	279,011	82,009	38,109	18,833	-	-	265,999	2,722,601
Net gap	(1,440,529)	(143,659)	(208,219)	518,499	599,692	330,108	250,447	86,734	6,927	-
Cumulative net gap	(1,440,529)	(1,584,188)	(1,792,407)	(1,273,908)	(674,216)	(344,108)	(93,661)	(6,927)	-	-
Off-balance sheet equity of investment accountholders	234,605	221,206	87,316	106,642	60,941	119,982	-	-	-	830,692

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

27 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

	Up to 3 months US $ '000	3 to 6 months US $ '000	6 months to 1 year US $ '000	1 to 3 years US $ '000	3 to 5 years US $ '000	5 to 10 years US $ '000	10 to 20 years US $ '000	Over 20 years US $ '000	No fixed maturity US $ '000	Total US $ '000
ASSETS										
Cash and balances with banks and financial institutions	226,392	-	-	-	-	-	-	-	86,214	312,606
Receivables	230,922	97,506	24,367	48,090	29,335	20,373	2,559	3,889	28,196	485,237
Ijara muntahia bittamleek and Ijara receivables	3,436	26,662	14,899	47,427	46,993	91,776	165,670	53,075	11,537	461,475
Musharakas	12,058	938	17,419	77,546	150,899	39,144	24,513	-	6,504	329,021
Investments	99,885	189	-	62,145	506,942	353,457	571	1,000	89,438	1,113,627
Investments in real estate	-	-	-	9,526	-	-	-	-	-	9,526
Investment in Joint Venture	-	-	-	-	-	-	-	-	18,700	18,700
Premises and equipment	259	259	518	2,073	2,073	5,182	-	-	45,997	56,361
Goodwill	-	-	-	-	-	-	-	-	12,722	12,722
Other assets	30,601	2,544	2,015	6,152	20,265	-	-	-	2,590	64,167
Total assets	603,553	128,098	59,218	252,959	756,507	509,932	193,313	57,964	301,898	2,863,442
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND OWNERS' EQUITY										
Current accounts	353,429	-	-	-	-	-	-	-	-	353,429
Murabaha and other payables	48,539	101,049	34,772	51,029	244	7,631	-	-	-	243,264
Other liabilities	88,337	2,672	585	2,127	2,093	13,832	-	-	-	109,646
Total liabilities	490,305	103,721	35,357	53,156	2,337	21,463	-	-	-	706,339
Equity of investment accountholders	1,241,034	237,069	205,312	94,679	35,313	28,679	23,330	-	-	1,865,416
Subordinated mudaraba	1,080	32	-	8,498	-	9,829	-	-	-	19,439
Total owners' equity	-	-	-	-	-	-	-	-	272,248	272,248
Total liabilities, Equity of investment accountholders, subordinated mudaraba and owner's equit	1,732,419	340,822	240,669	156,333	37,650	59,971	23,330	-	272,248	2,863,442
Net gap	(1,128,866)	(212,724)	(181,451)	96,626	718,857	449,961	169,983	57,964	29,650	-
Cumulative net gap	(1,128,866)	(1,341,590)	(1,523,041)	(1,426,415)	(707,558)	(257,597)	(87,614)	(29,650)	-	-
Off-balance sheet equity of investment accountholders	38,010	141,177	230,540	87,448	76,037	100,000	-	-	-	673,212

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

27 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The Risk Management Department ('RMD') of the Bank monitors the liquidity position on a daily basis through ALCO report and measures the Liquidity Coverage Ratio based on the contractual maturity inflow and outflow of funds on a monthly basis. The Bank has put in place a Risk Appetite Statement and Liquidity Risk Management Policy and Strategy, which highlights various internal liquidity thresholds and early warning indicators (EWIs). The RMD reviews the liquidity position and early warning indicators on a continuous basis and alerts the management, when needed for necessary action. The ALCO (an 'Asset and Liability Management Committee') meets on a monthly basis, at a minimum and reviews the Bank's liquidity profile through maturity mismatch statement and available stock of liquid assets as well as funding concentrations; also reviews the Bank's profit and funding rate and accordingly, approves any change in the rates and conisders any regulatory requirements or directives. The RMD also carries out stress testing exercises and contingency funding plans on a periodic basis and reports the results to the Management and Board Risk Committee.

b) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

Profit rate risk

Profit rate risk is the risk that the Group will incur a financial loss as a result of mismatch in the profit rate on the Group's assets and IAH. The profit distribution to IAH is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The policies and procedures to manage displaced commercial risk are formulated and implemented at the segment level (Pakistan and Bahrain).

Foreign exchange risk

Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

Following is the Group's exposure to different currencies in equivalent US dollars:

	2022
	Total Equivalent US $ '000
Pakistani Rupees	105,677
Euro	(15,908)
Kuwaiti Dinars	56
Pound Sterling	(4,705)
Egyptian Pound	2,372
Algerian Dinar	6,000
Chinese Yuan	553

	2021
	Total Equivalent US $ '000
Pakistani Rupees	130,510
Euro	(3,167)
Kuwaiti Dinars	63
Pound Sterling	(6,886)
Egyptian Pound	4,787
Algerian Dinar	6,000
Chinese Yuan	1,339

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

27 RISK MANAGEMENT (continued)

b) Market risk (continued)

Foreign exchange risk (continued)

The strategic currency risk represents the amount of equity of the subsidiary.

Foreign currency risk sensitivity analysis

In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks approach, which calculates the effect on equity and income of the Group as a result of 20% appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group.

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of owners' equity. The impact of a similar increase / (decrease) in exchange rates will be approximately opposite to the impact disclosed below:

Currency 2022	Particular	Change	Exposures in US $ '000	Effect on equity/ Income statement in US $ '000
Pakistani Rupees	Net long Position	20%	105,677	21,135
Euro	Net short Position	20%	15,908	3,182
Kuwaiti Dinars	Net long Position	20%	56	11
Pound Sterling	Net short Position	20%	4,705	941
Egyptian Pound	Net long Position	20%	2,372	474
Algerian Dinar	Net long Position	20%	6,000	1,200
Chinese Yuan	Net long Position	20%	553	111

Currency 2021	Particular	Change	Exposures in US $ '000	Effect on equity/ Income statement in US $ '000
Pakistani Rupees	Net long Position	20%	130,510	26,102
Euro	Net short Position	20%	3,167	633
Kuwaiti Dinars	Net long Position	20%	63	13
Pound Sterling	Net short Position	20%	6,886	1,377
Egyptian Pound	Net long Position	20%	4,787	957
Algerian Dinar	Net long Position	20%	6,000	1,200
Chinese Yuan	Net long Position	20%	1,339	268

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

27 RISK MANAGEMENT (continued)

b) Market risk (continued)

In order to measure the risk of equity on its financial position, the Group adopts a sensitivity analysis on its equity portfolio for 10% increase and decrease of the portfolio's value:

	2022		2021	
	Change in equity price %	Effect on equity/ Income Statement US $ '000	Change in equity price %	Effect on equity/ Income Statement 2022 US $ '000%
Pakistan Stock Exchange	10%	180	10%	114
Egypt Stock Exchange	10%	237	10%	479
Jordan Stock Exchange	10%	2,544	10%	2,282

Concentration of investment portfolio

Concentration of an investment portfolio arises when a number of investments are made in entities engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would be affected by changes in economic, political or other conditions. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The industry and geographical concentration of the Group's investment portfolio is as follows:

31 December 2022	*GCC US $ '000	Rest of the world US $ '000	Total US $ '000
Banking	1,020	36,822	37,842
Government	525,529	474,036	999,565
Investment companies	41,168	-	41,168
Manufacturing	-	5,255	5,255
Real estate	11,409	9,147	20,556
Others	9,112	8,641	17,753
	588,238	533,901	1,122,139

31 December 2021	*GCC US $ '000	Rest of the world US $ '000	Total US $ '000
Banking	34,622	3,054	37,676
Government	529,142	425,273	954,415
Investment companies	95,709	-	95,709
Manufacturing	-	7,765	7,765
Real estate	911	10,398	11,309
Others	4,998	1,755	6,753
	665,382	448,245	1,113,627

* GCC countries comprise members of the Gulf Co-operation Council being Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates.

c) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

Type of credit risk

Financing contracts mainly comprise Sales receivable, Istisna'a receivable, Musharaka, Ijara Muntahia Bittamleek and Salam.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

27 RISK MANAGEMENT (continued)

c) Credit risk (continued)
Sales receivable
The Group finances these transactions through buying a commodity which represents the object of the murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in installments by the murabeh over the agreed period. The transactions are secured at times by the object of the murabaha (in case of real estate finance) and other times by a total collateral package securing the facilities given to the client.

Istisna'a receivable
Istisna'a is a sale agreement between the Group as the seller and the customer as the ultimate purchaser whereby the Group undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date.

Musharaka
An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

Ijara Muntahia Bittamleek
This is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijara (lease) term, provided that all Ijara installments are settled.

Salam
Salam is purchase of a commodity for deferred delivery in exchange for immediate payment according to specified conditions or sale of a commodity for deferred delivery in exchange for immediate payment.

Maximum exposure to credit risk
The table below shows the maximum exposure to credit risk by type of Islamic financing contracts before the effect of mitigation through the use of collateral or other credit enhancements.

