

## Our Achievement Best Rewards



**Annual Report 2021**

Al Baraka Islamic Bank B.S.C (c)

## Strategic Report

- 02 Corporate Profile
- 03 Vision & Mission
- 04 Board of Directors
- 06 Unified Shari'a Supervisory Board
- 07 Financial Highlights
- 08 Directors' Report
- 14 Executive Management
- 16 Executive Management Report

## Governance

- 22 Corporate Governance
- 48 Organisation Chart
- 49 Board of Directors Profile
- 51 Executive Management Profile
- 54 Shari'a Supervisory Board's Report
- 55 Social Responsibility

## Consolidated Financial Statements

- 58 Independent Auditors' Report
- 60 Consolidated Statement of Financial Position
- 61 Consolidated Statement of Income
- 62 Consolidated Statement of Changes in Owners' Equity
- 63 Consolidated Statement of Cash Flows
- 64 Consolidated Statement of Changes in Off-Balance Sheet Equity of Investment Account Holders
- 66 Notes to the Consolidated Financial Statements

### Head Office

**Mr. Hamad Abdulla AL-Oqab**  
Chief Executive Officer and Board Member  
Al Baraka Tower, Bahrain Bay, P.O. Box 1882  
Manama, Kingdom of Bahrain

Head Office Branch	Tel: +973 17 535300	Fax: +97317 533 993
Riffa Branch	Tel: +973 17 768 600	Fax: +973 17 490 003
Muharrag Branch	Tel: +973 17 461 999	Fax: +973 17 324 888
Ramli Mall Branch	Tel: +973 17 646 677	Fax: +973 17 646 676
Galleria Mall Branch	Tel: +973 17 166 600	Fax: +973 17 911 844

Website: [www.albaraka.bh](http://www.albaraka.bh)

### Subsidiaries

- |   |  |  |
|---|--|--|
| <b>1. Al Baraka Bank Pakistan Limited</b><br><b>Mr. Ahmed Shuja Kidwai</b><br>Chief Executive Officer and Board Member<br>Al Baraka House,<br>162 Bangalore Town,<br>Main Shahrak-e-Faisal, Karachi<br>Islamic Republic of Pakistan<br>Tel: +9221 34 315 851<br>Fax: +9221 34 530 981 | <b>2. Itqan Capital</b><br><b>Dr. Bassam Hashim Al-Sayed</b><br>Chief Executive Officer and<br>Managing Director<br>Second Floor, Al Deghather<br>Center, Al Olaya, Riyadh 12241,<br>Kingdom of Saudi Arabia<br>Tel: +966 11 2164333<br>Fax: +966 11 2160444 | <b>3. Danaat Al Baraka</b><br><b>Mr. Tariq Mahmood Kazim</b><br>Chairman<br>Flat 10, Building 2504,<br>Road 2832, Block 428,<br>Manama,<br>Kingdom of Bahrain.<br>Tel: +973 17 535300<br>Fax: +973 17 533993 |
|---|--|--|

Web: [www.albaraka.com.pk](http://www.albaraka.com.pk)

Web: [www.itqancapital.com](http://www.itqancapital.com)



You can find more information on our corporate website

[www.albaraka.bh](http://www.albaraka.bh)



**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

## Corporate Profile

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

Al Baraka Islamic Bank ("AIB" or "the Group") is a retail Islamic bank licensed by the Central Bank of Bahrain ("CBB") and is registered with Bahrain's Ministry of Industry, Commerce, and Tourism under Commercial Registration number 14400. The Group has an authorized capital of USD 600mn, and an issued and paid-up capital of USD 136.5mn.

The Group is one of leading financial institutions in the Islamic banking sector. Since its inception in 1984, AIB played a prominent role in establishing the foundations of Islamic finance. The Group played a significant role in promoting Islamic banking and publicizing its merits. The Group enjoys a good reputation and high standing with the communities where it operates.

The Group offers innovative products and services to its esteemed customers, such products includes taking demand, saving and investment accounts, providing Murabaha financing, Ijara financing and other Sharia compliant forms of financing as well as managing investors' money on the basis of Mudarabah or agency for a fee, providing commercial banking services and other investment activities

The Group achieved excellent results in its banking operations, thanks to its vast 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 Banking Group). Since its inception, the Group is managing funds on behalf of many large financial institutions and high net worth individuals who sought rewarding long-term and financial returns by deploying Sharia compliant instruments.

In 2010, the Group completed the merger of its branches in Pakistan (whose operations started back in 1991) with Emirates Global Islamic Bank Limited, to establish Al Baraka Bank Pakistan Limited ("ABPL"). Thereafter, in 2016, ABPL acquired Burj Bank Limited leading to the addition of 74 new branches and increased the total workforce above 2,500 professionals in addition to a network of more than 150 branches in more than 100 cities and towns across Pakistan.

In 2012, the Group acquired a majority stake of Itqan Capital, a closed joint stock company, registered in the Kingdom of Saudi Arabia and licensed by the Capital Market Authority. Itqan Capital engages in asset and portfolio management as well as custody and research and advisory services.

AIB is one of the banking units of Al Baraka Banking Group ("ABG" or "the Ultimate Parent"). ABG is a Bahraini Joint Stock Company listed in Bahrain stock exchange and Nasdaq Dubai. The Ultimate Parent offers retail banking, corporate banking, investment banking, and treasury services, in accordance with the principles of the Islamic Sharia. The Ultimate Parent's authorized capital is USD 1.5bn, while total equity amounts to around USD 2.3bn. ABG has a wide geographical presence in 16 countries in the form of subsidiary banking units and representative offices, which in turn provide their Sharia compliant banking products and services through more than 600 branches. These banking units are located in Bahrain, Jordan, Pakistan, Algeria, Sudan, South Africa, Lebanon, Tunisia, Egypt, Turkey and its branches in Iraq, Syria, Morocco, and a representative office in both Indonesia and Libya.



## Vision, Mission & Values

### Our Vision

We believe society needs a fair and equitable financial system, a system that rewards effort and contributes to the development of the community.

### Our Mission

Meeting the banking needs of our communities by carrying out our operations ethically and according to our beliefs, practicing the highest standards of professionalism, and sharing mutual benefits with our customers, employees and shareholders who contribute to our successes.

## Values

### Partnership

Our shared beliefs create strong bonds that form the basis of long-term relationships with our customers and employees.

### Driven

We have the energy and perseverance to make an even greater impact in the lives of our clients and communities.

### Neighbourly

We value and respect the communities we serve. Our doors are always open. Our customers always experience a warm hearted, hospitable welcome, and accommodating service.

### Peace of mind

Our customers can rest assured that we are managing their financial interests to the highest ethical standards.

### Social Contribution

Through their banking with us, our customers contribute positively to a better society, the growth of our customers and our growth will benefit the communities in which we operate.

## Board of Directors



**Saleh Salman Al Kawari**  
Chairman



**Yousef 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**  
Chief Executive Officer & Board Member

# Shari'a Supervisory Board



**Shaikh Essam Mohamed Ishaq**  
Chairman of Shari'a Board



**Shaikh Nedham Mohamed Yaqoobi**  
Shari'a Board Member

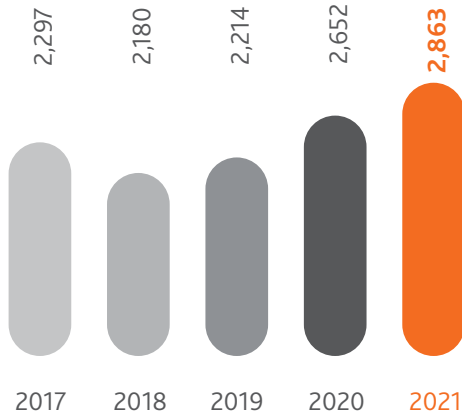


**Shaikh Judge Waleed Abdulmonem Al Mahmood**  
Shari'a Board Member

# Financial Highlight

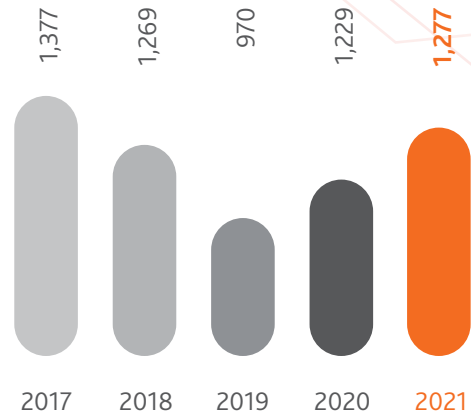
## Total Assets (USD Million)

**USD 2,863**



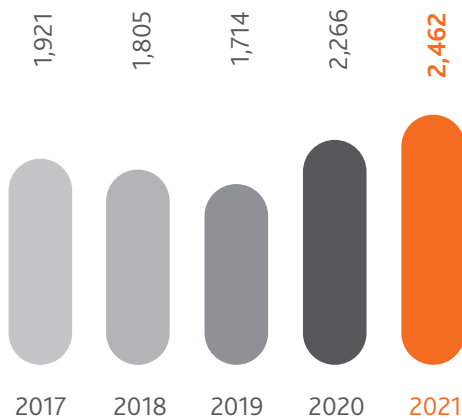
## Financing (USD Million)

**USD 1,277**



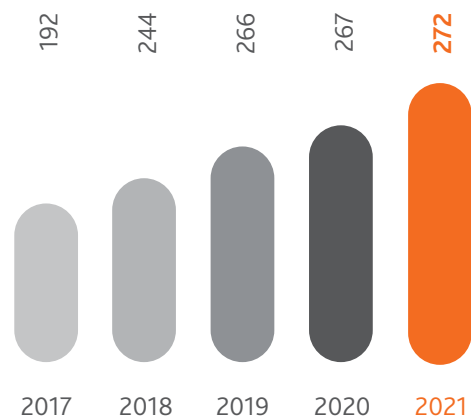
## Customer Deposits (USD Million)

**USD 2,462**



## Total Equity (USD Million)

**USD 272**



# Directors Report

## SALEH SALMAN AL KAWARI

Chairman



In the name of Allah, the most beneficent, the most merciful. 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 2021.

The global recovery is expected to decelerate significantly during 2022 due to continuation of COVID-19 pandemic, diminished policy support provided by governments and central banks, and prolonged supply bottlenecks. However and in contrast to that in advanced economies, outputs in emerging markets and developing economies will remain substantially below its pre-pandemic levels. Expectations indicates that global growth rate will reach 4.1% during 2022 after achieving a remarkable growth during 2021 reaching 5.5%, observers expects growth to reach 3.2% during 2023. The World faces multiple downside risks due to the pandemic, such as the rapid spread of Omicron variant and the fear of new virus variants, the possibility of de-anchored inflation expectations, and financial stress in a context of record-high debt levels, the rapid spread of the pandemic variants made

it increasingly difficult for governments and central banks to select which support policies to adopt and created limited space to maneuver in the face of multidimensional challenges, high inflation rates, food insecurity, high unemployment rates, and climate change.

Like other countries, Gulf Cooperation Council countries were affected by the consequences of the pandemic during 2021, especially in the transportation and tourism sectors, which witnessed a noticeable decline, however, it is expected that these will witness a gradual recovery due to the opening of the Dubai Expo 2020 and other tourism and economic activities that are held in various GCC states. Many non-oil sectors have witnessed a gradual recovery, and the region may witness a growth of up to 4.4% during 2022 due to increase in oil prices and the stable performance of the exporting countries, while growth is expected to decelerate during 2023 to reach 3.4%, due to the gradual phase out of financial support plans from the GCC governments.

Preliminary economic growth rates in Bahrain during 2021 recorded promising levels reflecting strong evidence of its ability to recover and return to pre-pandemic levels, thanks to the wise leadership of His Majesty King Hamad bin Isa Al Khalifa and the



## Directors Report (continued)

### Total Assets

USD 2.86BN

### Total Financing

USD 1.28BN

directives of His Royal Highness Prince Salman Bin Hamad Al Khalifa, Crown Prince and Prime Minister, in launching a strong and comprehensive package of incentives aimed at providing the necessary support to sectors affected by the pandemic and promoting sustainable economic growth, as well as great efforts to contain the spread of the virus. Such improvement in growth rates is attributable to the growth in returns from oil sector due to increase in prices of hydrocarbons and the remarkable recovery of some non-oil sectors. Expectations indicate a growth of 3.1% during 2021 as compared to a contraction of 5.1% during 2020.