	Maximum exposure to credit risk	
	2022 US $ '000	2021 US $ '000
Receivables	**448,846**	485,237
Musharakat	**239,444**	329,021
Ijara muntahia bittamleek and ijara receivables	**561,955**	461,475
Investments at amortized cost	**1,065,069**	977,526
Balances with banks and financial institutions	**140,313**	279,042
Other assets	**20,338**	25,122
Contingencies and commitments	**180,490**	233,276
	2,656,455	2,790,699

Credit quality by type of Islamic financing contracts
The table below shows the credit quality by type of Islamic financing contracts, based on the Group's quality of assets. The balances presented are gross of expected credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

27 RISK MANAGEMENT (continued)

c) Credit risk (continued)

Credit quality by type of Islamic financing contracts (continued)

	31 December 2022			
	Neither past due nor non performing US $ '000	**Past due but performing US $ '000**	**Non performing Islamic financing contracts US $ '000**	**Total US $ '000**
Type of Islamic financing contract				
Receivables	**435,268**	**13,833**	**64,736**	**513,837**
Musharaka	**237,721**	**3,211**	**9,342**	**250,274**
Ijara muntahia bittamleek and ijara receivables	**553,857**	**621**	**15,296**	**569,774**
	1,226,846	**17,665**	**89,374**	**1,333,885**

	31 December 2021			
	Neither past due nor non performing US $ '000	Past due but performing US $ '000	Non performing Islamic financing contracts US $ '000	Total US $ '000
Type of Islamic financing contract				
Receivables	451,365	26,603	83,110	561,078
Musharaka	326,509	990	11,725	339,224
Ijara muntahia bittamleek and ijara receivables	450,761	880	18,699	470,340
	1,228,635	28,473	113,534	1,370,642

Aging analysis of past due but performing Islamic financing contracts

	31 December 2022			
	Less than 30 days US $ '000	**31 to 60 days US $ '000**	**61 to 90 days US $ '000**	**Total US $ '000**
Type of Islamic Financing Contracts				
Receivable	**10,657**	**2,990**	**186**	**13,833**
Musharaka	**2,721**	**124**	**366**	**3,211**
Ijara Muntahia Bittamleek & Ijara income receivable	**603**	**12**	**6**	**621**
	13,981	**3,126**	**558**	**17,665**

	31 December 2021			
	Less than 30 days US $ '000	31 to 60 days US $ '000	61 to 90 days US $ '000	Total US $ '000
Type of Islamic Financing Contracts				
Receivable	17,877	5,682	3,044	26,603
Musharaka	687	171	132	990
Ijara Muntahia Bittamleek and Ijara receivable	580	300	-	880
	19,144	6,153	3,176	28,473

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

27 RISK MANAGEMENT (continued)

c) Credit risk (continued)

Aging of non-performing facilities

	31 December 2022				
	3-6 months US $ '000	6-12 months US $ '000	1-3 years US $ '000	3 years & above US $ '000	Total US $ '000
Receivable	2,299	4,767	26,708	30,962	64,736
Musharaka	1,814	797	2,275	4,456	9,342
Ijara Muntahia Bittamleek and Ijara receivable	299	1,713	4,450	8,834	15,296
	4,412	7,277	33,433	44,252	89,374

	31 December 2021				
	3-6 months US $ '000	6-12 months US $ '000	1-3 years US $ '000	3 years & above US $ '000	Total US $ '000
Receivable	23,338	5,596	18,264	35,912	83,110
Musharaka	2,009	943	5,652	3,121	11,725
Ijara Muntahia Bittamleek and Ijara receivable	3,008	327	8,200	7,164	18,699
	28,355	6,866	32,116	46,197	113,534

Credit quality
The table below shows the credit quality and the maximum exposure to credit risk based on the Group's internal credit rating system and stage classification. The amounts presented are gross of expected credit losses allowances.

	2022			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Good (1-4)	992,476	36,296	-	1,028,772
Satisfactory (5-7)	146,461	69,278	-	215,739
Default (8-10)	-	-	89,374	89,374
	1,138,937	105,574	89,374	1,333,885

	2021			
	Stage 1: 12-month ECL US $ '000	Stage 2: Lifetime ECL not credit-impaired US $ '000	Stage 3: Lifetime ECL credit-impaired US $ '000	Total US $ '000
Good (1-4)	953,978	46,170	-	1,000,148
Satisfactory (5-7)	120,399	136,561	-	256,960
Default (8-10)	-	-	113,534	113,534
	1,074,377	182,731	113,534	1,370,642

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

27 RISK MANAGEMENT (continued)

c) Credit risk (continued)

Credit risk mitigation
For exposures secured by real estate or other collateral, the Group carries out regular and periodic collateral verification and evaluation. This collateral verification is conducted by an independent qualified assessor or Collateral Analyst at the Group. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group allows cars, premises and equipment, plant and machinery etc, as collateral for a credit and investment product but does not accept perishable assets. The Group does not accept any assets as collateral if the assets are susceptible for obsolescence. The Group also ensure that these assets are insured in order to be accepted as collateral.

Collaterals listed hereunder attract capital relief from capital adequacy requirements:

1. Hamish Jiddiyyah (HJ) (Good faith deposit): The Group takes this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honour his promise to perform, the Group has recourse to the HJ. HJ is taken by the Group at the inception of the transaction but before signing the contracts. HJ constitutes partial guarantee to the Group for the performance of the contract by the customer. The Group will still have recourse to the customers for the unsecured position in case of default.

2. Third party guarantee: The Group should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable, should provide the Group with signed audited financial statements.

3. Underlying assets of the lease contract: The underlying asset must be of monetary value and the Group must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any kind of encumbrance. In the same lease contract a customer can pledge other assets that customers own other than the underlying assets in the contract. In order for the Group to consider these assets as pledged assets, it must meet all the conditions for the underlying assets under the lease contract. It must be legally enforceable, accessible, saleable and free of any kind of encumbrance. The value of the pledged asset must be used only to offset the amount against the customers.

   Any excess amount resulting from the closure of the pledge by the Group should be returned to the customer (pledger). The Group is conducting at least annual evaluation of the pledged assets and keeping adequate documentation of this evaluation.

4. Cash deposit free from any legal encumbrance either in the form of equity of investment accountholders or off-balance sheet equity of investment accountholders.

5. Rated and unrated senior Sukuk issued by financial institutions or sovereigns.

Credit quality
Countries, governments and financial institutions will be rated on the basis of their unsecured medium term foreign currency obligations. This means that for governments and financial institutions the cross-border risk will also be part of the rating and the country's rating will be, in most cases, the ceiling on the financial institution's rating. Corporates will be rated on their senior unsecured medium term local currency obligations, unless the credit granted is across border or in foreign currency. In the latter case, the obligor's country's rating will be the ceiling on corporates' rating. Where all credit to a government is in local currency, the rating for that government is the best i.e. 1 on the rating scale, however, if the exposure to the government includes foreign currency, the rating for that government will be the same as the country's rating.

A rating is a forward looking indication of creditworthiness. It is based on an evaluation of past performance, present conditions and outlook for the future. For the purpose of rating, the Group is using only those External Credit Assessment Institutions (ECAIs) which are allowed/ approved by the CBB and are mainly used in Banking exposures.

The basic approach of the major credit rating agencies to rating is the same as what the Group credit policies require i.e. a comprehensive fundamental analysis of all relevant quantitative and non quantitative factors aimed at identifying actual and potential vulnerability. Credit rating will be applied to Countries and Single Obligors. Single Obligors, in turn are categorised as financial institutions, corporates and governments. CRS therefore rates obligors (issuers) and not facilities. The obligor rating of countries and single obligors will identify the relative probability of default but will not take into account the impact of collateral security, structure etc in the event of default. Facility ratings by contrast, combine both the probability of default and loss severity in case of defaults.

d) Operational risk
The Group categorises operational risk loss events according to the Basel II classification consisting of seven major risk families, but also takes a causal approach to these risks and pays particular attention to the causal categories below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

27 RISK MANAGEMENT (continued)

d) Operational risk (continued)

Infrastructure risks
Availability of information technology is of paramount importance to the Group's infrastructure. The operations of the Group might be disrupted and severe operational risks could occur.

In order to protect the Group from the infrastructure risk as outlined above, the Group is taking necessary measures as indicated in the Business Continuity Plan and/or Disaster Recovery Plan to cater for these risks.

Information technology risks
The main risks that the Group is exposed to in this context is from inadequate software and hardware quality, unauthorized access, by third parties or employees, etc.

Personnel risk
These relate to any risks caused by staff (internal fraud, corruption, crime, etc.). In order to prevent these risks from occurring, the Group has established a corporate culture which entails constructive ways of dealing with mistakes. The Group has also established approved delegation of authorities in all critical business and operations processes, and established separate control functions and dedicated control processes. Further, the Group has already established measures of organizational structure in terms of segregation of duties as well as diverse training measures to improve employee competence and adherence to the required standards of work ethics.

28 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

The distribution by geographic region and industry sector was as follows:

	Assets		Liabilities and subordinated mudaraba		Equity of investment accountholders	
	2022 US $ '000	2021 US $ '000	**2022 US $ '000**	2021 US $ '000	**2022 US $ '000**	2021 US $ '000
Geographical region						
Middle East	**1,649,619**	1,536,068	**216,289**	306,063	**1,081,780**	918,974
Europe	**10,826**	43,692	**1,948**	2,070	**-**	-
Asia	**1,027,545**	1,212,919	**294,516**	385,671	**660,583**	757,026
Others	**34,611**	70,763	**30,880**	31,974	**170,606**	189,416
	2,722,601	2,863,442	**543,633**	725,778	**1,912,969**	1,865,416

	Assets		Liabilities and subordinated mudaraba		Equity of investment accountholders	
	2022 US $ '000	2021 US $ '000	**2022 US $ '000**	2021 US $ '000	**2022 US $ '000**	2021 US $ '000
Industry sector						
Trading and manufacturing	**216,283**	350,581	**41,162**	75,656	**85,582**	151,296
Banks and financial institutions	**320,194**	895,302	**205,475**	240,701	**675,851**	597,587
Construction and real estate	**105,460**	79,115	**8,311**	8,106	**20,269**	16,043
Government	**1,051,025**	642,283	**1,424**	3,064	**307,722**	79,928
Consumer	**713,587**	610,618	**106,558**	151,228	**494,977**	674,544
Agriculture fishing and foresrty	**83,320**	5,329	**9,730**	19,618	**2,506**	4,244
Others	**232,732**	280,214	**170,973**	227,405	**326,062**	341,774
	2,722,601	2,863,442	**543,633**	725,778	**1,912,969**	1,865,416

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2022

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of investments are disclosed in note 7 to these financial statements. However, a certain equity-type instruments at fair value through equity which are carried at cost, due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments.

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

1. For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.

2. For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.

3. For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.

4. Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

"A hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions.

These two types of inputs have created the following fair value hierarchy:
Level 1 – Quoted prices (unadjusted) in active markets for identical investments.
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 – Inputs for the investments that are not based on observable market data (unobservable inputs).
This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible."

30 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by management and the Board of Directors.

For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries predominantly includes operations in Pakistan.

The results reported for the geographic segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's consolidated financial statements as set out in note 2. Transactions between segments are conducted at estimated market rates on an arm's length basis.