Standard & Poor's revised its Bahrain outlook from negative to stable during the year, reflecting the financial reforms adopted by the government aimed at reducing government spending and improving non-oil revenues, including increasing the value-added tax to 10%, starting from 2022. On the other hand, the pandemic had negative effects on Pakistan's economy, the current account deficit amounted to USD 7.1bn compared to a surplus of USD 1.9bn last year, and recently the State Bank of Pakistan announced its maintenance of interest rates at the level of 9.75%.

Despite all the challenges faced during 2021 and with the grace of Allah the Almighty, the Group was able to achieve major strategic milestones as the Group's consolidated assets exceeded BHD 1bn, it also achieved record profits that had never been achieved before that exceeded USD 12mn, it has also succeeded in launching its new mobile application that keeps pace with the latest in modern technology. The Group was able to achieve a growth in total assets of 8% to reach USD 2,863mn in 2021 compared to USD 2,652mn in 2020. The growth in financing portfolio was 13% to reach USD 1,206mn in 2021 compared to USD 1,068mn in 2020. The growth in customer deposits was 9% to reach USD 2,462mn in 2021 compared to USD 2,266mn in 2020.

In its effort to achieve strategic objectives aimed at consolidating activities, improving operating efficiencies and rationalizing expenses, the Group focused during 2021 on building a sustainable revenue base that would contribute to the stability of the Group's performance and raise its efficiency in the long term. The Group also conducted a comprehensive expense rationalization review without compromising service quality. Due to current prevailing conditions, the Group continued to adopt its cautious and

conservative approach and continued to increase coverage against specific losses as well as against expected credit losses. As a result, the Group announced a record-breaking net profit of USD 12.6mn for the year ended 31 December 2021 compared with USD 7.6mn reported in the previous year. The numbers indicates that majority of key performance indicators and quality of operations were moved in a positive direction.

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) and a national scale rating of BBB+ (long term)/A3 (short term). At the same time, Al Baraka Bank Pakistan Limited has sustained local currency long-term/short-term rating of A/A1 with a stable outlook, as assigned by Pakistan Credit Rating Agency. While the VIS Credit Rating Company Limited reaffirmed short term/long term credit rating of A+/A-1 with a stable outlook. Such 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 philosophy of sustainability and social responsibility is an essential pillar of the Group's strategy, which is based on adopting and establishing commercial activities that can be converted into sustainable resources that enables our communities to improve their living standards. The Group has entered into partnerships with government and private agencies to develop and build affordable housing for low-income citizens at an affordable cost. The group also directed its resources towards providing job opportunities and focusing on projects of social importance such as education financing, health care services financing, and so on.

In the context of implementing its social commitments and responsibilities, the Group supported various activities within health sector. The Group also supported the international banks Day's "Green Bahrain Campaign event". The Group had also made a distinguished contribution to sponsor the Asian Youth Paralympic Games (for athletes with disabilities), which was held in the Kingdom of Bahrain for the first time.

The Group have contributed significant amounts of donations to educational institutions, hospitals, orphanage and other

## Directors Report (continued)

### Operating Income

USD 102.6MN

### Net Income

USD 12.6MN

charitable institutions. In addition, the Group provided on-job training to university students and continued to provide support to organizations in the field of Islamic banking and finance research. 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 the year 2021, the group won eleven awards in different categories and sectors, including best CEO, best mobile application, best commercial bank in Bahrain, best credit card, in addition to a number of awards related to service quality.

During the past two decades, the World has been able to narrow the income-level gaps, however, the spread of the pandemic led to an increase in this gap, specifically in developing countries and emerging economies due to loss of many low-income people in these countries to their jobs. Inflation and high prices as well as disruption in the educational process (due to the pandemic) will lead to increase this gap further. The Group continues to invest heavily in financial technology solutions in order to maintain its competitive position and take advantage of the opportunities available in this field. 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 thank Allah the Almighty for guiding us and facilitating another year of achievements and success, and we thank Allah for His generosity and for giving us strength and wisdom and facilitating many of the resources needed to run the business of our Group. On behalf of 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, Crown Prince and Prime Minister for their sincere support for the advancement of the banking sector in the Kingdom of Bahrain.

Our sincere gratitude to the Central Bank of Bahrain; Ministry of Industry, Commerce and Tourism; 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, Commerce, and Tourism 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 2021 (in Bahraini Dinars):

## Details of the Board of Directors Remunerations:

Name	Fixed Remunerations <sup>(1)</sup>					Variable Remunerations					End-of-service award <sup>(1)</sup>	Total amount (excluding expense allowance)	Expenses Allowance
	Remunerations of the chairman and Board <sup>(2)</sup>	Total allowance for attending Board and committee meetings	Salaries	Others	Total	Remunerations of the chairman and BOD	Bonus	Incentive plans	Others	Total			
First: Independent Directors:													
1. Saleh Salman Al Kawari	15,000	15,834	-	-	30,834	-	-	-	-	-	-	30,834	-
2. Yousef Ali Bin Fadil	15,000	16,965	-	-	31,965	-	-	-	-	-	-	31,965	6,370
3. Abdulrahman Abdulla Mohamed	15,000	16,965	-	-	31,965	-	-	-	-	-	-	31,965	-
4. Abdulrahman Abdulla Al Sayed	15,000	16,965	-	-	31,965	-	-	-	-	-	-	31,965	-
5. Adnan Abdulla Al Bassam	15,000	14,703	-	-	29,703	-	-	-	-	-	-	29,703	-
Second: Non-Executive Directors:													
6. Abdullatif Abdulrahim Janahi	15,000	13,572	-	-	28,572	-	-	-	-	-	-	28,572	-
7. Dr. Khalid Abdulla Ateeq	15,000	16,965	-	-	31,965	-	-	-	-	-	-	31,965	-
8. Abdulrazzaq Abdulkhaleq Abdulla	15,000	13,572	-	-	28,572	-	-	-	-	-	-	28,572	-
Third: Executive Directors:													
9. Adnan Ahmed Yousif <sup>(3)</sup>	-	3,393	-	-	3,393	-	-	-	-	-	-	3,393	-
10. Hamad Abdulla Al-Oqab <sup>(4)</sup>	15,000	10,179	- <sup>(5)</sup>	- <sup>(5)</sup>	25,179	-	-	-	-	-	-	25,179	-
<b>Total</b>	<b>135,000</b>	<b>139,113</b>	<b>-</b>	<b>-</b>	<b>274,113</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>274,113</b>	<b>6,370</b>

- (1) The Group did not pay any variable remunerations or end-of-service awards during the year.
- (2) Recommended remunerations for the year ended 31 December 2021 to be paid after securing all necessary approvals and after been approved by the Annual General Meeting.
- (3) His term expired in 28 March 2021.
- (4) He joined in 28 March 2021.
- (5) Salaries and remunerations received in his capacity as Chief Executive Officer are included in the details of the Executive Management Remunerations table below.

## Details of the Executive Management Remunerations:

Executive Management	Total paid salaries and allowances	Total paid remuneration (Bonus) <sup>(6)</sup>	Any other cash/ in-kind remuneration for 2021	Aggregate Amount
Remuneration of 6 executives (including the Chief Executive Officer and the Chief Financial Officer)	866,257	225,518	-	1,091,775

- (6) This amount is paid according to the "Variable Remuneration Policy" approved by the AGM, amount includes BD 90,207 upfront remunerations and BD 135,311 deferred remunerations.

### Saleh Salman AlKawari

Chairman

Al Baraka Islamic Bank B.S.C. (c)

Manama, Kingdom of Bahrain

22 February 2022



# Working better for Success



# Executive Management



**Hamad Abdulla Al Oqab**  
Chief Executive Officer



**Tariq Mahmood Kazim**  
DCEO - Business Group



**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 Officer



**Bader Isa Al Shetti**  
Chief Compliance Officer & MLRO





**Ahmed Isa Al Khayyat**  
Chief Technology Officer



**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

# Executive Management Report



**HAMAD ABDULLA AL OQAB**  
Chief Executive Officer

Despite the continuation of the Novel Corona Covid-19 pandemic and the re-spread of the epidemic, and in light of the emergence of new mutations, during which, the World witnessed multi-dimensional challenges such as high inflation rates, unemployment, food insecurity and the supply chain interruptions, as well as the depreciation of Pakistani Rupee. The results of the group's operations, with the blessings of Allah, showed flexibility and solidity, as it was able to achieve major strategic milestones and record profits that had never been achieved before. The Board of Directors and Executive Management's continuous efforts through the formulation of clear and accurate action plans resulted in successful consolidation of the Group's business activities, improving its operating efficiencies, and rationalizing its expenses without compromising service quality. In addition, the Group have reviewed all its policies and procedures through formation of relevant committees and task forces to properly monitor and execute these action plans with the utmost efficiency and professionalism. The Group is always keen to ensure the continuity of its basic banking services to its esteemed customers by providing a safe and healthy environment, and following the best health standards in its branches, it has provided most of its basic banking services through its electronic applications.

The Group achieved a growth in its financial position by the end of 2021. The growth in consolidated total assets amounted to 8% to reach USD 2,863mn in 2021 compared to USD 2,652mn reported in 2020. Financing portfolio constitutes around 45% of total consolidated assets in the form of Murabaha, Musharaka, Wakala Bi Al-Istithmar, Ijarah Muntahia Bittamleek, and others, while investment portfolio constitutes around 40% of the consolidated assets and consists of investments in sovereign sukuk, investments in subsidiaries/associates, real estate investments and others. Despite the unfavorable market conditions, the Group achieved a growth of 13% in its financing portfolio to reach USD 1,206mn in 2021 compared to USD 1,068mn in 2020. On the other hand, the growth in customer deposit portfolio reached 9% to reach USD 2,462mn in 2021 compared to USD 2,266mn in 2020, such portfolio consists of customers' current accounts, savings accounts, and various equity of investment accountholders. The wide geographic distribution of the Ultimate Parent (along with the Group's successful products and its strategic partnerships with regional financial institutions) are the main contributors to the mentioned growth in deposit portfolio, which coincided with the Group's efforts in rationalizing the costs of these deposits. The diversity of savings and investment accounts had a major role in

The Group focused during 2021 on improving the efficiency of its financial resources and its sources of income, and was able to build a sustainable revenue-base that contributes to the stability and sustainability of its performance in the future.

### Growth in Total Financing

13%

### Growth in Customer Deposits

9%

rationalizing the costs of these funds and achieving continuous and remarkable progress. It is worth mentioning that during 2021, the Group was able to convert its accumulated losses of USD 3.5mn in 2020 to retained earnings of USD 5.1mn in 2021, thanks to the positive results achieved during the year.

The Islamic International Rating Agency (“IIRA”) maintained the credit rating of the Group at BBB (long-term) / A3 (short-term) on the international scale and BBB+ (long-term) / A3 (short-term) on the national scale. At the same time, the Pakistan Credit Rating Agency maintained a credit rating of A/A1 in the local currency at the long-term/short-term level with a stable outlook, while VIS Credit Rating Agency affirmed a credit rating of A+/A-1 in the short-term/long-term with a stable outlook. All of these ratings confirms the Group’s ability to meet all of its financial obligations and a strong compliance and governance environment.

On the operational side, the Group focused during 2021 on improving the efficiency of its financial resources and its sources of income, and was able to build a sustainable revenue-base that contributes to the stability and sustainability of its performance in the future. The Group also conducted a comprehensive review of its expenses in order to rationalize them in line with its strategic plans and without compromising service quality. Due to current prevailing market conditions and the continuation of the pandemic,

the Group continued its conservative approach and increased its coverage against specific and expected credit losses, the general and specific provisions amounted to USD 17.3mn reported during 2021 compared to USD 21.3mn reported during 2020. As a result, the Group achieved net profit of USD 12.6mn for the financial year ended 31 December 2021 compared to USD 7.6mn reported in 2020, which reflects its success in implementing its strategic plans in both Bahrain and Pakistan.

The success of our “Danaat Al Baraka” project also had a significant impact on achieving these outstanding results. Danaat Al Baraka project is a joint project with a local investor and was implemented in cooperation with the Ministry of Housing, the Housing Bank and the Eskin Real Estate Company. It is a residential real estate project classified under the “Mazaya Program” for social housing. The project is located in a bustling area, vibrant with all kinds of social and commercial activities, shops and restaurants, yet it is an oasis of calm and tranquillity and a destination for upscale family housing. The project consists of 211 housing units with a distinctive modern character. Construction work has completed and more than 60% of the units have been sold, while more than 30% of the remaining units have been reserved. With the completion of this project and the handover of all its units, the Group looks forward to continue to invest in such projects, which confirms its commitment to contribute to the communities in which it operates.