The segmental results of the Group were as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

30 SEGMENTAL INFORMATION (continued)

	Middle East		Other Asian Countries	
	2022 US $ '000	2021 US $ '000	**2022 US $ '000**	2021 US $ '000
Assets	**1,694,302**	1,631,055	**1,028,299**	1,232,387
Liabilities, equity of investment accountholders, and Subordinated mudaraba	**1,505,805**	1,450,309	**950,797**	1,140,885
Total income	**48,717**	50,281	**49,447**	52,310
Total operating expenses	**(39,939)**	(38,843)	**(31,093)**	(33,774)
Net operating income	**8,778**	11,438	**18,354**	18,536
Expected credit losses /Provision for impairment - net and write back of written off	**(1,264)**	(4,975)	**(4,577)**	(12,360)
Taxation	**-**	-	**(4,852)**	(45)
Income for the year	**7,514**	6,463	**8,925**	6,131

31 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organizations.

32 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY

The Net Stable Funding Ratio ('NSFR') is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by the CBB and is effective from December 2019. The minimum NSFR ratio as per CBB is 100%. The Group's consolidated NSFR ratio as of 31 December 2022 is 195.55%.

The NSFR (as a percentage) must be calculated as follows:

	Unweighted Values (i.e. before applying relevant factors)				
Item	No specified maturity US $ '000	Less than 6 months US $ '000	More than 6 months and less than one year US $ '000	Over one year US $ '000	Total weighted value than one year US $ '000
Available Stable Funding (ASF):					
Capital:	**233,576**	-	-	**5,266**	**238,842**
Regulatory Capital	233,576	-	-	-	233,576
Other Capital Instruments	-	-	-	5,266	5,266
Retail deposits and deposits from small business customers:	**-**	**924,001**	**31,559**	**5,459**	**866,140**
Stable deposits	-	13,507	-	-	12,833
Less stable deposits	-	910,494	31,559	5,459	853,307
Wholesale funding:	**-**	**1,099,014**	**104,969**	**13,092**	**288,164**
Operational deposits	-	-	-	-	-
Other wholesale funding	-	1,099,014	104,969	13,092	288,164
Other liabilities:	**-**	**-**	**-**	**114,570**	**114,570**
NSFR Sharia-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	-	-	114,570	114,570
Total ASF	**233,576**	**2,023,015**	**136,528**	**138,387**	**1,507,715**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

32 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (continued)

	Unweighted Values (i.e. before applying relevant factors)				
Item	No specified maturity US $ '000	Less than 6 months US $ '000	More than 6 months and less than one year US $ '000	Over one year US $ '000	Total weighted value than one year US $ '000
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	**880,191**	**-**	**-**	**25,548**	**73,460**
Deposits held at other financial institutions for operationa l purposes	**-**	**-**	**-**	**-**	**-**
Performing financing and sukuk/securities:	**-**	**-**	**-**	**-**	**-**
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	116,264	-	33,850	51,290
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	218,174	56,756	-	137,465
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	-	-
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	289,771	188,351
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	34,452	34,452
Other assets:					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	132,399	-	-	-	132,399
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	145,763	-	-	-	**145,763**
OBS items	**156,680**	-	-	-	**7,834**
Total RSF	**1,315,034**	**334,437**	**56,756**	**383,621**	**771,013**
NSFR (%)					**195.55%**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

33 COMPARATIVE FIGURES

In these Group's consolidated financial statements, investments amounting to USD 390 million at 31 December 2021 were reclassified from "Debt type investments carried at amortized cost" to "Debt type investment carried at fair value through equity" in order to comply with FAS 33 "Investments in Sukuk, Shares and Similar Instruments" which became effective from 1 January 2021. This reclassification did not materially impact previously reported net income or owner's equity.

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

1 INTRODUCTION

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Commercial Registration of the Bank was renewed on 7 January 2008 to change the status from exempt closed joint stock company to closed joint stock company. The Bank operates under a Retail Bank's license number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has five commercial branches in the Kingdom of Bahrain.

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, Ijara financing and other Sharia compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Bahrain Bay, P.O. Box 1882, Manama, Kingdom of Bahrain.

For details on the Group's subsidiary as of 31 December 2022, refer note 2 of the consolidated financial statements of the Group.

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined in its Public Disclosure Module ("PD"), Section PD-3: Public Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks.

2 CAPITAL ADEQUACY

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the standardised approach for its credit risk, basic indicator approach for its operational risk and standardised measurement approach for its market risk. The CBB capital adequacy requirement is minimum accepted level for capital adequacy. The credit committee of the Group identify and approve assets suitable for funding by equity of Investment Accountholders ("IAH"). For the purpose of computing the Capital Adequacy Ratio ("CAR") and preparation of the PIRI form, the Group's financial subsidiary (Al Baraka Bank (Pakistan) Limited).

Table – 1. Capital structure

The following table summarises the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation in accordance with Basel III requirements as of:

	31 December 2022			31 December 2021		
	CET 1 US $ '000	**AT1 US $ '000**	**Tier 2 US $ '000**	GET 1 US $ '000	AT1 US $ '000	Tier 2 US $ '000
Common Equity Tier 1 (CET1)						
Issued and fully paid ordinary shares	**151,458**			136,458		
General reserves	**8,687**			8,687		
Statutory reserves	**26,119**			24,840		
Retained earnings/ (Accumulated losses)	**7,976**			(20,947)		
Current year profit	**12,791**			10,093		
Unrealized gains and losses on available for sale financial instruments	**3,961**			3,899		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	**(56,440)**			(42,985)		
Other reserves	**(140)**			(98)		
Total CET1 capital before minority interest	**154,413**			119,947		
Minority interest in banking subsidiaries	**10,573**			14,017		
Total CET1 capital prior to regulatory adjustments	**164,985**			133,964		
Less:						
Goodwill	**9,917**			29,805		
Intangible other than mortgage servicing rights	**6,081**			7,561		
Deferred tax assets	**1,411**			9,776		
Total CET 1 capital after the regulatory adjustments above (CET 1a)	**147,576**			86,822		

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

2 CAPITAL ADEQUACY (continued)

	31 December 2022			31 December 2021		
	CET 1 US $ '000	AT1 US $ '000	Tier 2 US $ '000	1 US $ '000	AT1 US $ '000	Tier 2 US $ '000
Other Capital (AT1 & T 2)						
Instruments issued to parent company		96,000	-		111,000	-
Instruments issued by banking subsidiaries to third parties		-	4,923		83	8,037
Assets revaluation reserve - property, plant, and equipment		-	343		-	-
Expected Credit Losses (ECL) Stages 1 & 2		-	7,316		-	7,835
Total Available AT1 & T2 Capital		96,000	12,582		111,083	15,872
Total CET 1 Capital	147,576			86,822		
Total T1 Capital		243,576			197,905	
Total Capital			256,158			213,777

Table – 2. Capital requirement by type of islamic financing contracts

The following table summarises the capital requirements by type of islamic financing contracts:

	31 December 2022 Capital requirements US $ '000	31 December 2021 Capital requirements US $ '000
Type of islamic financing contracts		
Receivables	13,702	14,972
Ijara Muntahia Bittamleek & Ijara receivables	15,535	12,110
Musharaka	8,673	11,790
	35,519	38,872

Table – 3. Capital requirement for market risk

The following table summarises the amount of exposures subject to standardised approach of market risk and related capital requirements as of:

	31 December 2022		31 December 2021	
	Self Financed US $'000	Financed by IAH US $'000	Self Financed US $'000	Financed by IAH US $'000
Market risk - standardised approach				
Price risk	235	-	-	-
Equities Position Risk	87	-	-	
Foreign exchange risk	9,199	-	11,416	-
Total of market risk - standardised approach	9,521	-	11,416	-
Multiplier	12.50	12.50	12.50	12.50
	119,014	-	142,700	-
Eligible Portion for the purpose of the calculation	100%	100%	100%	100%
Risk Weighted Exposures ("RWE") for CAR Calculation	119,014	-	142,700	-
Total market RWE		119,014		142,700
		12.50%		12.50%
Minimum capital requirement		14,877		17,838

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

2 CAPITAL ADEQUACY (continued)

Table – 4. Capital Requirements for operational risk

The following table summarises the amount of exposures subject to basic indicator approach of operational risk and related capital requirements as of:

	31 December 2022 US $ '000	31 December 2021 US $ '000
Indicators of operational risk		
Average gross income	91,300	86,183
Multiplier	12.5	12.5
	1,141,255	1,077,288
Eligible Portion for the purpose of the calculation	15%	15%
Total operational RWE	171,188	161,593
	12.50%	12.50%
Minimum capital requirement	21,399	20,199

Table – 5. Capital adequacy ratios

The following are capital adequacy ratios for total capital and tier 1 capital as of:

	31 December 2022			31 December 2021		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Group's Capital adequacy ratio	29.26%	27.83%	16.86%	22.96%	21.26%	9.33%
Minimum regulatory requirements*	12.50%	10.50%	9.00%	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	19.72%	15.77%	12.30%	18.65%	13.89%	11.17%
Itqan Capital Company***	-	-	-	39.28%	39.28%	39.28%

* Minimum required by CBB regulations under Basel III

**The subsidiary's Capital adequacy ratio computed in accordance with the CBB requirements.

*** Investment in Itqan Capital Company is disposed off during the year ending 31 December 2022.

Legal restrictions on capital and income mobility

Distributing profits by subsidiary to the parent is subject to compliance with applicable laws and regulations in Pakistan. Such distribution should go through the legal and regulatory channels applicable in relevant jurisdiction (i.e. Pakistan). Mobilisation of capital, reserves and equivalent funds out of the subsidiary to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, as a procedure and approval has to be obtained from the CBB for increasing investment in subsidiary.

Table - 6. The Group's financial subsidiary capital adequacy ratios

The following is the Group's financial subsidiary capital adequacy ratio prepared on the basis of SBP requirements, which may differ from the CBB requirements, as of:

	31 December 2022			31 December 2021		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Capital adequacy ratio	15.79%	13.34%	11.83%	13.25%	9.36%	9.36%
Minimum regulatory requirements*	11.50%	7.50%	6.00%	11.50%	10.00%	8.50%

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees, guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors. The Group risk management strategies have been effectively implemented during the year in line with the objective defined.

a) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

Table – 7. Credit risk exposure

The following table summarises the amount of gross funded and unfunded credit exposures and average gross funded and unfunded exposures as of:

	31 December 2022				31 December 2021			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Total gross credit exposure US $ '000	*Average gross exposure over the period US $ '000	Total gross credit exposure US $ '000	*Average gross exposure over the period US $ '000	Total gross credit exposure US $ '000	*Average gross exposure over the period US $ '000	Total gross credit exposure US $ '000	*Average gross exposure over the period US $ '000
Funded exposure								
Cash and balances with banks and financial institutions	-	31,551	162,440	158,418	122,462	96,220	191,276	139,708
Receivables	462	738	448,384	509,050	1,112	1,182	484,125	550,070
Ijara Muntahia Bittamleek and Ijara receivables	14,321	24,973	547,635	502,049	35,368	36,254	426,107	370,140
Musharaka	32,019	39,848	207,426	239,399	52,870	55,701	276,151	331,167
Investments	655,178	643,616	485,391	454,092	634,487	661,827	452,408	368,823
Investment in real estate	8,836	10,285	-	-	12,343	12,061	-	-
Premises and equipment & Other assets	8876	91,625	61,693	43,405	86,790	98,477	35,349	26,779
Unfunded exposure								
Contingencies and					233,276	224,977		
commitments	180,490	200,474	-	-	1,178,714	1,186,699	-	-
	980,206	1,043,109	1,912,968	1,906,413			1,865,416	1,786,687

*Average balances are computed based on quarter end balances.

Table – 8. Credit risk – geographic breakdown

The following table summarises the geographic distribution of exposures, broken down into significant areas by major types of credit exposure as of:

	31 December 2022				31 December 2021			
	Self financed *geographic area		Financed by IAH *geographic area		Self financed *geographic area		Financed by IAH *geographic area	
	Middle East US $ '000	Other Asian countries US $ '000	Middle East US $ '000	Other Asian countries US $ '000	Middle East US $ '000	Other Asian countries US $ '000	Middle East US $ '000	Other Asian countries US $ '000
Cash and balances with banks	-	-	117,708	44,732	10,275	112,187	146,109	45,167
Receivables	462	0	300,892	147,492	1,112	-	263,703	220,422
Ijara Muntahia Bittamleek and Ijara receivables	14,321	-	547,156	478	35,368	-	424,569	1,538
Musharaka	-	32,019	-	207,426	-	52,870	-	276,151
Investments	388,901	266,277	252,319	233,072	392,423	242,064	252,327	200,081
Investment in real estate	8,836	-	-	-	12,343	-	-	-
Premises and equipment & Other assets	26,220	62,681	37,488	24,205	-	55,660	21,826	13,526
	438,740	360,976	1,255,563	657,406	482,657	462,781	1,108,534	756,882

* Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by management and the Board of Directors. For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries predominantly includes operations in Pakistan.

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 9. Credit risk – counterparty type breakdown

The following table summarises the distribution of funded and unfunded exposure by counterparty type as of:

	31 December 2022				31 December 2021			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Funded US $ '000	Unfunded US $ '000	Funded US $ '000	Unfunded US $ '000	Funded US $ '000	Unfunded US $ '000	Funded US $ '000	Unfunded US $ '000
Cash items	21,438	-	689	-	32,650	-	914	-
Claims on Sovereigns	508,061	-	595,347	-	548,348	-	473,599	-
Claims on Public Sector Entities	100,309	-	70,142	-	157,147	-	58,462	-
Claims on banks	7,146	10,143	58,157	-	58,329	29,026	199,060	-
Claims on corporate	22,799	170,347	464,024	-	24,498	204,250	492,266	-
Mortgages	-	-	529,705	-	-	-	411,272	-
Past dues receivables	463	-	21,886	-	-	-	33,833	-
Regulatory Retail Portfolio	-	-	112,021	-	-	-	144,512	-
Equity investment	35,089	-	426	-	35,445	-	340	-
Investment in Funds	1,000	-	-	-	4,767	-	-	-
Holding of Real Estate	92,590	-	23,105	-	58,260	-	13,858	-
Other assets	10,822	-	37,468	-	25,994	-	37,300	-
	799,716	180,490	1,912,969	-	945,438	233,276	1,865,416	-

For the purpose of rating, the Group is using External Credit Assessment Institutions (ECAIs) approved credit rating agencies for assigning risk weight to assets.

Table – 10. Credit risk - related party transactions

All transactions with related parties have been made on arms length basis. The following table summarises the balances with related parties as of:

	31 December 2022		31 December 2021	
	Self financed	Financed by IAH	Self financed	Financed by IAH
	Funded US $ '000	Funded US $ '000	Funded US $ '000	Funded US $ '000
Cash and balances with bank	3	46	6	903
Receivables	-	836	-	5,442
Musharaka	-	1,370	-	1,433
Investments	52,244	-	56,632	-
Other Assets	6,261	-	9,437	-
Contingencies and commitments	2,000	-	12,503	-
	60,508	2,253	78,578	7,778

The Group's intra-group transactions are as follows:

	2022 Self financed US $ '000	2021 Self financed US $ '000
Assets		
Investment in a subsidiary*	94,201	94,201
Equity investment in Itqan Capital**	-	54,342
	94,201	148,543

*The Bank carries investment in banking subsidiary located in Islamic Republic of Pakistan denominated in Pakistani Rupee. The gains/ losses on translation of such operations are duly reflected in a separate component of consolidated equity of the Group. The Bank is not using any hedging strategy to mitigate the impacts of fluctuation in Pakistani Rupee.

**The Bank has disposed off its strategic sharhoding in Itqan Capital Company during the year ending 31 December 2022.

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 11. Credit risk – concentration of risk

The Group follows the Central Bank of Bahrain's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the Central Bank of Bahrain Rulebook for Islamic Banks.

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2022:

	Funded US $ '000
Counterparties *	
Counterparty # 1	**467,060**
Counterparty # 2	**348,059**
Counterparty # 3	**103,874**
Counterparty # 4	**64,376**
Counterparty # 5	**45,189**

* These exposures are in excess of individual obligor limits. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2021:

	Funded US $ '000
Counterparties *	
Counterparty # 1	503,149
Counterparty # 2	300,031
Counterparty # 3	114,078
Counterparty # 4	91,200
Counterparty # 5	89,034
Counterparty # 6	72,295
Counterparty # 7	52,870
Counterparty # 8	52,808
Counterparty # 9	30,340
Counterparty # 10	37,391
Counterparty # 11	34,562

* These exposures are in excess of individual obligor limits. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

Past due and non-performing facilities

Past due represents installments that are not received on the contractual repayments date. The Group defines non-performing facilities as the facilities that are overdue for period of 90 days or more. These exposures are placed on a non-accrual status with income being recognised to the extent that it is actually received/distributed. It is the Group's policy, except for the subsidiary which is following their local regulations, that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due.

Highly leveraged counter parties

Highly leveraged counter parties are determined by the Credit Department on case by case basis according to industry types and credit policies and procedures of the Group. Each industry has clear established leverage ratios set in place internally which are considered threshold for measuring how leveraged is our counterpart (Low, Medium/Acceptable or High). Any excess over such determined ratios, the customer is classified as highly leveraged with high risk. This ratio will have a big impact on Internal Rating / Grading of the customer. In this respect, the high risk exposure classified by the bank are as follows:

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

2022	US $ '000
Counterparties *	
Counterparty # 1	**8,047**
Counterparty # 2	**1,735**
Counterparty # 3	**1,167**
Counterparty # 4	**730**
Counterparty # 5	**448**
Counterparty # 6	**387**
Counterparty # 7	**276**
Counterparty # 8	**231**
Counterparty # 9	**195**
Counterparty # 10	**140**
Counterparty # 11	**89**
Counterparty # 12	**80**
Counterparty # 13	**37**
Counterparty # 14	**23**

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2021:

2021	US $ '000
Counterparties *	
Counterparty # 1	**305**
Counterparty # 2	**145**
Counterparty # 3	**548**
Counterparty # 4	**28**
Counterparty # 5	**234**
Counterparty # 6	**220**
Counterparty # 7	**402**
Counterparty # 8	**1,202**
Counterparty # 9	**882**
Counterparty # 10	**203**
Counterparty # 11	**238**
Counterparty # 12	**461**
Counterparty # 13	**2,112**

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 13. Credit risk – credit quality of Islamic financing contracts by counterparty type

The following table summarises the aging of non performing facilities disclosed by counterparty type as of:

	31 December 2022					31 December 2021				
			Aging of non performing facilities					Aging of non performing facilities		
	Past due but performig US $ '000	Non-performing Islamic financing contracts US $ '000	90 days to 1 year US $ '000	1 year to 3 years US $ '000	Over 3 years US $ '000	Past due but performig US $ '000	Non-performing Islamic financing contracts US $ '000	90 days to 1 year US $ '000	1 year to 3 years US $ '000	Over 3 years US $ '000
Corporates	17,114	79,564	7,083	31,917	40,563	27,336	106,613	33,292	30,420	42,901
Investment Firms	-	595	-	-	595	643	595	-	-	595
Individuals	551	9,216	4,605	1,515	3,095	494	6,326	1,928	1,696	2,702
	17,665	89,374	11,689	33,433	44,253	28,473	113,534	35,220	32,116	46,198

Table – 14. Credit Risk – provision against financing facilities by counterparty type

The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 31 December 2022:

	Specific allowances								
	Opening Balance US $ '000	Charges during the year US $ '000	Net Transit in /(out) Stage3 during the year US $ '000	Write-Back during the year US $ '000	Write-offs during the year US $ '000	Write-back of written off during theyear US $ '000	Allocation from Investment Risk Reserve US $ '000	Exchange difference on opening balance US $ '000	Balance at the end of the year US $ '000
Corporates	62,797	7,303	(102)	(3,764)	(4,779)	-	-	(8,108)	53,345
Investment Firms	4,230	827	(0)	-	(88)	-	-	(839)	4,133
Individuals	12,847	687	-	-	(31)	-	-	(2,804)	10,697
	79,874	8,816	(102)	(3,764)	(4,899)	-	-	(11,751)	68,176

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 2021:

	Specific allowances								
	Opening Balance US $ '000	Charges during the year US $ '000	Net Transit in /(out) Stage3 during the year US $ '000	Write-Back during the year US $ '000	Write-offs during the year US $ '000	Write-back of written off during theyear US $ '000	Allocation from Investment Risk Reserve US $ '000	Exchange difference on opening balance US $ '000	Balance at the end of the year US $ '000
Corporates	44,569	16,539	2,714	(1,733)	(2,618)	5,790	277	(2,741)	62,797
Investment Firms	6,755	1,325	(622)	(2,324)	(410)	-	-	(494)	4,230
Individuals	10,145	4,542	-	(766)	(116)	-	-	(958)	12,847
	61,469	22,406	2,092	(4,823)	(3,144)	5,790	277	(4,193)	79,874

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 15. Credit risk – non performing facilities and provisions

The following table summarises the total non performing facilities and provisions disclosed by geographical area as of:

	31 December 2022		31 December 2021	
	Non-performing Islamic financing contracts US $'000	ECL for Stage 3 US $'000	Non-performing Islamic financing contracts US $'000	ECL for Stage 3 US $'000
Middle East	37,501	23,851	44,222	26,518
Other Asian countries	51,873	44,325	69,312	53,356
	89,374	68,176	113,534	79,874

Table – 16. Credit risk – restructured Islamic financing contracts

The following table summarises the total outstanding Islamic financing contracts that were restructured during the year as of:

	31 December 2022	31 December 2021
	Total US $'000	Total US $'000
Restructured Islamic financing contracts	6,541	34,737

The amount represents total facilities restructured during the year. Further, there is no significant impact of the renegotiated Islamic financing contracts on the provisions as well as present and future earnings.