# Executive Management Report (continued)

These achieved results by the grace of Allah Almighty during the year stand behind a major resource and a cornerstone of our success, which is our human capital. The Group's Executive Management continues its efforts to create a healthy and effective work environment based on the principles and values of the Group and based on the spirit of "one team", with a focus on benefiting from the energy of its employees, and developing their practical skills in order to provide the best and quality services to our valued customers, also by providing internal training programs supervised by specialized employees, each in his field of work, in addition to registering employees in external training and professional programs. It is proudly mentioned that the percentage of youth work force (under the age of 40) in the group constitutes 74% of the total workforce.

The Group made substantial investments in digitization during the year in order to keep pace with the latest developments in modern technology, and one of the main milestones achieved during 2021 was the successful launch of the new mobile application, which is expected to contribute to improving customer experience and gaining their satisfaction. The number of attempts to download the application upon its launch was seven thousand, and the number of accounts opened through the application has exceeded 500 in a very short period. The Group continues its efforts to develop its computer system to maintain its ability to compete in the markets in which it operates, in order to move to an advanced stage of providing distinguished services to its valued customers. In order to ensure adherence to the highest ethical and professional standards, during the last period, the Group reviewed and developed its policies and procedures related to providing innovative products and high quality services that are compatible with the Islamic Sharia. The Group also formulated accurate and clear work plans and formed a number of committees and task forces to oversee and follow up on the implementation of these plans with efficiency and professionalism. This resulted in a significant improvement in the efficiency of the Group's operations and the effectiveness of its procedures.

We at Al Baraka Islamic Bank Group, being an Islamic financial institution, and as part of our social responsibility and commitment to contribute to the development of the societies and economies in which we operate, we believe that this role is an essential pillar in our business model that we are proud of, and since Al Baraka Islamic Bank Group is considered a pioneer in the field of Islamic banking, we always strive to maintain our position as an institution committed to social responsibility. During the year, the Group's initiatives continued to provide support to small and medium enterprises. The Group also entered into partnerships with governmental and private institutions to develop and build housing for people with limited incomes, directed its resources towards providing adequate job opportunities, and focused on socially important projects such as financing education services, health care services, and others. The Group committed to pay amounts to educational institutions, hospitals and orphanages under the heading of Zakat and charitable donations. The Group annually implements a special program to provide humanitarian aid to licensed charities during the holy month of Ramadan. During the past year, the Group participated in financing nearly 525 initiatives, equivalent to USD 66mn, from the "Al Baraka Program for Sustainable Development" initiatives, which are linked to the United Nations sustainable development goals, such as fighting poverty, good health and well-being, quality education, clean and affordable energy, and employment and decent economic growth. The Group annually trains university students and supports research in the field of Islamic banking. The Group also supports many Islamic banking and financial events and conferences organized by various bodies and institutions concerned with the same field. During the year, the Group supported various local activities, such as supporting the activities of the Bahrain Medical Association, supporting the awareness campaign for diabetes patients, and participating in the celebration of the World Banking Day within the national campaign for afforestation under the slogan "You are green." It also contributed to supporting the Asian Young Paralympic Games held for the first time in the Kingdom of Bahrain.

During 2021, the Group won a number of awards in different categories. This honour comes to confirm the Group's ability to compete in various fields, and among the most prominent awards that the Group won during the year:

1. Best bank for customer service quality presented by Global Business Outlook.
2. The Best Bank in Customer Service Quality Award in the Kingdom of Bahrain presented by World Islamic Finance Awards.
3. Best Islamic Retail Bank for Social Responsibility in the Kingdom of Bahrain presented by World Islamic Finance Awards.
4. Best Innovative Credit Card Design Award from the Global Economics.
5. Best Credit Card Design Award from MasterCard.
6. The Best Bank in Social Media Award in the Kingdom of Bahrain presented by Global Banking and Finance Review.
7. The Best Commercial Bank in the Kingdom of Bahrain Award presented by the Islamic Retail Banking Awards.
8. CEO of the Year Award presented by the Islamic Retail Banking Awards.
9. The Best New Mobile Application Award in the Kingdom of Bahrain presented by Global Business Outlook.
10. Sustainability Initiatives at the 10th Annual Corporate Social Responsibility Summit-Pakistan.
11. Support for Health Care Organizations at the seventh International Awards on Environment, Health & Safety-Pakistan.

In conclusion, despite the continuation of the pandemic and the uncertainty in local and global markets, expectations indicates an improvement in the growth of global economy during 2022, we are optimistic of such growth on the economy of the region especially with the recent significant improvements in oil prices. We believe that the efforts made by the Executive Management over the past few years in creating an appropriate healthy environment along with reviewing policies and procedures and investing in the human element and in technology have begun to bear fruit, and that the Group has begun writing a new story of success. In this regard, 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, Crown Prince and Prime Minister for their sincere support for the advancement of the banking sector in the Kingdom of Bahrain. Sincere thanks and gratitude to the Central Bank of Bahrain, the Ministry of Industry, Commerce and Tourism, the State Bank of Pakistan, to all government agencies, and to everyone who contributed to the Group's exceptional achievements despite the challenges and difficulties it faced.

**Hamad Abdulla Al-Oqab**

Chief Executive Officer and Board Member  
Al Baraka Islamic Bank B.S.C. (c)  
Manama, Kingdom of Bahrain







# Icons of leadership



# 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 the Group discharge its duties and responsibilities towards protecting and enhancing shareholder's value as well as ensuring the achievement of long-term 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 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. The Group has taken all necessary steps to continuously enhance its corporate governance to ensure conformity with best-established market practices.

The Board of Directors adopted and approved its Corporate Governance Policy ("the Policy") covering bank-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 set are reported to the CBB, shareholders, 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 2021. 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 Banking 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.

There has been no trading of the Group shares during 2021 by any Director or member of Executive Management. As at 31 December 2021, the composition and distribution of shares are set out in the following table:

	Name	Relation	Nationality	No. of shares	Share %
1	<b>ABG</b>	Ultimate Parent	Bahraini	1,255,755	92.0254
2	<b>Abdullatif Abdulrahim Janahi</b>	Non-executive Director	Bahraini	1,250	0.0916
Other than the above, none of the other directors at the end of 2021 had any interest in the Group shares or its subsidiaries. Other shareholders are as follows:					
3	<b>Hussain Mohsin Alharthe</b>	Shareholder	Saudi	50,000	3.6641
4	<b>Bahrain Islamic Bank</b>	Shareholder	Bahraini	10,000	0.7328
5	<b>Ibdar Bank</b>	Shareholder	Bahraini	10,000	0.7328
6	<b>Suleiman Abdulaziz Al Rajhi</b>	Shareholder	Saudi	5,000	0.3664
7	<b>Saleh Abdulaziz Al Rajhi</b>	Shareholder	Saudi	5,000	0.3664
8	<b>Abdulla Abdulaziz Al Rajhi</b>	Shareholder	Saudi	5,000	0.3664
9	<b>Mohamed Abdulaziz Al Rajhi</b>	Shareholder	Saudi	5,000	0.3664
10	<b>Heirs of Dr. Hassan Abdulla Kamel</b>	Shareholder	Saudi	5,000	0.3664
11	<b>Dubai Islamic Bank</b>	Shareholder	UAE	5,000	0.3664
12	<b>Saeed Ahmed Lotah &amp; Sons Group</b>	Shareholder	UAE	5,000	0.3664
13	<b>Jordan Islamic Bank</b>	Shareholder	Jordanian	2,500	0.1832
14	<b>Sheikh Saleh Abdulla Kamel</b>	Shareholder	Saudi	73	0.0053
	<b>Total</b>			<b>1,364,578</b>	<b>100.0000</b>

## 2.2. Ownership by nationality:

Country	No of Shares	Share %
<b>Bahrain</b>	1,277,005	93.56
<b>Jordan</b>	2,500	0.18
<b>Saudi Arabia</b>	75,073	5.52
<b>UAE</b>	10,000	0.74
<b>Total</b>	<b>1,364,578</b>	<b>100.00</b>

## Corporate Governance (continued)

### 2.3. Ownership by size of shareholding:

Categories	No. of shares	Share %
Less than 1%	58,823	4.33
1% up to less than 5%	50,000	3.66
5% and above	1,255,755	92.01
<b>Total</b>	<b>1,364,578</b>	<b>100.00</b>

### 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.

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 started in March 2020 and will expire on March 2023. In March 2021, the Annual General Meeting ("AGM") approved the ABC's request to substitute its representative Mr. Adnan Ahmed Yousif with Mr. Hamad Abdulla Al Oqab, whose appointment was also been approved by the CBB. This report contains information and dates of membership of both Mr. Adnan Ahmed Yousif and Mr. Hamad Abdulla Al-Oqab.

### 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-established market practice.

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.



## Corporate Governance (continued)

Board composition, independence of Directors, and membership in the Board Committees are set out below:

### A. Board of Directors:

Director Name	Nationality	Board Membership Designation & Position	Board Committees			
			Audit	Nomination, Remuneration, and Governance	Executive	Risk Management
Saleh Salman Al-Kawari	Bahraini	Chairman, Independent	-	Chairman	-	Member
Adnan Ahmed Yousif <sup>(1)</sup>	Bahraini	Vice Chairman, Executive	-	-	-	-
Yousif Ali Bin Fadil <sup>(2)</sup>	Emirati	Member, 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, Non-Executive	Member	Member	-	-
Hamad Abdulla Al-Oqab <sup>(3)</sup>	Bahraini	Member, Executive	-	-	Member	-

(1) His membership expired on 28 March 2021.

(2) Appointed as Vice Chairman on 28 March 2021.

(3) Appointed as a Director on 28 March 2021.

As per CBB's new rules, an independent Director who has served three consecutive terms on the Board will lose his independence status. 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.

### 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, 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 2021, 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:



### Board meetings and attendances

In line with the nature and demands of the Bank's business, the Board meets at least every quarter unless further meetings are required. In 2020, the Board held 7 meetings, and the number of meetings attended by each member were as follows:

Director's name	Board Meeting Date					
	21 Feb	28 Mar	06 May	11 Aug	20 Oct	14 Dec
Saleh Salman Al-Kawari	✓	✓	✓	✓	✓	✓
Adnan Ahmed Yousif <sup>(1)</sup>	✓	-	-	-	-	-
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 <sup>(2)</sup>	-	✓	✓	✓	✓	✓

(1) His membership expired on 28 March 2021.

(2) Appointed as a Director on 28 March 2021.

### 3.7. Performance evaluation

In line with its Corporate Governance Policy, the Group adopts a procedure undertaken by the Board 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. Remuneration

In line with CBB issued regulations concerning 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.

### 3.9. 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 Board of Directors, Sharia Supervisory Board, and 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.

## Corporate Governance (continued)

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. Our strategy is designed to share success and align employees' incentives with risk framework and outcomes.

In order to ensure 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 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 well 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 sets 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 regard to the Group's variable remuneration policy and oversight of its implementation. These include (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 Board is satisfied that all Non-Executive Directors are independent, including the NRGC members. The aggregate remuneration paid to NRGC members during the year (in the form of sitting fees) amounted to USD 36 thousand [2020: USD 45 thousand] for four meetings held during the current and prior year.

### 3.10. 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. As for the CEO, the 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.

Except for contracts mentioned in related section 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.

### 3.11. Directors' interests in the Group shares

Director's name	Shareholding during 2021		
	1 January	31 December	Changes
Abdullatif Abdulrahim Janahi	1,250	1,250	-

### 3.12. Board of Directors, Sharia Supervisory Board, and CEO remuneration:

<b>Directors:</b>	<b>2021</b>	<b>2020</b>
Remuneration <sup>(1)</sup>	<b>286</b>	239
Sitting Fees	<b>369</b>	375
Allowances and others <sup>(2)</sup>	<b>46</b>	17
<b>Total</b>	<b>701</b>	631
<b>Sharia Supervisory Board members</b>		
<b>Staff inclusive of Chief Executive Officer:</b>		
<b>Fixed Remuneration</b>		
Approved Persons and Material Risk-takers (Business lines)	<b>3,510</b>	2,653
Approved Persons (Others)	<b>2,536</b>	2,294
Other staff (Bahrain Operations)	<b>9,638</b>	9,635
Staff (Overseas subsidiary)	<b>16,643</b>	16,002
<b>Total fixed remunerations</b>	<b>32,327</b>	30,854
<b>Variable Remuneration</b>		
Approved Persons and Material Risk-takers (Business lines)	<b>533</b>	548
Approved Persons (Others)	<b>401</b>	667
Other staff (Bahrain Operations)	<b>668</b>	203
Staff (Overseas subsidiary)	<b>611</b>	463
<b>Total variable remunerations</b>	<b>2,213</b>	1,881
<b>Total staff remunerations</b>	<b>34,540</b>	32,465
<b>Sharia Committee Members</b>	<b>61</b>	66

(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 (continued)

Total fixed remuneration for covered persons affected by the policy, having salaries and benefits exceeding BD 100 thousand amount to USD 2,833 thousand (2020: USD 1,836 thousand) applicable to seven employees (2020: five employees). Total variable remuneration during 2021 paid to these employees was USD 640 thousand (2020: USD 618 thousand), such remuneration comprises upfront cash amounted to USD 256 thousand (2020: USD 247 thousand) and deferred shares amounted to USD 383 thousand (2020: USD 371 thousand). Furthermore, total outstanding deferred remuneration as at 31 December 2021 is USD 383 thousand (2020: USD 371 thousand). Total amount paid as severance or retirement benefits to covered persons retired during 2021 was USD Nil (2020: USD 301 thousand).