The Bank provides support to its customer facing financial difficulties in the form of waiver of profits, extension of repayment dates and even in certain cases discount upon settlement of the financing facilities.

Table – 17. Counterparty credit risk exposure

The following table summarises the counterparty credit risk exposure covered by collateral as of:

	31 December 2022		31 December 2021	
	Gross positive FV of contracts US $'000	* Collateral held US $'000	Gross positive FV of contracts US $'000	* Collateral held US $'000
Cash and balances with banks and financial institutions	162,440	-	313,738	-
Receivables	448,847	286,804	485,237	299,028
Ijara Muntahia Bittamleek and Ijara receivables	561,955	495,426	461,475	394,478
Musharaka	239,444	239,444	329,021	329,021
Investments	1,140,569	-	1,086,895	-
Investment in real estate	8,836	-	12,343	-
Premises and equipment	98,319	-	56,963	-
Other assets	52,273	-	65,182	-
	2,712,683	1,021,675	2,810,854	1,022,527

* Collaterals values have been restricted to outstanding exposure of financing facilities.

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 18. Counterparty credit risk exposure

The following table summarises exposure by type of Islamic financing contract that is covered by eligible collateral after the application of haircuts as of:

	31 December 2022		31 December 2021	
	Gross positive FV of contracts US $'000	Collateral held US $'000	Gross positive FV of contracts US $'000	* Collateral held US $'000
Receivables	448,847	15,988	485,237	16,153
Ijara Muntahia Bittamleek & Ijara income receivable	561,955	11,727	461,475	15,128

b) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

Table – 19. Market risk capital requirements

The following table summarises the capital requirement for each category of market risk as of:

	31 December 2022		31 December 2022	
	Price risk US $'000	Foreign exchange risk US $'000	Price risk US $'000	Foreign exchange risk US $'000
RWE	1,092	114,985	-	142,699
Capital requirements (12.5%)	136	14,373	-	17,837
Maximum value of RWE	1,361	128,405	2,582	146,041
Minimum value of RWE	1,063	108,886	-	139,979

Table – 20. Equity position risk in Banking Book

The following table summarises the total and average gross exposure of equity based structures by types of investments as of 31 December 2022:

	Total gross exposure US $ '000	Average gross exposure over the period US $ '000	Publicly held US $ '000	Privately held US $ '000	Capital requirement US $ '000
Managed funds	1,000	1,000	-	1,000	25
Equity investments	35,515	41,586	29,613	5,902	10,319
Real estate related	38,985	35,128	-	38,985	1,203
	75,500	77,714	29,613	45,888	11,547

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2021:

	Total gross exposure US $ '000	Average gross exposure over the period US $ '000	Publicly held US $ '000	Privately held US $ '000	Capital requirement US $ '000
Managed funds	1,000	1,000	-	1,000	25
Equity investments	44,707	47,284	39,832	4,875	11,782
Real estate related	30,009	24,338	-	30,009	5,491
	75,716	72,622	39,832	35,884	17,298

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

b) Market risk (continued)

The Bank carries a diversified portfolio of equity investments containing the securities held for trading or short-term capital gains and stakes in a few entities to secure strategic objectives like entrance in certain market or business segment. More specifically, the securities amounted to USD 0.5 million (2021: USD 1.2 million), in such portfolio, were held to generate capital gains.

Table – 21. Equity gains or losses in Banking Book

The following table summarises the cumulative realised and unrealised gains during the year ended:

	2022 Self financed US $ '000	2021 Self financed US $ '000
Cummulative realised gains arising from sale or liquidation	1,023	3,638
Total unrealised gains recognised in the balance sheet but not through P&L	3,961	3,899
Unrealised gross gains included in Tier One Capital	3,961	3,899
Assets revaluation reserve - property, plant, and equipment	343	471

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

Profit rate risk

The Bank generates funds mainly through profit sharing arrangements or agency modes. The Bank continously monitor the profit rates prevailing in the domestic/ regional markets (issued by competitors). Further, the following factors also affects the determination of profit rates:

- Availability of profitable opportunities in the market
- Key economic fundamentals and liquidity levels
- Policy interest rates promulgated by domestic and leading global monetary agencies.

Table – 22. Profit rate mismatch

The following are the profit rate mismatch between the rate of return on assets and the expected funding due to the sources of finance as of:

	2022				
	Up to 3months US $ '000	3 to 6 months US $ '000	6 months to 1 year US $ '000	1 to 3 years US $ '000	Over 3 years US $ '000
Receivables	152,886	114,095	37,675	59,122	85,068
Ijara Muntahia Bittamleek and Ijara Income Receivables	7,703	6,343	13,381	60,872	473,656
Musharaka	15,187	3,590	9,840	58,335	152,492
Investments-Sukuk	28,083	3,023	321	413,343	620,300
Profit rate sensitive assets	203,859	127,051	61,217	591,672	1,331,516
Murabaha and other payables	36,818	60,276	64,759	532	9,411
Equity of investment accountholders	1,390,187	209,957	212,748	64,635	35,442
Subordinated Mudaraba	1,314	-	-	6,625	7,661
Profit rate sensitive liabilities	1,428,319	270,233	277,507	71,792	52,514
Profit rate gap	(1,224,460)	(143,182)	(216,290)	519,880	1,279,002
Profit rate sensitivity (200bps)	(24,489)	(2,864)	(4,326)	10,398	25,580

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

b) Market risk (continued)

Table – 22. Profit rate mismatch (continued)

The following are the profit rate mismatch between the rate of return on assets and the expected funding due to the sources of finance as of:

	2021				
	Up to 3months US $ '000	3 to 6 months US $ '000	6 months to 1 year US $ '000	1 to 3 years US $ '000	Over 3 years US $ '000
Receivables	230,922	97,506	24,367	48,090	84,352
Ijara Muntahia Bittamleek and Ijara Income Receivables	3,436	26,662	14,899	47,427	369,051
Musharaka	12,058	938	17,419	77,546	221,060
Investments-Sukuk	99,885	189	-	62,145	815,307
Profit rate sensitive assets	346,301	125,295	56,685	235,208	1,489,770
Murabaha and other payables	48,539	101,049	34,772	51,029	7,875
Equity of investment accountholders	1,241,034	237,069	205,312	94,679	87,322
Subordinated Mudaraba	1,080	32	-	8,498	9,829
Profit rate sensitive liabilities	1,290,653	338,150	240,084	154,206	105,026
Profit rate gap	(944,352)	(212,855)	(183,399)	81,002	1,384,744
Profit rate sensitivity (200bps)	(18,887)	(4,257)	(3,668)	1,620	27,695

This table contains the mismatch amongst profit bearing assets and liabilities to ensure compliance with public disclosure requirements. However, in lieu of inherent nature of Islamic Banking, such mismatches does not exists amongst assets and liabilities carried by the Bank as the bank has profit and loss sharing mudarba agreement with Investment accountholders. Whereby in case of any decrease in profit rates the corresponding impact has to be shared with the customers as per the mudaraba arrangement. It's hereby elaborated that the assets base represents receivable against various modes of sales/ deployment of funds under wakala and mudaraba arrangements, assets and receivables against Ijara and participations in ventures under Musharaka arrangements. While these assets are finance through capital, current accounts, funds received under mudaraba contract, payables against purchase and predominantly through funds received under profit sharing or Mudarba contracts. Therefore, the table given is just indicative of profit mismatches amongst assets and liabilities under various contracts.

Foreign exchange risk

Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

Table – 23. Foreign currency translation risk

Following is the Group's exposure to different currencies in equivalent US dollars:

	2022 Total equivalent US $ '000
Pakistani Rupees	**105,677**
Euro	**(15,908)**
Kuwaiti Dinars	**56**
Pound Sterling	**(4,705)**
Egyptian Pound	**2,372**
Algerian Dinar	**6,000**
Others	**553**

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

b) Market risk (continued)

Table – 23. Foreign currency translation risk (continued)

	2021 Total equivalent US $ '000
Pakistani Rupees	130,510
Euro	(3,167)
Kuwaiti Dinars	63
Pound Sterling	(6,886)
Egyptian Pound	4,787
Algerian Dinar	6,000
Others	1,339

* The strategic currency risk represents the amount of equity of the subsidiary.

Foreign currency risk sensitivity analysis

In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks approach which calculates the effect on assets and income of the Group as a result of 20% appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is calculated using various percentages based upon the judgement of the management of the Group.

Table – 24. Foreign currency risk sensitivity analysis

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of owner's equity. The impact of a similar increase / (decrease) in exchange rates will be approximately opposite to the impact disclosed below:

Currency At 31 December 2022	**Particular**	**Change**	**Exposures in US $ '000**	**Effect on equity/ Income statement in US $ '000**
Pakistani Rupees	**Net long Position**	**20%**	**105,677**	**21,135**
Euro	**Net short Position**	**20%**	**15,908**	**3,182**
Kuwaiti Dinars	**Net long Position**	**20%**	**56**	**11**
Pound Sterling	**Net short Position**	**20%**	**4,705**	**941**
Egyptian Pound	**Net long Position**	**20%**	**2,372**	**474**
Algerian Dinar	**Net long Position**	**20%**	**6,000**	**1,200**
Chinese Yuan	**Net long Position**	**20%**	**553**	**111**

Currency At 31 December 2021	Particular	Change	Exposures in US $ '000	Effect on equity/ Income statement in US $ '000
Pakistani Rupees	Net long Position	20%	130,510	26,102
Euro	Net short Position	20%	3,167	633
Kuwaiti Dinars	Net long Position	20%	63	13
Pound Sterling	Net short Position	20%	6,886	1,377
Egyptian Pound	Net long Position	20%	4,787	957
Algerian Dinar	Net long Position	20%	6,000	1,200
Chinese Yuan	Net long Position	20%	1,339	268

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH)

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Bank invests its own funds separately or jointly with amount received from Equity of IAH. These funds received are managed in accordance with Shari' a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Group to exercise its fiduciary responsibilities. The Group is authorised by Equity of IAH to invest the funds on the basis of Mudaraba, Murabaha, Salam, Ijara transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in the Group's credit risk, liquidity risk, and other risks policies of the group. The strategic objectives of the investments of the funds are:

a) Investment in Shari' a compliant opportunities;
b) Targeted returns;
c) Compliance with credit and Investment policy and overall business plan; and
d) Diversified portfolio.

Funds are invested in Shari' a compliant commercial or consumer financing as well as short, medium, and long term investments excluding strategic investments. A due diligence process is in place which is consistent with business and risk policy guidelines of the Group after deduction of mandatory reserves and making allowance for short-term liquidity requirements.

Under all the aforesaid arrangement the Group can commingle the IAH funds with funds generated from various sources (Self-Financed). In this regards, the Bank at inception designate each asset separately as "Self" and "Jointly" financed, except liquid assets which are managed collectively. Further, the jointly financed assets are segregated proportionately based on amounts of funds contributed by each category of investors.

The Group's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These funds are invested in Islamic modes of financing and investments including murabaha, salam, istisna, wakala, musharaka, mudaraba and ijara. The Group is offering these accounts for saving and term accounts ranging from 1 months to 5 years. There are no separate designations for portfolio managers, investment advisors and trustee. IAH accounts are managed at Head Office and subsidiary levels by relevant departments.

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income. In some cases, equity of IAH withdrawn before maturity and without completing agreed period are entitled to income available for tenror completed by the Investor and after deducting some charges.

The basis applied by the Group in arriving at the investment accountholders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and equity of investment accountholders) times average funds of equity of IAH].

Investment risk reserve
The Group deducts investment risk reserve as per approved policy from time to time from the profit distributable to equity of investment accountholders of its Bahrain operations, after allocating the Mudarib share in order to cater against future losses for equity of IAH.

Profit equalisation reserve
The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

Displaced commercial risk
The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Group has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the segment level (Pakistan and Bahrain).

Complaint procedure / awareness programs
A complaint management system is established; procedures on handling complaints have been developed, new Complaints form has been introduced, a number of complaints channels are available where customers can communicate through branches, call centre, email, dedicated staff number and web-site. Monitoring procedures have been developed as well.

The Group uses it's website, print and electronic media for consumer awareness program and to inform about new products.

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH) (continued)

Penalty charges	31 December 2022 US $ '000	31 December 2021 US $ '000
Central Bank of Bahrain		
Anomalies in standing orders, EFTS and other electronic channels	119	77
	119	77
State Bank of Pakistan		
Various non-compliances with domestic laws and regulations	273	2

Non-Sharia complaint income
The Group has received US $ 89 thousand (2021: US $83 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

Table – 25. Equity of Investment Accountholders
The following table summarises the breakdown of equity of IAH and the analysis of profit equalisation reserve, investment risk reserve and return on equity of IAH as of:

	31 December 2022 US $ '000	31 December 2021 US $ '000
IAH - Non-banks	1,370,739	1,371,711
IAH - Banks	541,820	493,294
Profit equalisation reserve	411	411
	1,912,969	1,865,416

Table – 26. Ratio of reserves to total IAH
The following table summarises the ratio of reserves to the total amount of equity of IAH as of:

	31 December 2022 US $ '000	31 December 2021 US $ '000
PER to IAH (%)	0.02%	0.1%
IRR to IAH (%)	Nil	Nil

Table – 27. Equity of Investment Accountholders by Islamic financing product type
The following table summarises the percentage of IAH financing for each type of Shari's-compliant contract to total equity of IAH as of:

	31 December 2022 US $ '000	31 December 2021 US $ '000
Receivables	23.44%	25.95%
Musharaka	10.84%	14.80%
Ijara Muntahia Bittamleek & Ijara income receivable	28.63%	22.84%
Investments	25.37%	24.25%
Liquidity and others	11.72%	12.15%

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH) (continued)

Table – 28. Equity of Investment Accountholders by Counterparty Type

The following table summarises the percentage of equity of investment accountholders for each category of counterparty to total equity as of:

Counterparty type	31 December 2022 US $ '000	31 December 2021 US $ '000
Banks	**28.34%**	26.47%
Investment Firms	**6.25%**	5.50%
Corporates	**17.06%**	21.43%
Residentials	**42.79%**	39.97%
Others	**5.55%**	6.63%

Table – 29. Investment Accountholders share of profit

The following table summarises the share of profits earned by and paid out to equity of IAH and the Group as Mudarib for the year ended:

	31 December 2022	31 December 2021	31 December 2020	31 December 2019	31 December 2018
Administrative expenses charged to equity of investment accountholders	**7,493**	8,052	14,061	8,863	10,577
Share of profits earned by IAH, before transfers to/from reserves	**122,330**	82,941	87,437	84,531	69,629
Percentage share of profit earned by IAH before transfer to/from reserves	**6.45%**	4.64%	5.37%	6.06%	4.83%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**102,033**	58,567	63,761	75,287	53,151
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**5.38%**	3.28%	3.91%	5.40%	3.68%
Share of profit paid out to Bank as mudarib	**20,297**	24,374	23,676	9,244	16,477
Mudarib Fee to total Investment Profits	**16.59%**	29.39%	27.08%	10.94%	23.66%

The Bank included the service charges/ fees from credit card operations on a proportionate basis in accordance with instructions and approvals Sharia department for distribution to equity of investment account holders.

Table – 30. Movement in profit equalisation reserve

The following table summarises the share of profits earned by and paid out to equity of IAH and the Group as Mudarib for the year ended:

	31 December 2022	31 December 2021	31 December 2020	31 December 2019	31 December 2018
Balance at 1 January	**411**	344	229	115	572
Amount utilized on initial implementation of FAS 30	**-**	-	-	-	(572)
Restated balances as on 01 January	**411**	344	229	115	-
Amount apportioned from income	**-**	67	115	114	115
Foreign exchange gain / (loss)	**-**	-	-	-	-
	411	411	344	229	115
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	**-**	0.08%	0.13%	0.14%	0.16%

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH) (continued)

Table – 31. Movement in investment risk reserve

The following table summarises the movement in investment risk reserve during the year ended:

	31 December 2022	31 December 2021	31 December 2020	31 December 2019	31 December 2018
Balance at 1 January	**-**	-	-	-	1,701
Amount utilized on initial implementation of FAS 30	**-**	-	-	-	(1,701)
Restated balances as on 01 January	**-**	-	-	-	-
Exchange difference	**-**	-	-	-	-
Amount apportioned from income	**-**	277	-	-	-
Amount apportioned to provision	**-**	(277)	-	-	
	-	-	-	-	-
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	**Nil**	0.33%	Nil	Nil	Nil

The profit equalisation reserve and investment risk reserve will revert to IAH as per terms and conditions of the Mudaraba contract.

As IAH funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of IAH is up to a maximum of 70% (31 December 2021: up to 70%) as per the terms of IAH agreements.

Table – 32. Equity of Investment Accountholders rate of return

The following table summarises the average rate of return over the period:

	Average		
	31 December 2022 Rate of return%		
	Bahrain		Pakistan
	BD	US $	
Saving Accounts	**0.09%**	**0.09%**	**6.55%**
One Month Term Deposits	**1.41%**	**1.14%**	**5.39%**
Three Months Term Deposits	**2.09%**	**1.82%**	**5.80%**
Six Months Term Deposits	**2.28%**	**1.95%**	**6.72%**
Nine Months Term Deposits	**2.60%**	**2.30%**	**-**
1 Year Term Deposits	**2.85%**	**2.58%**	**9.09%**
2 Years Term Deposits	**2.90%**	**2.65%**	**11.38%**
3 Year Term Deposits	**2.95%**	**2.72%**	**12.51%**
4 Years Term Deposits	**3.00%**	**2.79%**	**12.25%**
5Years Term Deposits	**3.05%**	**2.84%**	**12.92%**

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH) (continued)

Table – 32. Equity of Investment Accountholders rate of return (continued)
The following table summarises the average rate of return over the period:

	Average 31 December 2021 Rate of return %		
	Bahrain		Pakistan
	BD	US $	
Saving Accounts	0.10%	0.10%	3.83%
One Month Term Deposits	0.89%	0.69%	2.53%
Three Months Term Deposits	1.56%	1.27%	2.86%
Six Months Term Deposits	1.76%	1.47%	2.85%
Nine Months Term Deposits	2.08%	1.88%	0.00%
1 Year Term Deposits	2.33%	2.18%	5.95%
2 Years Term Deposits	2.38%	2.28%	7.19%
3 Year Term Deposits	2.43%	2.38%	7.31%
4 Years Term Deposits	2.48%	2.48%	7.30%
5Years Term Deposits	2.53%	2.53%	7.84%

Table – 33. Equity of Investment Accountholders by type of assets
The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2022:

	Opening Actual Allocation US $ '000	Movement US $ '000	Closing Actual Allocation US $ '000
Cash and balances with banks	191,276	(18,537)	172,739
Receivables	484,124	(35,740)	448,384
Ijara Muntahia Bittamleek	426,107	121,528	547,635
Musharaka	276,152	(68,726)	207,426
Investments	452,408	32,983	485,391
Other assets	35,349	16,046	51,395
	1,865,416	47,553	1,912,969