### 3.13. 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, NRGCC 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 NRGCC.

For the Group to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensures 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.

### 3.14. 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.

### 3.15. 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 human judgment play 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 NRCG 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 risk, 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 Bank-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 risk assumed in the conduct of business; and
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRCG keeps itself abreast with the Group's performance against risk management framework. NRCG 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, NRCG 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 allow the NRCG to determine that (if appropriate) unvested elements under the deferred bonus plan can be forfeited/adjusted or the delivered variable remuneration be recovered 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 NRCG. The Group's malus and clawback provisions allow the NRCG 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.



## Corporate Governance (continued)

### 3.16. 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:

<b>Upfront cash</b>	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
<b>Deferred Cash</b>	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of three years.
<b>Upfront share awards</b>	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.
<b>Deferred Shares</b>	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:

Element of variable remuneration	Constitutions	Vesting period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Upfront shares	-	Immediate	6 Months	Yes	Yes
Deferred cash	10%	3 Years	-	Yes	Yes
Deferred share awards	50%	3 Years	6 Months	Yes	Yes

The NRCG (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 employee 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 NRCG 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.

Currently, 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 LTIP. In this respect, the following table further elaborates on the remuneration scheme:

While, the employees in other functions shall be subject to variable remuneration under such STIP as follow:

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

### 3.17. External consultants

The Group may appoint consultants to advise on amendments to its variable remuneration policy to ensure its compliance with CBB's sound remuneration practices and industry norms.

### 3.18. 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 Bank-wide risk profile to comply with the approved Group's risk appetite and tolerances, which considers both downside risk and opportunities.

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 Committees in operation during the year under review are:

#### 3.18.1. Audit Committee

The Audit Committee (appointed by the Board of Directors) consists of three members. The Head of Internal Audit directly reports to the Chairman of the Committee. Audit Committee regularly informed about significant projects aimed at further improving processes and receives regular updates on major litigation 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.

The Committee used to assist the Board in fulfilling its governance responsibility by monitoring the implementation of a robust compliance framework by working together with the Management and the Sharia Supervisory Board. This function has been entrusted with the NRCG in November 2021. The composition of the Committee, the number of meetings held, and attendance of members are as follows:

## Corporate Governance (continued)

Director's name	Meeting Dates			
	03 Feb	06 May	05 Aug	09 Nov
<b>Abdulrahman Abdulla Mohamed (Chairman)</b>	✓	✓	✓	✓
<b>Yousif Ali Bin Fadil (Member)<sup>(1)</sup></b>	✓	-	-	-
<b>Dr. Khalid Abdulla Ateeq (Member)</b>	✓	✓	✓	✓
<b>Adnan Abdulla Al-Bassam (Member)<sup>(2)</sup></b>	-	✓	✓	✓

(1) Was a member until 28 March 2021.

(2) Become a member in 28 March 2021.

Sheikh Esam Ishaq (Chairman of Sharia Supervisory Board) is a member of the Audit 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 coordinate and link complementary roles and functions of corporate governance and Sharia Supervisory Board.

### 3.18.2. 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;
- 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; and
- Make sure that 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.

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. In November 2021, this Committee was entrusted with the task of advising the Board on governance issues. The composition of the Committee, the number of meetings held, and attendance of members are as follows:

Director's name	Meeting Dates				
	03 Feb	24 Mar	27 May	30 Sep	01 Dec
Saleh Salman Al-Kawari (Chairman) <sup>(1)</sup>	-	-	✓	✓	✓
Abdulrahman Abdulla Al-Sayed (Member)	✓	✓	✓	✓	✓
Adnan Abdulla Al-Bassam (Member) <sup>(2)</sup>	-	-	✓	✓	✓
Yousif Ali Bin Fadil <sup>(3)</sup>	✓	✓	-	-	-
Dr. Khalid Abdulla Ateeq <sup>(4)</sup>	✓	✓	-	-	-

(1) Becomes the Chairman in 28 March 2021.

(2) Becomes a member in 28 March 2021.

(3) Was the Chairman until 28 March 2021.

(4) Was a member until 28 March 2021.

### 3.18.3. 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:

Director's name	Meeting Dates					
	10 Feb	25 Apr	14 Jun	10 Aug	10 Oct	07 Dec
Yousif Ali Bin Fadil (Chairman) <sup>(1)</sup>	-	✓	✓	✓	✓	✓
Adnan Ahmed Yousif <sup>(2)</sup>	✓	-	-	-	-	-
Abdullatif Abdulrahim Janahi	✓	✓	✓	✓	✓	✓
Abdulrazzaq Abdulkhaleq Abdulla	✓	✓	✓	✓	✓	✓
Hamad Abdulla Al-Oqab <sup>(3)</sup>	-	✓	✓	✓	✓	✓

(1) Appointed as Chairman on 28 March 2021.

(2) His membership expired on 28 March 2021.

(3) Appointed as a Director on 28 March 2021.

## Corporate Governance (continued)

### 3.18.4. Risk Management Committee

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 and practices are in place for a bank-wide risk management framework addressing the Group's 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 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			
	24 Mar	30 Jun	26 Sep	05 Dec
Saleh Salman Al-Kawari <sup>(1)</sup>	✓	✓	✓	✓
Abdulrahman Abdulla Mohamed	✓	✓	✓	✓
Dr. Khalid Abdulla Ateeq <sup>(2)</sup>	-	✓	✓	✓
Abdulrahman Abdulla Al-Sayed (Chairman) <sup>(3)</sup>	✓	✓	✓	✓
Adnan Abdulla Al-Bassam <sup>(4)</sup>	✓	-	-	-

(1) Was the Chairman until 28 March 2021.

(2) Becomes a member in 28 March 2021.

(3) Becomes the Chairman in 28 March 2021.

(4) Was a member until 28 March 2021.

### 3.19. 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.

### 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.

#### 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 ("HRC")

The objective of HRC 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.

#### 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.

## Corporate Governance (continued)

### 5. 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 system of internal control across all aspects of business, as well as strong support functions covering legal, regulatory, governance, reputation, finance, information technology, human resources, and strategy. Such system must be designed 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.
- 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 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 internal audit. 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.

### 6. Risk Management

#### 6.1. 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 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 Group'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 Group 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 business units, 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 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.

## Corporate Governance (continued)

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

### 6.2. 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 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.

### 6.3. 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.

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.

### 6.4. 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.



## Corporate Governance (continued)

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, 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.

### 6.5. 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.

### 6.6. 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, 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.

## 7. 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 NREGC 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.

## Corporate Governance (continued)

### 7.1. 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.

### 7.2. 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 that 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.

### 7.3. 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.

### 7.4. Communications 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](http://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. 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.

## 8. 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.

### 8.1. 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.

## Corporate Governance (continued)

### 9. 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	<ul style="list-style-type: none"> <li>• Graduate from McGill University, Montreal, Canada.</li> <li>• Member of Board of AAOIFI.</li> </ul>
Shaikh Dr. Nedham Mohamed Yaqoobi (Member)	Bahraini	<ul style="list-style-type: none"> <li>• Graduate from McGill University, Montreal, Canada.</li> <li>• Ph.D. in Sharia.</li> </ul>
Shaikh Judge Waleed Abdulmonem AL-Mahmood (Member)	Bahraini	<ul style="list-style-type: none"> <li>• B.Sc. in Sharia and Law.</li> <li>• High Diploma in Comparative Fiqh.</li> <li>• Master's Degree.</li> </ul>

- SSB meets at least quarterly and each member attends at least  $\frac{3}{4}$  of the meetings during a calendar year. Further, in addition to the regular meetings, the SSB Chairman may convene SSB meetings as and when it is necessary:

Name	Meeting Dates			
	03 Feb	26 May	20 Sep	17 Nov
Shaikh Essam Mohamed Ishaq (Chairman)	✓	-	✓	✓
Shaikh Dr. Nedham Mohamed 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 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



\*Handled by the Chief Retail Officer

..... Dotted Line: Administrative Reporting  
 ——— Straight Line: Functional Reporting

# Board of Directors Profile

## Saleh Salman Al Kawari

### Chairman

#### Experience:

- Over 51 years of experience in banking industry.
- Served as Chief Executive Officer of HSBC Bahrain (1997-2007).
- Assigned a special project to explore the establishment of retail and corporate banking activities of Awal Bank Bahrain (2007-2008).
- Served as a Director in The Benefit Company, Bahrain Institute of Banking and Finance, and Bahrain Association of Banks.

#### Qualification:

- MBA from Durham University, UK.
- Fellow of the Chartered Bankers Institute, UK.

## Yousef Ali Bin Fadil

### Vice Chairman

#### Experience:

- Over 37 years of experience in banking industry.
- Member of the United Arab Emirates Federal National Council (2007-2011).
- Served as General Manager of Emirates Financial Company.
- Served as Executive Manager for Investments, Dubai Islamic Bank (1999-2004).
- Held senior positions in the National Bank of Umm Al Qaiwain (1984-1999)
- Served as a Director in Al Baraka Banking Group, Ajman Bank, Union Insurance Company (UAE), Bahrain Islamic Bank, Bosnia International Bank, Dubai Islamic Insurance Company, and Gulfa Mineral Water.

#### Qualification:

- B.Sc. in Mathematics and Computer Science from Gonzaga University, Spokane, USA.

## Abdullatif Abdulrahim Janahi

### Board Member

#### Experience:

- Over 60 years of experience and one of the pioneers in Islamic banking, Takaful, and Insurance/Re-Insurance industry.
- Author of number of books on the Islamic economy and Islamic insurance, prepared more than 60 studies and work papers presented at numerous events, seminars, conferences, and universities.
- Served as the first Chief Executive Officer of Bahrain Islamic Bank since its inception (1979-2002).
- Founder and Chief Executive Officer of Safwa International Consultancy (Bahrain).
- Served as a Chairman in Khaleej Finance and Investment.
- Served as a Director in the Islamic Bank of Bangladesh, Islamic Arab Bank, and Islamic Insurance and Reinsurance Company.

#### Qualification:

- Diploma in insurance.

## Abdulrahman Abdulla Mohamed

### Board Member

#### Experience:

- Over 41 years of experience in banking industry.
- Vice Chairman of Takaful International (Gulf Insurance Group) and Bahrain Middle East Bank.
- Served as General Manager at National Bank of Bahrain.
- Served as Chairman of National Motors Company
- Served as a Director in Taib Bank and Bahrain Commercial Facilities Company.

#### Qualification:

- MBA from Hull University, UK.

## Dr. Khalid Abdulla Ateeq

### Board Member

#### Experience:

- Over 39 years of experience in banking industry, finance, auditing and accounting.
- Chief Executive Officer and Board member of Family Bank.
- Board member of Al Baraka Banking Group.
- Served as Deputy Chief Executive Officer of Venture Capital Bank (2005-2012).
- Served as Executive Director of Banking Supervision at the Central Bank of Bahrain (1993-2005).
- Assistant Professor at University of Bahrain (1992-1993).

#### Qualification:

- Ph.D. in Philosophy of Accounting from Hull University, UK.

## Abdulrahman Abdulla Al Sayed

### Board Member

#### Experience:

- Over 23 years of experience in banking and regulatory industry.
- Chief Executive Officer and Board members of Itqan Financial Services.
- Chairman of Tanmeya Capital (KSA).
- Served as Director of Islamic Financial Institutions Supervision Directorate at the Central Bank of Bahrain (1998-2008).
- Served as a Director in ABC Islamic and Bahrain Saudi Bank, as an expert Audit Committee member in Al-Salam Bank.

#### Qualification:

- MBA from University of Dundee, UK.
- Passed all exams of the Certified Public Accountant (CPA) from State of California, USA.

## Board of Directors Profile (continued)

### Abdulrazzaq Abdulkhaleq Abdulla

#### Board Member

##### Experience:

- Over 41 years of experience in banking industry.
- Worked in Bahrain Islamic Bank in various executive capacities (1981-2015), last position held was Assistant General Manager of Central Operations.
- Worked in Standard Chartered Bank (1976-1981).
- Serves as a Director in the Benefit Company and Sinnad.

##### Qualification:

- Completed the Gulf Executive Program organized by Darden Business School, University of Virginia, USA.

### Adnan Abdulla Al-Bassam

#### Board Member

##### Experience:

- Over 27 years of experience in banking, auditing, and investment industry.
- Vice Chairman of Al-Bassam Investment Company.
- Worked in Bahrain Islamic Bank as the Head of Internal Audit (2000-2005).
- Worked in Ernst & Young as a Senior Accountant (1997-2000).
- Serves as a Director in Ibdar Capital and The Malls Real Estate Development Company.
- He is a member of the Board of Trustees of Gulf University.

##### Qualification:

- B.Sc. in Accounting from Southern Oregon State College, USA.
- Certified Public Accountant from Oregon State Board of Accountancy.

### Hamad Abdulla Al-Oqab

#### Chief Executive Officer & Board Member

##### Experience:

- Over 28 years of experience in banking, finance, and auditing industry.
- Chief Executive Officer of Al Baraka Islamic Bank.
- Chairman of Al Baraka Bank Lebanon and chairman of the Accounting and Auditing Standards Board of AAOIFI.
- Vice Chairman of Jordan Islamic Bank.
- Serves as a Director in Al Baraka Bank Algeria and Bahrain Association of Banks.
- Served as director in Al Baraka Turk Participation Bank and Al Baraka Egypt.
- 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).

##### Honors and Awards:

- Rewarded as "CEO of the Year 2021" from the Islamic Retail Banking Awards.

# Executive Management Profile

## Hamad Abdulla Al-Oqab

### Chief Executive Officer & Board Member

#### Experience:

- Over 28 years of experience in banking, finance, and auditing industry.
- Chief Executive Officer of Al Baraka Islamic Bank.
- Chairman of Al Baraka Bank Lebanon and chairman of the Accounting and Auditing Standards Board of AAOIFI
- Vice Chairman of Jordan Islamic Bank.
- Serves as a Director in Al Baraka Bank Algeria and Bahrain Association of Banks.
- Served as director in Al Baraka Turk Participation Bank and Al Baraka Egypt.
- 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).

#### Honors and Awards:

- Rewarded as "CEO of the Year 2021" from the Islamic Retail Banking Awards.

## Tariq Mahmood Kazim

### Deputy CEO – Business Group

#### Experience:

- Over 38 years of experience in banking, support services, telecommunications and e-commerce solutions.
- Joined the Group in April 2002.
- Vice Chairman of Al Baraka Bank Pakistan Limited, Vice Chairman of the Executive Committee, Chairman of the IT Digital Security Committee, member of NRC Committee, Chairman of the Capital Increase Committee.
- Chairman of Danaat Al Baraka Company.
- Worked in Arabian Networks, NCR and AT&T.

#### Qualification:

- B.Sc. in Systems Engineering and Analysis, King Fahad University for Petroleum and Minerals, Kingdom of Saudi Arabia.

## Khaled Mahmood Al-Ali

### 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 Gulf Executive Program organized by Darden Business School, University of Virginia, USA.

## Mohamed Abdulla Abdulrahim

### Chief Financial Officer

#### Experience:

- Over 21 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) licensed 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: 21 years

#### Experience:

- Over 21 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 Profile (continued)

### Fatima Moosa Al-Alawi Chief Retail Officer

#### Experience:

- Over 23 years of experience in retail and investment banking, product development, and digital transformation.
- Joined the Group 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 Bent Ebrahim Al-Khalifa, the President of 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 27 years of experience in banking industry.
- Joined the Group in September 2020.
- Worked in Bank ABC, 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.

### Fahad Abdulhameed Al-balooshi Chief Corporate Officer

Experience: 20 years

#### Experience:

- Over 20 years of experience in banking industry.
- Joined the Group 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.
- 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.

### Bader Isa Al Shetti Chief Compliance Officer & MLRO

#### Experience:

- Over 18 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.

### 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).

### Raeda Asghar Murad Head of Special Assets

#### Experience:

- Over 17 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.

### Duaj Khalifa Abulfateh Head of Internal Sharia Audit

#### Experience:

- Over 13 years of experience in Islamic banking and finance.
- Joined the Group 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.

**Mohammed Jasim Ebrahim**  
Head of Sharia coordination and Implementation

Experience:

- Over 13 years of experience in Islamic banking.
- 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 18 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.

**Abdulla Abdulaziz Suwaileh**  
Head of Human Resources & Administration

Experience:

- Over 13 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 five.
- Certified Trainer from International Academy for Training and Consulting (IATC).

**Salman Mahmood Sayyar**  
Chief Internal Auditor

Experience:

- Over 13 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).

**Khaled Abdulla Al-Awadhi**  
Head of Internal Control

Experience:

- Over 19 years of experience in internal control and finance.
- 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 14 years of experience in information security and technology.
- Joined the Group in April 2021.
- Worked in 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).

# Shari'a Supervisory Board's Report

Date: 28 Jumada Al-A'akher 1443 A.H.

Corresponding to: 01 February 2022

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

## Report of the Fatwa and Sharia Supervisory Board From 01.01.2021 to 31.12.2021

### 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 2021. 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 "KPMG Fakhro" 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; All of that was through an establishment of 4 meetings of SSB and supervising: ("126" documents), (audits on "1145" executed transactions), (Sharia training program for staff, trainees), ("312" new advertisement and promotional material), (Compliance Mechanism for Each of AAOIFI's New Shari'a Standards No. 59 and 61).

We also planned and supervised in order to obtain all the information and explanations that we considered necessary 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 2021 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 according to the Zakat calculation approved by us and accordingly, the zakat per share equals USD 0.341.

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 Mohamed**

Sharia Officer & Secretary of Sharia Supervisory Board

## Social Responsibility

The group continued its generous contributions and financial donations in the service of society through sponsorships and donations to charities, local clubs, and centers of scientific and religious as well as supporting needy families in the Kingdom of Bahrain.

The group has participated in Philanthropic Program, Economic Opportunities and Social Investments Program and Qard Hasan Program, under the broad title of Al Baraka Sustainability and Social Responsibility Program during 2021. The total amount contributed in Philanthropic Program was US\$489 thousand, in Education, Vocational Training and Economically Challenged Communities.






PHILANTHROPIC PROGRAM	US\$ 000
Education	19
Vocational Training	4
Economically Challenged Communities	466
<b>Total</b>	<b>489</b>

KINGDOM OF BAHRAIN Philanthropic Program Contributions US\$ 489 thousand

Total of Programs by The group (Philanthropic, Qard Hasan and Economic Opportunities & Social Investments) US\$ 489 thousand

As shown below, The group has contributed to Al Baraka Goals by funding projects with US\$ 6,645 thousand in Healthcare, US\$ 1,326 thousand in Housing and US\$ 149,337 thousand in Local Industries, Micro and SME.

### AL BARAKA GOALS (2021-2025)

AL BARAKA GOALS	5-YEAR TARGET	TARGET (2021)	ACHIEVED	ACHIEVED PERCENTAGE OF 2021 TARGET	ACHIEVED PERCENTAGE OF 5-YEAR TARGET
 Job Creation	625	125	-	0%	0%
 Education- Financing	4,973,475	US\$994,695	301,686	30%	6%
 Education- Donations	-	-	-	0%	-
 Healthcare- Financing	8,289,125	US\$1,657,825	377,610	23%	5%
 Healthcare-Donations	-	-	-	-	-
 Financing Renewable Energy	31,250,000	US\$6,250,000	-	0%	0%
 Financing Energy Efficiency	31,250,000	US\$6,250,000	-	0%	0%
Circular Economy Financing	7,000,000	US\$1,400,000	-	0%	0%
Global Graduate Program Financing	-	-	-	-	-
Agriculture Financing	5,000,000	US\$1,000,000	0	0%	0%
<b>Total</b>	<b>87,762,600</b>	<b>US\$17,552,520</b>	<b>679,296</b>	<b>4%</b>	<b>1%</b>

### ECONOMIC OPPORTUNITIES & SOCIAL INVESTMENTS PROGRAM US\$157,308

Program Contributions

Local Industries, Micro and SME	95%
Healthcare	4%
Housing	1%

Economically Challenged Communities	95%
Education	4
Vocational Training	4%

The group has given an amount of US\$633 thousand as Qard Hasan to staff and people in need.

The group participated in the Economic Opportunities and Social Investments Program by Shari'a compliant financing to the tune of US\$157,308 thousand to housing projects and education.

Development Community Projects	US\$ 000
Healthcare	6,645
Housing	1,326
Local Industries, Micro and SME	149,337
<b>Total</b>	<b>157,308</b>

The group has given an amount of US\$786 thousand as Qard Hasan to 40 to staff and people in need.

The group participated in the Economic Opportunities and Social Investments Program by Shari'a compliant financing to the tune of US\$172,242 thousand to housing projects and education.



# Consolidated Financial Statements

For the year ended 31 December 2021

## Contents

- 58 Independent Auditors' Report to the Shareholders
- 60 Consolidated Statement of Financial Position
- 61 Consolidated Statement of Income
- 62 Consolidated Statement of Changes in Owners' Equity
- 63 Consolidated Statement of Cash Flows
- 64 Consolidated Statement of Changes in off-Balance Sheet Equity of Investment Accountholders
- 65 Notes to the Consolidated Financial Statements



# Independent Auditors' Report

to the Shareholders of AL BARAKA ISLAMIC BANK B.S.C. (c)

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the accompanying consolidated financial statements of Al Baraka Islamic Bank B.S.C (c) ("the Bank") and its subsidiary (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2021 and the related consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and the consolidated results of the operations, its cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"] as modified by the Central Bank of Bahrain ("CBB") ("FAS issued by AAOIFI as modified by CBB")

In our opinion, the Bank has also complied with the Islamic Shari'ah Principles and Rules as determined by the Shari'ah Supervisory Board of the Bank during the year under audit.

### Basis for opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions (ASIFI) 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 are independent of the Group in accordance with the AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, and we have fulfilled our other ethical responsibilities in accordance with this Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other information included in the Group's 2021 Annual Report

Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Directors report which forms part of the annual report, and the remaining sections of the annual report are 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 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 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. If, based on the work we have performed, we conclude that there is a material misstatement, of this other information, we are required to report the fact. We have nothing to report in this regard.

### Responsibilities of the Board of Directors for the consolidated financial statements

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

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with FAS issued by AAOIFI as modified by CBB and for such internal control as the Board of Directors determines is necessary to enable the preparation of 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.

### 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 ASIFI 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.

## Report on the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with ASIFI issued by AAOIFI, we exercise professional judgement 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.
- 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 the audit committee 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.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

### Report on Other Regulatory Requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that:

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;
- c) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2021 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position; and
- d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The partner in charge of the audit resulting in this independent auditors report is Kazim Merchant.



Partner's registration no. 244  
22 February 2022  
Manama, Kingdom of Bahrain

# Consolidated statement of financial position

At 31 December 2021

	Notes	2021 US\$ '000	2020 US\$ '000
<b>ASSETS</b>			
Cash and balances with banks and financial institutions	3	312,606	294,877
Receivables	4	485,237	557,436
Ijara Muntahia Bittamleek and Ijara receivables	5	461,475	321,510
Musharakas	6	329,021	350,280
Investments	7	1,113,627	988,091
Investment in joint venture	8	18,700	14,631
Investments in real estate	9	9,526	9,813
Premises and equipment	10	56,361	46,338
Goodwill	11	12,722	14,050
Other assets	12	64,167	54,949
<b>TOTAL ASSETS</b>		<b>2,863,442</b>	<b>2,651,975</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND OWNERS' EQUITY</b>			
<b>LIABILITIES</b>			
Current accounts		353,429	384,137
Murabaha and other payables		243,264	185,209
Other liabilities	13	109,646	105,411
<b>TOTAL LIABILITIES</b>		<b>706,339</b>	<b>674,757</b>
<b>EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)</b>	14	<b>1,865,416</b>	<b>1,696,907</b>
<b>SUBORDINATED MUDARABA</b>	15	<b>19,439</b>	<b>12,883</b>
<b>OWNERS' EQUITY</b>			
Share capital	16	136,458	136,458
Additional tier-1 capital		111,000	111,000
Reserves		(4,747)	(2,361)
Retained earnings / (accumulated losses)		5,107	(3,502)
<b>EQUITY ATTRIBUTABLE TO PARENT'S SHAREHOLDERS</b>		<b>247,818</b>	<b>241,595</b>
Non-controlling interest		24,430	25,833
<b>TOTAL OWNERS' EQUITY</b>		<b>272,248</b>	<b>267,428</b>
<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND OWNERS' EQUITY</b>		<b>2,863,442</b>	<b>2,651,975</b>
<b>OFF-BALANCE SHEET ITEMS:</b>			
<b>EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>		<b>673,212</b>	<b>523,207</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	17	<b>500,949</b>	<b>381,608</b>

Saleh Salman Al Kawari  
Chairman

Hamad Abdulla Aloqab  
Chief Executive Officer &  
Board Member

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

# Consolidated statement of income

For the year ended 31 December 2021

	Notes	2021 US\$ '000	2020 US\$ '000
<b>INCOME FROM JOINTLY FINANCED ASSETS</b>			
Financings	18	81,657	85,981
Investments	19	16,473	11,773
<b>Income from jointly financed assets</b>		<b>98,130</b>	<b>97,754</b>
Return on equity of investment accountholders before Group's share as a Mudarib		(82,941)	(87,437)
Group's share as a Mudarib		24,374	23,676
<b>Return on equity of investment accountholders</b>		<b>(58,567)</b>	<b>(63,761)</b>
<b>Group's share as a Mudarib and Rabalmal</b>		<b>39,563</b>	<b>33,993</b>
<b>INCOME FROM SELF FINANCED ASSETS</b>			
Financings	18	6,976	9,500
Share of income / (loss) from investment in joint venture	8	4,069	(84)
Investments	19	39,689	44,587
<b>Income from self financed assets</b>		<b>50,734</b>	<b>54,003</b>
<b>INCOME FROM BANKING SERVICES AND OTHERS</b>			
Revenue from banking services	20	11,360	8,723
Other income	21	6,498	7,307
Group's mudarib / agency fee from off-balance sheet equity of investment accountholders		129	587
<b>Income from banking services and others</b>		<b>17,987</b>	<b>16,617</b>
<b>TOTAL OPERATING INCOME BEFORE OTHER FINANCING COST</b>		<b>108,284</b>	<b>104,613</b>
Other financing costs		(5,693)	(2,243)
<b>TOTAL OPERATING INCOME</b>		<b>102,591</b>	<b>102,370</b>
<b>OPERATING EXPENSES</b>			
Staff expenses		(34,540)	(32,463)
Depreciation and amortization	10	(9,946)	(4,958)
Other operating expenses	22	(28,131)	(31,812)
<b>TOTAL OPERATING EXPENSES</b>		<b>(72,617)</b>	<b>(69,233)</b>
<b>NET OPERATING INCOME</b>		<b>29,974</b>	<b>33,137</b>
Expected Credit Losses / Allowances for impairment - net	23	(17,335)	(21,358)
<b>INCOME BEFORE TAXATION</b>		<b>12,639</b>	<b>11,779</b>
Taxation	24	(45)	(4,199)
<b>INCOME FOR THE YEAR</b>		<b>12,594</b>	<b>7,580</b>
Attributable to:			
Equity Shareholders of the parent		10,088	6,032
Non-controlling interest		2,506	1,548
		<b>12,594</b>	<b>7,580</b>

Saleh Salman Al Kawari  
Chairman

Hamad Abdulla Aloqab  
Chief Executive Officer &  
Board Member

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

# Consolidated statement of changes in owners' equity

For the year ended 31 December 2021

	Equity attributable to shareholders of the parent											
	Share capital	Reserves							Retained earnings/ Accumulated losses	Total	Non-controlling interest	Total owners' equity
		Additional tier-1 capital	Statutory	General	Employee defined benefit plan	Cumulative changes in fair value of investments	Revaluation of premises and equipment	Foreign exchange				
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
Net income for the year	-	-	-	-	-	-	-	-	10,088	10,088	2,506	12,594
Allocation to statutory reserve	-	-	1,009	-	-	-	-	-	(1,009)	-	-	-
<b>Balance at 31 December 2021</b>	<b>136,458</b>	<b>111,000</b>	<b>24,840</b>	<b>8,687</b>	<b>(99)</b>	<b>4,342</b>	<b>471</b>	<b>(42,988)</b>	<b>5,107</b>	<b>247,818</b>	<b>24,430</b>	<b>272,248</b>
Balance at 1 January 2020	136,458	111,000	23,228	8,687	(59)	(1,206)	-	(34,720)	(2,010)	241,378	24,993	266,371
Cumulative changes in fair value	-	-	-	-	-	2,766	-	-	-	2,766	181	2,947
Translation of foreign currency operations	-	-	-	-	-	-	-	(1,625)	-	(1,625)	(865)	(2,490)
Remeasurement loss on defined benefit plan	-	-	-	-	(35)	-	-	-	-	(35)	(24)	(59)
Recognition of modification loss	-	-	-	-	-	-	-	-	(8,835)	(8,835)	-	(8,835)
Receipt of government grant	-	-	-	-	-	-	-	-	1,914	1,914	-	1,914
Net income for the year	-	-	-	-	-	-	-	-	6,032	6,032	1,548	7,580
Allocation to statutory reserve	-	-	603	-	-	-	-	-	(603)	-	-	-
Balance at 31 December 2020	136,458	111,000	23,831	8,687	(94)	1,560	-	(36,345)	(3,502)	241,595	25,833	267,428

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



# Consolidated statement of cash flows

For the year ended 31 December 2021

	2021 US\$ '000	2020 US\$ '000
<b>OPERATING ACTIVITIES</b>		
Net income before taxation	12,639	11,779
Adjustments for:		
Depreciation and amortization	9,946	4,958
Allowances for impairment - net	17,335	21,358
Gain on sale of premises and equipment	(41)	(165)
Share of (income) / loss from investment in joint venture	(4,069)	84
Gain on sale of investments	(3,638)	(15,951)
Unrealized loss on revaluation of investment properties	116	990
Modification loss in lieu of payments moratorium	-	(8,835)
Operating profit before changes in operating assets and liabilities	32,288	14,218
<b>Net changes in operating assets and liabilities:</b>		
Balances with central banks in mandatory reserves	(13,189)	86,678
Receivables	(35,834)	26,008
Ijara Muntahia Bittamleek and Ijara receivables	(139,116)	(41,020)
Musharakas	19,818	(115,363)
Other assets	(7,339)	5,103
Other liabilities	(19,869)	11,291
Murabaha and other payables	58,056	59,746
Current accounts	(30,708)	107,255
Equity of investment accountholders	168,509	260,060
Taxation paid	(2,055)	(649)
<b>Net cash generated from operating activities</b>	<b>30,561</b>	<b>413,327</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(373,078)	(1,069,684)
Investments sold / matured	254,232	848,241
Purchase of premises and equipment	(5,253)	(4,689)
Sale of premises and equipment	671	319
<b>Net cash used in investing activities</b>	<b>(123,428)</b>	<b>(225,813)</b>
<b>FINANCING ACTIVITIES</b>		
Receipt / (Repayment) of subordinated mudaraba	6,556	(1,784)
Receipt of government grant	-	1,914
<b>Net cash from financing activities</b>	<b>6,556</b>	<b>130</b>
Foreign currency translation adjustments	(491)	(1,504)
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(86,802)</b>	<b>186,140</b>
Cash and cash equivalents at 1 January	382,786	196,646
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER (NOTE 25)</b>	<b>295,984</b>	<b>382,786</b>

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

## Consolidated statement of changes in off-balance sheet equity of investment accountholders

For the year ended 31 December 2021

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

	Balance at 1 January 2020 US\$ '000	Net deposits / withdrawals US\$ '000	Gross income US\$ '000	Mudarib's / agency fee US\$ '000	Balance at 31 December 2020 US\$ '000
<b>2020</b>					
<b>Wakala Bi Al-Istithmar</b>					
Receivables	156,650	(156,709)	535	(476)	-
Investments	4,655	(4,659)	34	(30)	-
On balance sheet jointly financed assets	177,397	180,804	9,177	(3,234)	364,144
	338,702	19,436	9,746	(3,740)	364,144
<b>Others</b>					
Receivables	142,260	(13,231)	7,409	(81)	136,357
Investments	161,509	(138,803)	-	-	22,706
	303,769	(152,034)	7,409	(81)	159,063
	642,471	(132,598)	17,155	(3,821)	523,207

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

# Notes to the Consolidated Financial Statements

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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% (2020: 92%) owned by Al Baraka Banking Group ("Ultimate Parent").

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha financing, Ijara financing and other Shari'a 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.

### Impact of COVID-19

The outbreak of coronavirus ("COVID-19") pandemic across the globe has caused disruption to business and economic activities and uncertainties in the global economic environment. The fiscal and monetary authorities have announced several stimulus packages to the Bank's customers, which are in the process of implementation. The Bank has considered potential impacts of the current market volatility in the determination of the reported amounts of the Bank's financial and non-financial assets and are considered to represent management's best assessment based on current observable information. Markets, however, remain volatile and the recorded amounts remain sensitive to market fluctuations.

The consolidated financial statements were approved by the Board of Directors on 22 February 2022.

## 2 ACCOUNTING POLICIES

### 2.1 Basis of preparation

The consolidated financial statements are prepared on historical cost basis, except for investment in real estate, equity and debt-type instruments through statement of income, equity-type instruments through equity and land owned by the Bank (classified as premises 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.

### 2.2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB") including the recently issued CBB circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations, in particular CBB circular OG/226/2020 dated 21 June 2020 and related CBB communications, require the adoption of all Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) with two exceptions which are set out below. 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".

The two exceptions mentioned above are as follows:

- a. recognition of modification losses amounted to USD 8.8 million during 2020 on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profit in statement of changes in equity instead of profit or loss as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of FAS issued by AAOIFI.
- b. recognition of financial assistance amounted to USD 1.9 million during 2020 received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of profit or loss. This will only be to the extent of any modification loss recorded in statement of changes in equity as a result of (a) above, and the balance amount to be recognized in profit or loss. Any other financial assistance is recognised in accordance with the relevant requirements of FAS issued by AAOIFI.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.2 Statement of compliance (continued)

The above framework for basis of preparation of the consolidated financial statements is hereinafter referred to as 'FAS issued by AAOIFI as modified by CBB', which has been applied retrospectively and did not result in any change to the financial information reported for the comparative period.

The Group had provided payment holidays to certain customers on the basis of regulatory directives issued by the CBB as concessionary measures to mitigate the impact of COVID-19 and requests received. As of 31 December 2021, the outstanding balance of customers to whom such payment holidays have been provided amounted to US\$ 195 million (year ended 31 December 2020: US\$ 98 million). However, this did not result in any modification loss as these deferrals were provided to the customers at the profit rate as per the terms of original agreement.

### 2.3 Liquidity Support

During the year, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, CBB has reduced the regulatory reserve requirements from 5% to 3% and offered free of cost REPO facility.

### 2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at and for the year ended 31 December each year. The financial statements of the subsidiary is 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 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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Basis of consolidation (continued)

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

Bank	Ownership for 2021 / 2020	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2021 / 2020
<b>Held directly by the Bank</b>				
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.

#### Investment in Itqan Capital

The Bank has ownership interest of 83.07% in Itqan Capital (the "Company"). The Bank via a management agreement dated 1 July 2012 assigned the control to govern the financial and operating policies of the Company to the Ultimate Parent. The Bank has authorised the Ultimate Parent to represent it in the shareholders' meetings and to exercise control on the Company to do any or all acts and deeds and exercise all powers of the Bank pursuant to the Charter Document referred in the management agreement and or under any applicable laws.

The financial statements of the Company are not consolidated as it is controlled by the Ultimate Parent pursuant to the terms of the management agreement. The Ultimate Parent consolidates the financial statements of the Company in its consolidated financial statements which are prepared in accordance with AAOIFI standards and the same was approved by the CBB.

The investment acquired is initially recognised at cost, being the fair value of consideration given including acquisition charges associated with the investment. Subsequently, the investment is carried at cost less impairment losses, if any.

### 2.5 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted by group upon the adoption of FAS 32 are as follows:

#### 2.5.1 Adoption of FAS 32 Ijarah

This standard supersedes FAS 8 "Ijarah and Ijarah Muntahia Bittamleek". FAS 32 sets out the principles for the classification, recognition, measurement, presentation and disclosure of Ijarah type transactions including their different forms entered into by an institution, in both the capacities of lessor and lessee. This standard is effective for financial years beginning 1 January 2021, with early adoption permitted.

Under this standard, an institution, in its capacity either as lessor or lessee shall classify each of its Ijarah into a) operating Ijarah b) Ijarah Muntahia Bittamleek with expected transfer of ownership after the end of the Ijarah term – either through sale or gift; and c) Ijarah Muntahia Bittamleek with gradual transfer – with gradual transfer of ownership during the Ijarah term including Diminishing Musharaka Ijarah.

The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of the lease, a lessee will recognize an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset) and a net Ijarah liability, duly comprising of a) gross Ijarah liability and b) deferred Ijarah cost (shown as contra-liability).

The Group adopted FAS 32 using modified retrospective method and recognises lease liabilities to make lease payments and right-of-use asset representing the right to use the underlying assets on 1 January 2021. In accordance with the FAS 32, the Group has recognised the right-of-use assets and corresponding lease liability amounted to USD 14.2 million on 1 January 2021 in the consolidated financial statements.

#### a) Right-of-use asset

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use asset is measured at cost, less any accumulated amortisation and impairment losses, and adjustment for any effect of Ijarah modification or reassessment. The cost of right-of-use assets represents the fair value of total consideration paid/ payable and includes initial direct costs and any dismantling or decommissioning costs. The Group amortises the right-of-use asset from the commencement date to the end of the useful economic life of the right-of use assets which coincides with the end of the Ijarah term using a systematic basis that is reflective of the pattern of utilization of benefits from the right-of-use asset. Right-of-use asset is also subject to impairment in line with FAS 30 requirements. The carrying value of right-of-use asset is recognised under "Premises and equipment" in the consolidated statement of financial position.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.5 New standards, interpretations and amendments adopted by the Group (continued)

#### 2.5.1 Adoption of FAS 32 Ijarah (continued)

##### b) Ijarah liability

At the commencement date of the lease (i.e., the date the underlying asset is available for use), the Group recognises Ijarah liability measured at the fair value of total rentals payable for Ijarah term. After the commencement date, the amount of Ijarah liability is increased to reflect return on the Ijarah liability – by way of amortisation of deferred Ijarah cost and reduced to reflect the Ijarah rentals made. In addition, the carrying amount of Ijarah liability is remeasured if there is a modification, a change in the Ijarah term or change in the in-substance fixed lease payments. The carrying value of Ijarah liability is recognised under “Other liabilities” in the consolidated statement of financial position.

#### 2.5.2 Adoption of FAS 33 Investment in sukuk, shares and similar instruments

This standard aims at setting out principles for the classification, recognition, measurement, presentation, and disclosure of investment in sukuk, shares and other similar instruments of investments made by Islamic financial institution. The standard defines the key types of instruments of Shari’ah compliant investments and the primary accounting treatments commensurate to the characteristic and business model of institution under which the investments are made, managed and held. This standard supersedes FAS 25 “Investment in Sukuk” and is effective for financial years beginning or after 1 January 2021 with early adoption permitted. For the purpose of this standard, each investment is to be categorized as one of the below investment categories depending on its nature:

- Monetary Debt-type instrument;
- Non-monetary Debt-type instrument;
- Equity-type instrument; and
- Other investment instruments.

##### *Classification*

Unless the irrevocable initial recognition choices provided below are exercised, the Group shall classify investments subject to this standard as subsequently measured at either (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both the Group’s business model for managing investments and the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic contracts.

Unless the irrevocable initial recognition choices provided below are exercised, the Group shall classify investments subject to this standard as subsequently measured at either (i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement, on the basis of both the Group’s business model for managing investments and the expected cash flow characteristics of the investment in line with the nature of the underlying Islamic contracts.

Investment in a monetary debt-type instrument, as it reflects a debt at the back-end, shall be initially classified and measured at cost, till the time the transaction at the back-end is executed, and at amortised cost thereafter.

Investment in a non-monetary debt-type instrument or other investment instrument, may be classified under any of the three categories ((i) amortised cost, (ii) fair value through equity or (iii) fair value through income statement) depending on the Group’s business model.

Investment in equity-type instrument is carried as investment at fair value through income statement unless the Group make an irrevocable classification choice at initial recognition to classify this as investment at fair value through equity. An investment held for trading purposes shall always fall in fair value through income statement classification.

##### *Recognition and Initial measurement*

All investment shall be initially recognized at their value plus transaction costs except for investments at fair value through income statement. Transaction costs relating to investments at fair value through income statement are charged to the consolidated statement of income when incurred. A regular way purchase of investments shall be recognized upon the transfer of control to investor.

##### *Subsequent measurement*

##### a) Investments at amortised cost

Investments carried at amortised cost shall be re-measured as such using the effective profit rate method. All gains or losses arising from the amortization process and those arising from de-recognition or impairment of the investment, are recognized in the consolidated statement of income. Investment carried at amortised cost shall be tested for impairment at each reporting period in accordance with FAS 30 “Impairment, credit losses and onerous commitments”.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.5 New standards, interpretations and amendments adopted by the Group (continued)

#### 2.5.2 FAS 33 Investment in sukuk, shares and similar instruments (FAS 33) (continued)

##### b) Investments at fair value through income statement

Investment carried at fair value through income statement shall be re-measured at fair value at end of each reporting period. The resultant remeasurement gain or loss, if any being the difference between the carrying amount and the fair value shall be recognized in the consolidated statement of income.

##### c) Investments at fair value through equity

Investment carried at fair value through equity shall be re-measured at fair value at the end of each reporting period. The resultant re-measurement gain or loss, if any, being the difference between the carrying amount and the fair value shall be directly recognized in equity under "fair value through equity reserve". Investment carried at fair value through equity shall be tested for impairment at each reporting period in accordance with FAS 30 "Impairment, credit losses and onerous commitments".

#### Reclassification

When, and only when, the Group changes its business model for managing investments, it shall reclassify all affected financial assets prospectively from the reclassification date. In case of reclassification, the Group shall not restate any previously recognized gains, losses (including impairment gains or losses) or returns/ profits.

#### 2.5.3 FAS 35 Risk Reserves

This standard defines the accounting and financial reporting principles for risk reserves to be in line with global best practices for accounting and risk management. This standard complements FAS 30 "Impairment, Credit Losses and Onerous Commitments". Both standards FAS 35 & FAS 30 together supersede the earlier FAS 11 "Provisions and Reserves". This standard is effective beginning on 1 January 2021 and the adoption of this standard does not have any impact on the Group's consolidated financial statements.

### 2.6 New standards, amendments and interpretations issued but not yet effective

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

#### 2.6.1 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 Shari'ah principles and rules. This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted.

The Board of Directors does not expect the above accounting standard to have an impact on the consolidated financial statements of the Group.

#### 2.6.2 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 Shari'ah compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions (the institutions). This standard shall be effective for the financial periods beginning on or after 1 January 2022 with early adoption permitted.

'The Group's management is currently assessing the impact of the above standard on the consolidated financial statements of the Group. "

### 2.7 Summary of accounting policies

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

#### 2.7.1 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.7 Summary of accounting policies (continued)

#### 2.7.2 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.

#### 2.7.3 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.

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 for these financing with the PD set at 100%."

##### 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.7 Summary of accounting policies (continued)

#### Credit-impaired financial assets (continued)

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'.

#### 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:"

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.7 Summary of accounting policies (continued)

#### Loss Given Default (continued)

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.

#### 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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.7 Summary of accounting policies (continued)

#### 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:

##### From Stage 2 to stage 1

- 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.

#### 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.7 Summary of accounting policies (continued)

#### 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.

#### 2.7.4 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.

#### 2.7.5 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.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.7 Summary of accounting policies (continued)

#### **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.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.7 Summary of accounting policies (continued)

#### 2.7.7 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:

- (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.

#### 2.7.8 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.

#### 2.7.9 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.

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

#### 2.7.10 Investment risk reserve

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

#### 2.7.11 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 account holders.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.7 Summary of accounting policies (continued)

#### 2.7.12 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.

#### 2.7.13 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.

##### *Rental income*

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.7 Summary of accounting policies (continued)

#### 2.7.14 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].

#### 2.7.15 Investment pool expenses

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

#### 2.7.16 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.

#### 2.7.17 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."

#### 2.7.18 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) 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

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.7 Summary of accounting policies (continued)

#### 2.7.19 Earnings prohibited by Shari'a

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.

#### 2.7.20 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.

#### 2.7.21 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.

#### 2.7.22 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 Shari'a Supervisory Board Report.

#### 2.7.23 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".

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.7 Summary of accounting policies (continued)

#### 2.7.24 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.

#### 2.7.25 Shari'a supervisory board

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

#### 2.7.26 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.

#### 2.7.27 Investment agency (Al-Wakala Bi Al-Istithmar)

##### a) Wakala as Muwakkil (Principal)

At the inception of the transaction, the Bank as "principal / (investor)" shall evaluate the nature of investment as either:

- i. pass-through investment; or
- ii. Wakala venture.

##### i. Pass through Investment

A pass-through investment is an investment in which the involvement of the agent, as well as, the options for transferability of the instrument are limited and the investor principally takes a direct exposure on the underlying assets. On initial recognition, the asset shall be recognized underlying the Wakala arrangement applying the initial recognition principles as applicable in line with respective FAS, and in absence thereof, in line with the generally accepted accounted principles applicable to such balances.

##### ii. Wakala Venture

These are investments, under a Wakala agency contract, in transferable instruments or the investment made in a single asset (or pool of assets) where such asset(s) are subject to frequent changes throughout the term of the contract i.e. there are routine changes or replacements over the term of arrangement (unless it constitutes a business) at the discretion of the agent; or the role of the agent is not limited whereby the agent performs day-to-day asset management function and, where applicable, is also responsible for replacement of assets or recoveries against them. On initial recognition, these assets will be recognized at cost in Wakala Venture. Subsequently, the carrying amount is adjusted to incorporate gains/ losses net of agent's remuneration and impairments, if any.

##### b) Wakala as Wakeel (Agent)

##### i) Off Balance Sheet Approach

These transaction will be recognized as an agency arrangement under off-balance sheet approach whereby, at inception of arrangement, since the Bank does not control the related assets / business, it does not record the assets and related income and expenditure in its books of account.

The agency remuneration, including fixed and variable components thereof, will be recognized on an accrual basis i.e. when the relevant services are provided. Any expenses, including losses reimbursable will be recognized when due.

##### ii) Multi level arrangements

The Bank maintains multi-level investment arrangements to invest funds received under "Wakala "to invest as "Mudaraba" in jointly financed assets. The funds invested under such arrangements are recorded and disclosed as "On Balance Sheet Equity Accountholders" in consolidated statement of financial position.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 2 ACCOUNTING POLICIES (continued)

### 2.8 Judgements and estimates

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. 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. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

## 3 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

		2021 US\$ '000	2020 US\$ '000
Cash in hand		33,564	44,349
Balances with State Bank of Pakistan			
Current account		4,748	3,245
Mandatory reserves	3.1	67,551	55,643
		72,299	58,888
Balances with CBB			
Current account		885	9,119
Mandatory reserves	3.1	18,663	17,382
		19,548	26,501
Balances with other banks and financial institutions		187,195	165,139
		312,606	294,877

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

For the year ended 31 December 2021

### 4 RECEIVABLES

	2021			2020		
	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	-	69,611	69,611	-	161,018	161,018
Salam financing	-	55,383	55,383	-	61,202	61,202
Istisna'a financing	-	149,879	149,879	-	133,087	133,087
Murabaha	1,125	299,801	300,926	1,418	248,050	249,468
Bills receivable and others	-	14,270	14,270	-	34,040	34,040
Gross receivables	1,125	588,944	590,069	1,418	637,397	638,815
Deferred profits (4.1)	-	(28,991)	(28,991)	(54)	(18,191)	(18,245)
	1,125	559,953	561,078	1,364	619,206	620,570
Allowances for expected credit losses (4.2)	(13)	(75,828)	(75,841)	(372)	(62,762)	(63,134)
Net receivables	1,112	484,125	485,237	992	556,444	557,436

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.

	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

	2020			
	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)	160,099	21,856	-	181,955
Satisfactory (5-7)	238,789	108,445	-	347,234
Default (8-10)	-	-	91,381	91,381
	398,888	130,301	91,381	620,570

During the year ended 31 December 2020, the modification loss amounted to USD 2.5 million was recorded in equity on payment holiday provided to eligible customers impacted by COVID 19 Pandemic against such receivables.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 4 RECEIVABLES (continued)

### 4.1 Movements in deferred profit from murabaha contracts:

	2021 US\$ '000	2020 US\$ '000
Deferred profit at the beginning of the year	18,105	19,158
Murabaha sales revenue during the year	1,153,646	225,319
Murabaha cost of sales	(1,129,042)	(217,003)
Profit accrued during the year	(12,437)	(9,369)
Deferred profit written off during the year	(1,171)	-
Exchange Differences	(268)	-
<b>Deferred profit at the end of the year</b>	<b>28,833</b>	<b>18,105</b>

### 4.2 Allowances for expected credit losses

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

	2021			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit- impaired	Stage 3: Lifetime ECL credit-impaired	Total
	US\$ '000	US\$ '000	US\$ '000	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
FX translation	(46)	(55)	(3,403)	(3,504)
<b>Balance at 31 December</b>	<b>2,075</b>	<b>8,145</b>	<b>65,621</b>	<b>75,841</b>

	2020			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit- impaired	Stage 3: Lifetime ECL credit-impaired	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 1 January	928	10,217	41,586	52,731
Changes during the year:				
- transferred to Stage 1: 12 month ECL	11	(5)	(6)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(5)	6	(1)	-
- transferred to Stage 3: Lifetime ECL not credit-impaired	-	(33)	33	-
Net remeasurement of loss allowance	450	4,243	11,266	15,959
Recoveries	-	-	(342)	(342)
	456	4,211	10,950	15,617
Reclassification from Wakala Pool	184	264	-	448
Amounts written off during the year	-	-	(4,690)	(4,690)
FX translation	(13)	(26)	(933)	(972)
<b>Balance at 31 December</b>	<b>1,555</b>	<b>14,666</b>	<b>46,913</b>	<b>63,134</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES

	2021			2020		
	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)	26,536	400,964	427,500	24,418	258,613	283,031
Ijara receivables (5.2)	9,150	33,690	42,840	12,272	36,200	48,472
	<b>35,686</b>	<b>434,654</b>	<b>470,340</b>	<b>36,690</b>	<b>294,813</b>	<b>331,503</b>
Allowance for expected credit losses (5.3)	(318)	(8,547)	(8,865)	(382)	(9,611)	(9,993)
	<b>35,368</b>	<b>426,107</b>	<b>461,475</b>	<b>36,308</b>	<b>285,202</b>	<b>321,510</b>

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.

	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
	<b>445,594</b>	<b>6,047</b>	<b>18,699</b>	<b>470,340</b>

	2020			
	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)	291,116	230	-	291,346
Satisfactory (5-7)	5,279	8,269	-	13,548
Default (8-10)	-	-	26,609	26,609
	<b>296,395</b>	<b>8,499</b>	<b>26,609</b>	<b>331,503</b>

During the year ended 31 December 2020, the modification loss amounted to USD 6.3 million was recorded in equity on payment holiday provided to eligible customers impacted by COVID 19 Pandemic against such Ijara Muntahia Bittamleek.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

### 5.1 Ijara muntahia bittamleek

	2021			2020		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
<b>Land and building</b>						
Cost	-	476,420	476,420	-	331,741	331,741
Accumulated depreciation	-	(79,330)	(79,330)	-	(74,916)	(74,916)
Net book value	-	397,090	397,090	-	256,825	256,825
<b>Equipment</b>						
Cost	35,556	8,846	44,402	42,090	1,174	43,264
Accumulated depreciation	(9,020)	(5,230)	(14,250)	(17,672)	(965)	(18,637)
Net book value	26,536	3,616	30,152	24,418	209	24,627
<b>Others</b>						
Cost	-	632	632	-	8,240	8,240
Accumulated depreciation	-	(374)	(374)	-	(6,661)	(6,661)
Net book value	-	258	258	-	1,579	1,579
<b>TOTAL</b>						
Cost	35,556	485,898	521,454	42,090	341,155	383,245
Accumulated depreciation	(9,020)	(84,934)	(93,954)	(17,672)	(82,542)	(100,214)
Net book value	26,536	400,964	427,500	24,418	258,613	283,031

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)

### 5.2 Ijara receivables

	2021			2020		
	Self financed	Jointly financed	Total	Self financed	Jointly financed	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Ijara receivables	9,150	33,690	42,840	12,272	36,200	48,472
	9,150	33,690	42,840	12,272	36,200	48,472

### 5.3 Allowances for expected credit losses

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

	2021			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit- impaired	Stage 3: Lifetime ECL credit-impaired	Total
	US\$ '000	US\$ '000	US\$ '000	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)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	-	-	-
Net remeasurement of loss allowance	(403)	(721)	479	(645)
Recoveries / write-backs	-	-	(207)	(207)
Allowances for credit losses	(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

	2020			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit- impaired	Stage 3: Lifetime ECL credit-impaired	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Balance at 1 January	173	564	7,127	7,864
Changes during the year:				
- transferred to Stage 1: 12 month ECL	54	(16)	(38)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(4)	366	(362)	-
- - transferred to Stage 3: Lifetime ECL credit-impaired	-	(54)	54	-
Net remeasurement of loss allowance	671	(631)	2,367	2,407
Recoveries / write-backs	-	-	(186)	(186)
Allowances for credit losses	721	(335)	1,835	2,221
Amounts written off during the year	-	-	(2)	(2)
FX translation	-	(2)	(88)	(90)
Balance at 31 December	894	227	8,872	9,993

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 6 MUSHARAKAS

	2021			2020		
	Self financed	Jointly financed	Total	Self financed	Jointly financed	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Musharakas	52,870	286,354	339,224	33,642	326,712	360,354
Allowance for expected credit losses (6.1)	-	(10,203)	(10,203)	-	(10,074)	(10,074)
	<b>52,870</b>	<b>276,151</b>	<b>329,021</b>	<b>33,642</b>	<b>316,638</b>	<b>350,280</b>

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.

	2021			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit- impaired	Stage 3: Lifetime ECL credit-impaired	Total
	US\$ '000	US\$ '000	US\$ '000	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
	<b>264,040</b>	<b>63,459</b>	<b>11,725</b>	<b>339,224</b>

	2020			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit- impaired	Stage 3: Lifetime ECL credit-impaired	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Good (1-4)	204,034	99,052	-	303,086
Satisfactory (5-7)	16,236	30,527	-	46,763
Default (8-10)	-	-	10,505	10,505
	<b>220,270</b>	<b>129,579</b>	<b>10,505</b>	<b>360,354</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 6 MUSHARAKAS (continued)

### 6.1 Allowances for expected credit losses

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	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

	2020			
	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	1,117	1,533	5,090	7,740
Changes during the year:				
- transferred to Stage 2: Lifetime ECL not credit-impaired	(264)	264	-	-
Net remeasurement of loss allowance	827	996	1,132	2,955
Recoveries / write-backs	-	-	(379)	(379)
	563	1,260	753	2,576
FX translation	(35)	(48)	(159)	(242)
Balance at 31 December	1,645	2,745	5,684	10,074

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 7 INVESTMENTS

	2021			2020		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
<b>i) Debt-type instruments at fair value through statement of income</b>						
<b>Quoted</b>						
Sukuk	-	33,653	33,653	-	3,389	3,389
<b>ii) Debt-type instruments at amortised cost (Note 7.1)</b>						
<b>Quoted</b>						
Sukuk	555,383	330,256	885,639	475,244	277,170	752,414
<b>Unquoted</b>						
Sukuk	15,239	77,093	92,332	35,643	101,728	137,371
	570,622	407,349	977,971	510,887	378,898	889,785
Allowances for expected credit losses	(328)	(117)	(445)	(644)	(35)	(679)
	570,294	407,232	977,526	510,243	378,863	889,106
<b>iii) Equity-type instruments at fair value through statement of income</b>						
<b>Quoted</b>						
Listed equity shares	-	-	-	-	34	34
<b>iv) Equity-type instruments at fair value through equity - note (Note 7.2)</b>						
<b>Quoted</b>						
Listed equity shares	30,276	306	30,582	30,764	350	31,114
<b>Unquoted</b>						
Unlisted equity shares	63,260	442	63,702	63,333	327	63,660
Managed funds	1,000	-	1,000	1,000	-	1,000
Real estate funds	1,636	11,146	12,782	1,636	4,342	5,978
	96,172	11,894	108,066	96,733	5,019	101,752
Provision for impairment	(5,196)	(422)	(5,618)	(5,723)	(467)	(6,190)
	90,976	11,472	102,448	91,010	4,552	95,562
<b>Total investments</b>	<b>661,270</b>	<b>452,357</b>	<b>1,113,627</b>	<b>601,253</b>	<b>386,838</b>	<b>988,091</b>

Within unquoted investments which are held at fair value through equity are investments amounting to US \$ 73.7 million (2020: US\$ 67.5 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 primarily in closely-held companies located in the Gulf Co-operation Council ("GCC"). 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.

The Group's investments in sukuk held at amortised cost amounting to US \$ 1,011.2 million (2020: US\$ 892.5 million) has a fair value amounting to US\$ 1,012.1 million (2020: US \$ 893.9 million).

Investments stated at a carrying amount of US \$ 496.0 million (2020: US \$ 438.9 million) are placed in custody of a financial institution to secure a financing line.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 7 INVESTMENTS (continued)

### 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.

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

	2020		
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit- impaired	Total
	US\$ '000	US\$ '000	US\$ '000
Good (1-4)	371,394	-	371,394
Satisfactory (5-7)	483,083	35,308	518,391
	<b>854,477</b>	<b>35,308</b>	<b>889,785</b>

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

	2021		
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit- impaired	Total
	US\$ '000	US\$ '000	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)
Amounts written off during the year	(2)	-	(2)
Balance at 31 December	<b>445</b>	<b>-</b>	<b>445</b>

	2020		
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit- impaired	Total
	US\$ '000	US\$ '000	US\$ '000
Balance at 1 January	298	-	298
Changes during the year:			
Net remeasurement of loss allowance	159	223	382
	159	223	382
FX translation	(1)	-	(1)
Balance at 31 December	<b>456</b>	<b>223</b>	<b>679</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 7 INVESTMENTS (continued)

### 7.2 Provision for impairment on equity type investments

	2021 US\$ '000	2020 US\$ '000
Balance at 1 January	6,190	5,812
Charges for the year	836	1,193
Reversal for the year	(1,099)	(702)
Exchange difference	(309)	(113)
Balance at 31 December	5,618	6,190

## 8 INVESTMENT IN JOINT VENTURE

	2021 US\$ '000	2020 US\$ '000
Balance at 1 January	14,631	14,715
Net share of income / (loss) for the year	4,069	(84)
Balance at 31 December	18,700	14,631

Name	Nature of Business	Ownership	
		2021	2020
Danaat Al-Baraka	Real estate development	51%	51%

### Summarised statement of financial position

	2021 US\$ '000	2020 US\$ '000
Non-current assets	23,218	44,038
Current assets	15,738	152
Term liabilities	-	(11,406)
Current liabilities	(2,291)	(4,097)
Net assets	36,665	28,687
Group's ownership in equity	18,700	14,631
Net carrying amount	18,700	14,631

### Summarised statement of profit and loss

	2020 US\$ '000	2019 US\$ '000
Total income	8,716	1
Total expenses	(738)	(165)
Total comprehensive income / (loss)	7,978	(164)
Group's net share of profit / (loss)	4,069	(84)

## 9 INVESTMENTS IN REAL ESTATE

	2021 US\$ '000	2020 US\$ '000
Balance at 1 January	9,813	15,358
Disposals during the year	(171)	(4,555)
Unrealized loss on remeasurement	(116)	(990)
Balance at 31 December	9,526	9,813

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 2021	36,612	20,704	36,015	755	94,086
Additions (10.1)	24,106	3,269	926	32	28,333
Revaluation (10.2)	926	-	-	-	926
Disposals	(1,741)	(7,528)	(10,525)	(254)	(20,048)
Exchange difference	(3,090)	(951)	(1,278)	(47)	(5,366)
<b>At 31 December 2021</b>	<b>56,813</b>	<b>15,494</b>	<b>25,138</b>	<b>486</b>	<b>97,931</b>
Accumulated depreciation:					
At 1 January 2021	12,348	14,791	26,090	503	53,732
Depreciation for the year	5,705	1,339	2,842	60	9,946
Related to disposals	(1,121)	(7,528)	(10,516)	(254)	(19,419)
Exchange difference	(1,011)	(668)	(987)	(23)	(2,689)
<b>At 31 December 2021</b>	<b>15,921</b>	<b>7,934</b>	<b>17,429</