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2021:

	Opening Actual Allocation US $ '000	Movement US $ '000	Closing Actual Allocation US $ '000
Cash and balances with banks	104,000	87,276	191,276
Receivables	552,018	(67,893)	484,125
Ijara Muntahia Bittamleek	285,202	140,905	426,107
Musharaka	316,638	(40,487)	276,151
Investments	386,839	65,569	452,408
Other assets	52,210	(16,861)	35,349
	1,696,907	168,509	1,865,416

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH) (continued)

Table – 33. Equity of Investment Accountholders by type of assets (continued)
The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the six months period ended 31 December 2022:

	Opening Actual Allocation US $ '000	Movement US $ '000	Closing Actual Allocation US $ '000
Cash and balances with banks	197,274	(24,535)	172,739
Receivables	431,127	17,257	448,384
Ijara Muntahia Bittamleek	491,275	56,360	547,635
Musharaka	239,299	(31,873)	207,426
Investments	487,655	(2,264)	485,391
Other assets	26,984	24,411	51,395
	1,873,614	39,355	1,912,969

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the six months period ended 31 December 2021:

	Opening Actual Allocation US $ '000	Movement US $ '000	Closing Actual Allocation US $ '000
Cash and balances with banks	190,055	1,221	191,276
Receivables	557,632	(73,507)	484,125
Ijara Muntahia Bittamleek	349,288	76,819	426,107
Musharaka	356,094	(79,943)	276,151
Investments	336,663	115,745	452,408
Other assets	32,618	2,731	35,349
	1,822,350	43,066	1,865,416

Table – 34. Equity of Investment Accountholders profit earned and paid
The following table summarises the amount and percentage of profits earned and paid out to profit sharing investment accounts over the past five years:

	Profit earned		Profit paid to IAH	
	US $ '000	%age	US $ '000	%age
2022	**122,330**	**6.45%**	**102,033**	**5.38%**
2021	82,941	4.64%	58,567	3.28%
2020	87,437	5.37%	63,761	3.91%
2019	84,531	6.06%	75,287	5.40%
2018	69,629	4.83%	53,151	3.68%
2017	71,861	4.73%	53,553	3.52%

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH) (continued)

Table - 35. Treatment of assets financed by Equity of Investment Accountholders

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2022:

	RWA US$ '000	RWA for capital adequacy purposes US $ '000	Capital charges US $ '000
Type of Claims			
Claims on Sovereign	397	119	15
Claims on PSEs	654	196	25
Claims on Banks	26,323	7,897	987
Claims on Corporates	412,309	123,693	15,462
Regulatory Retail Portfolio	285,849	85,755	10,719
Mortgage	84,006	25,202	3,150
Past due facilities	21,561	6,468	809
Investment in securities	1,022	307	38
Holding of Real Estates	86,994	26,098	3,262
Other Assets	37,467	11,240	1,405
	956,582	286,975	35,872

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2021:

	RWA US$ '000	RWA for capital adequacy purposes US $ '000	Capital charges US $ '000
Type of Claims			
Claims on Sovereign	127	38	5
Claims on PSEs	1,651	495	62
Claims on Banks	78,191	23,457	2,932
Claims on Corporates	435,252	130,576	16,322
Mortgage	223,529	67,059	8,382
Regulatory Retail Portfolio	107,855	32,357	4,045
Past due facilities	35,643	10,693	1,337
Investment in securities	823	247	31
Holding of Real Estates	50,008	15,002	1,875
Other Assets	37,300	11,190	1,399
	970,379	291,114	36,390

d) Off-balance sheet equity of Investment Accountholders

Off-balance sheet equity of Investment accountholders is invested and managed in accordance with Sharia requirements.

The Group is not engaged in investment management activities or in managing funds. Therefore, the investments policies or risk parameters related to funds management are not relevant amid with specific nature of such business. The exposures given above are raised predominantly under agency arrangements/ syndications with specified institutional customers . In this respect, the respective nature, associated risks and returns measures are duly disclosed.

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

d) Off-balance sheet equity of Investment Accountholders (continued)

The Group has appropriate procedures and controls in place commensurate to the size of its portfolio which includes:

(a) Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;
(b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and
(c) Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

Table – 36. Off-balance sheet equity of Investment Accountholders by Islamic product type

The following table summarises the breakdown of Off-balance sheet equity of IAH by type of islamic financing contracts as of:

Islamic products	31 December 2022	31 December 2021
On balance sheet jointly finanaced assets*		
Others		
Receivables	85.66%	73.89%
Investments	14.34%	26.11%

* Funds received under "Wakala" contracts are commingled or invested under multi level arrangements in " On Balance Sheet Equity of Investment Accountholders. In this regards, the distribution of such assets is duly given in section "C".

Table – 37. Off-balance sheet equity of Investment Accountholders by counterparty type

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

Counterparty type	31 December 2022	31 December 2021
On balance sheet jointly finanaced assets*		
Others		
Banks	49.06%	21.49%
Corporate	40.88%	57.53%
Sovereigns	10.06%	20.98%

* Funds received under "Wakala" contracts are commingled or invested under multi level arrangements in " On Balance Sheet Equity of Investment Accountholders. In this regards, the distribution of such assets is duly given in section "C".

Table – 38. Off-balance sheet equity of Investment Accountholders by type of assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the period ended 31 December 2022:

	Opening Actual Allocation US $ '000	Movement US $ '000	Closing Actual Allocation US $ '000
Wakala Bi Al-Istithmar			
On balance sheet jointly finanaced assets	514,685	126,163	640,848
	514,685	126,163	640,848
Others			
Receivables	17,137	45,476	163,613
Investments	41,390	(14,159)	27,25
	158,527	31,317	189,844
	673,211	157,480	830,692

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

d) Off-balance sheet equity of Investment Accountholders (continued)

Table – 38. Off-balance sheet equity of Investment Accountholders by type of assets (continued)
The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2021:

	Opening Actual Allocation US $ '000	Movement US $ '000	Closing Actual Allocation US $ '000
Wakala Bi Al-Istithmar			
On balance sheet jointly finanaced assets	364,144	150,541	514,685
	364,144	150,541	514,685
Others			
Receivables	136,357	(19,220)	117,137
Investments	22,706	18,684	41,390
	159,063	(536)	158,527
	523,207	150,005	673,212

Table – 39. Off-balance sheet equity of Investment Accountholders historical returns
The following table summarises the historical returns over the past five year:

	December 2022	December 2021	December 2020	December 2019	December 2018	December 2017
Gross Income	**34,555**	25,593	17,153	23,830	1,175	1,491
Mudarib/ agency fee	**11,310**	9,945	3,821	11,563	91	105

The Group's share of profit as a Mudarib for managing Off-balance sheet equity of Investment accountholders and their share of income is based on the terms and conditions of the related mudarib agreements. These mudarib agreements are done at the individual Counter party level.

e) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on regular basis. The liquidity management policy at a minimum includes the following:

a.Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.
b.Establish approval processes to ensure adherence to liquidity risk management processes.
c.Require periodic calculations to determine the extent to which the segments are funding long-term assets with short-term liabilities.
d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.
e. Establish limits on the degree of concentrations that are deemed acceptable. This should:

i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the segments manage their assets and liquidity profile to mitigate the risk; and
ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the segments conduct an impact analysis on its dependency on any such concentrations.

BASEL III, PILLAR III DISCLOSURES

For the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

f. Provide for periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.
g. Provide for the review of alternate funding sources including stand-by facilities and lines of credit.
h. Establish a framework for the composition of assets.
i. Assess the acceptable mismatch in combination with currency commitments. The segments undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

Table – 40. Liquidity ratios
The following table summarises the liquidity ratios as of:

	31 December 2022	31 December 2021
Liquid assets to total assets	**7.58%**	13.35%
Short term assets to short term liabilities	**23.21%**	34.18%

Table – 41. Quantitative indicators of financial performance and position
The following table summarises the liquidity ratios as of:

	December 2022	December 2021	December 2020	December 2019	December 2018	December 2017
Return on average equity	**6.1%**	4.7%	2.8%	2.0%	-8.2%	-2.7%
Return on average assets	**0.6%**	0.5%	0.3%	0.2%	-0.8%	-0.2%
Cost to Income Ratio	**72.4%**	70.8%	67.7%	75.6	82.8%	103.1%

* Return based on total income and equity (including non-controlling interest).

4 OTHERS

The Bank pays Zakat on behalf of shareholders on their funds while the responsibility for such obligation lies on investment accountholders. While, in Pakistan, Zakah is deducted at source from the Equity of Investment accountholders as required by local laws.

The Group has dedicated staff and hires services of professional firms to ensure compliance with applicable laws and regulations. Further, the legal cases are actively followed in collaboration of legal councils and directly monitored by the strategic management.

Subject to the provisions thereof, deposits held with the Bahrain office of Al Baraka Islamic Bank B.S.C.(c) are covered by the Deposit Protection Scheme established by the Central Bank of Bahrain regulation concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

External Auditors
The Board Audit Committee has continued to review the work carried out by the external auditors during the year, in particular timeliness of reporting, quality of work and related fees. Overall the Audit Committee believes that the work of the external auditors has been of a sufficiently high standard and that the fees are reasonable and therefore recommended to the Board and accordingly to the annual general meeting (AGM) to re-appoint the external auditors as auditor for the 2023 financial year. The AGM has approved the reappointment of the external auditor for the year 2023 on 21 March 2023 and the related regulatory approval were taken.

For the year 2022, annual audit and quarterly review services amounted to US$ 176,658 and other non-audit services amounted to US$ 54,775.

CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS PD-1 REGULATORY CAPITAL RECONCILIATION

At 31 December 2022

Common Disclosure Template	PIRI	Reference
Common Equity Tier 1 capital: instruments and reserves		
1. Directly issued qualifying common share capital plus related stock surplus	151,458	E
2. Retained earnings	16,153	G
3. Accumulated other comprehensive income (and other reserves)	(13,196)	H-M
4. Not applicable	-	
5. Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	10,573	O
6. Common Equity Tier 1 capital before regulatory adjustments	**164,988**	
Common Equity Tier 1 capital: regulatory adjustments		
7. Prudential valuation adjustments		
8. Goodwill (net of related tax liability)	9,917	B
9. Other intangibles other than mortgage-servicing rights (net of related tax liability)	6,081	A
10. Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	1,412	C1
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	-	
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)	-	C2
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	17,410	
29. Common Equity Tier 1 capital (CET1)	**147,578**	
Additional Tier 1 capital: instruments		
30. Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	96,000	F
31. of which: classified as equity under applicable accounting standards	96,000	
32. of which: classified as liabilities under applicable accounting standards	-	
33. Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34. Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	P
35. of which: instruments issued by subsidiaries subject to phase out	-	
36. Additional Tier 1 capital before regulatory adjustments	**96,000**	

CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS PD-1 REGULATORY CAPITAL RECONCILIATION

At 31 December 2022

Common Disclosure Template	PIRI	Reference
Additional Tier 1 capital: regulatory adjustments		
37. nvestments 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)	96,000	
45. Hair Cut due to shortage in CET-1 Capital	-	
46. Net Available Capital after regulatory adjustments and haircut	96,000	
47. Tier 1 capital (T1 = CET1 + AT1)	**243,578**	
Tier 2 capital: instruments and provisions		
48. Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
49. Directly issued capital instruments subject to phase out from Tier 2	-	
50. 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)	4,923	w D
51. of which: instruments issued by subsidiaries subject to phase out	-	
52. Assets revaluation reserve - property, plant, and equipment	343	Q
53. Provisions	7,316	S
54. Tier 2 capital before regulatory adjustments	**12,582**	
Tier 2 capital: regulatory adjustments		
55. Investments in own Tier 2 instruments	-	
56. Reciprocal cross-holdings in Tier 2 instruments	-	
57. 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)	-	w D
58. Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	Q S
59. National specific regulatory adjustments	-	
60. Total regulatory adjustments to Tier 2 capital	-	
61. Tier 2 capital (T2)	**12,582**	
62. Total capital (TC = T1 + T2)	**256,160**	
63. Total risk weighted assets	**875,362**	
Capital ratios and buffers		
64. Common Equity Tier 1 (as a percentage of risk weighted assets)	16.86%	
65. Tier 1 (as a percentage of risk weighted assets)	27.83%	
66. Total capital (as a percentage of risk weighted assets)	29.26%	w
67. 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)	12.5%	D Q
68. of which: capital conservation buffer requirement	2.5%	S
69. of which: bank specific countercyclical buffer requirement	N/A	

CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS PD-1 REGULATORY CAPITAL RECONCILIATION

At 31 December 2022

Common Disclosure Template	PIRI	Reference
Capital ratios and buffers		
70. of which: D-SIB buffer requirement	N/A	
71. Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	10.4%	
National minima including CCB (where different from Basel III)		
72. CBB Common Equity Tier 1 minimum ratio	9%	
73. CBB Tier 1 minimum ratio	10.5%	
74. CBB total capital minimum ratio	12.5%	
Amounts below the thresholds for deduction (before risk weighting)		
75. Non-significant investments in the capital of other financials	-	
76. Significant investments in the common stock of financials	-	
77. Mortgage servicing rights (net of related tax liability)	-	
78. Deferred tax assets arising from temporary differences (net of related tax liability)	14,758	
Applicable caps on the inclusion of provisions in Tier 2		
79. Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach	15,873	
(prior to application of cap)	7,316	
80. Cap on inclusion of provisions in Tier 2 under standardised approach		
81. N/A		
82. N/A		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)		
83. Current cap on CET1 instruments subject to phase out arrangements	-	
84. Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
85. Current cap on AT1 instruments subject to phase out arrangements	-	
86. Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
87. Current cap on T2 instruments subject to phase out arrangements	-	
88. Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS STATEMENT OF FINANCIAL POSITION

At 31 December 2022

Appendix PD-2

Step-1

	As per published financial statements	As per Consolidated PIRI Return
	31 December 2022 US $ '000	31 December 2022 US $ '000
Assets		
Cash and balances with banks and financial institutions	162,440	162,440
Receivables	448,846	459,564
Ijara Muntahia Bittamleek &I jara receivables	561,955	562,703
Musharaka	239,444	243,444
Investments	1,122,139	1,122,454
Investments in real estate	8,836	8,836
Investment in joint venture & associates	18,430	18,430
Premises and equipment	98,320	98,320
Goodwill	9,917	9,917
Other assets	52,274	52,274
Total Assets	**2,722,601**	**2,738,382**
Liabilities		
Current accounts	243,052	243,052
Murabaha and other payables	171,796	171,796
Other liabilities	113,185	114,569
Total liabilities	**528,033**	**529,417**
Equity of Investment Account Holders	**1,912,969**	**1,912,969**
Subordinated debt	**15,600**	**14,124**
Shareholders' Equity		
CET 1		
Share capital	151,458	151,458
Perpetual Tier1 capital	96,000	96,000
Retained earnings	16,153	16,153
Reserves	(17,467)	(17,467)
Expected credit losses	-	15,873
Total Shareholders' Equity	**246,144**	**262,017**
Non controlling interest	19,855	19,855
Total Liabilities, URIA and shareholders' equity	**2,722,601**	**2,738,382**

CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS STATEMENT OF FINANCIAL POSITION

At 31 December 2022

Appendix PD-2

Step-2

	As per published financial statements	As per Consolidated PIRI Return
	31 December 2022 US $ '000	31 December 2022 US $ '000
Assets		
Cash and balances with banks and financial institutions	162,440	162,440
Receivables	448,846	459,564
Ijara Muntahia Bittamleek & Ijara income receivable	561,955	562,703
Musharaka	239,444	243,444
Investments carried at fair value through profit & loss	-	-
Investments carried at amortized cost	569,742	569,752
Investments carried at fair value through equity	552,397	552,702
Investments in real estate	8,836	8,836
Investment in joint venture & associates	18,430	18,430
Premises and equipment	98,320	98,320
of which intangibles	6,081	6,081
Goodwill	9,917	9,917
Other assets	52,274	52,274
of which deferred tax subject to direct deduction		1,412
of which deferred tax subject to threshold deduction		-
Total Assets	**2,722,601**	**2,738,382**
Liabilities		
Current accounts	243,052	243,052
Murabaha and other payables	171,796	171,796
Other liabilities	113,185	114,569
Total liabilities	**528,033**	**529,417**
Equity of Investment Account Holders	**1,912,969**	**1,912,969**
Subordinated debt	**15,600**	**14,124**
of which allowed as T2		4,923
Shareholders' Equity		
CET 1		
Share capital	151,458	151,458
Perpetual AT1 Capital	96,000	96,000
Retained Earnings	16,153	16,153
Statutory reserve	26,119	26,119
General reserves	8,687	8,687
Foreign exchange reserve	(56,440)	(56,440)
Revaluation reserve on investments	3,964	3,964
Other reserves	(140)	(140)
Add back of modification losses	-	4,614
Non controlling interest	19,855	19,855
NCI CET1		10,573
NCI AT1		-
Tier 2		
Revaluation reserve on premises and equipment	343	343
Expected credit losses for stage1 and stage2	-	15,873
of which allowed as T2		7,316
Total Shareholders' Equity	**265,999**	**281,872**
Total Liabilities, URIA and shareholders' equity	**2,722,601**	**2,738,382**

CBB - COMPOSITION OF CAPITAL DISCLOSURE REQUIREMENTS DISCLOSURE TEMPLATE FOR MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

At 31 December 2022

Appendix PD-3

Issuer

Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA	NA	NA	NA
Governing law(s) of the instrument	Kingdom of Bahrain	Kingdom of Bahrain	Kingdom of Bahrain	All applicable laws and regulations of the Islamic Republic of Pakistan	All applicable laws and regulations of the Islamic Republic of Pakistan
Regulatory treatment					
Transitional CBB rules	CET 1	AT1	AT1	Tier 2	Tier 2
Post-transitional CBB rules	CET 1	AT1	AT1	Tier 2	Tier 2
Eligible at solo/group/ group&solo	Both solo and Group	Both solo and Group	Both solo and Group	GROUP	GROUP
Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Subordinated Mudaraba debt	Subordinated Mudaraba debt	Unrestricted Mudaraba Sukuk	Unrestricted Mudaraba Sukuk
Amount recognised in regulatory capital (Currency in USD K, as of most recent reporting date)	151,458	81,000	15,000	7,938	7,662
Par value of instrument	100	Not Applicable	Not Applicable	NA	NA
Accounting classification	Equity	Equity	Equity	Liability - amortized cost	Bullet Payment after 7 Years
Original date of issuance	Various	2018	2019	2014	2017
Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated
Original maturity date	Not Applicable	Perpetual	Perpetual	2021	2024
Issuer call subject to prior supervisory approval	Not Applicable	Yes	Yes	Yes	Yes
Optional call date, contingent call dates and redemption amount	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Subsequent call dates, if applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Coupons / dividends					
Fixed or floating dividend/ coupon	As decided by shareholder	Fixed	Fixed	Floating	Floating
Coupon rate and any related index	Not Applicable	Various	Various	KIBOR	6 Month Kibor + 0.75%
Existence of a dividend stopper	Not Applicable	Yes	Yes	No	No
Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory
Existence of step up or other incentive to redeem	Not Applicable	No	No	Not Applicable	Not Applicable
Noncumulative or cumulative	Not Applicable	Non-cummulative	Non-cummulative	Non-cummulative	Non-cummulative
Convertible or non- convertible	Not Applicable	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger (s)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, fully or partially	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, conversion rate	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, mandatory or optional conversion	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If convertible, specify instrument type convertible into					
If convertible, specify issuer of instrument it converts into	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Write-down feature	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
If write-down, write-down trigger(s)	Not Applicable	Yes	Yes	No	No
	Not Applicable	If regulatory requires to meet the minimum capital requirements as per laws applicable in country of incorporation	If regulatory requires to meet the minimum capital requirements as per laws applicable in country of incorporation	Not Applicable	Not Applicable
If write-down, full or partial					
If write-down, permanent or temporary	Not Applicable	Full	Full	Not Applicable	Not Applicable
If temporary write-down, description of write-up mechanism	Not Applicable	Permanent	Permanent	Not Applicable	Not Applicable
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
	Subordinate to all liabilities	Senior to common equity and subordinate to all liabilities	Senior to common equity and subordinate to all liabilities	Subordinate to all liabilities	Subordinate to all liabilities
Non-compliant transitioned features					
If yes, specify non-compliant features	Not Applicable	No	No	No	No
	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable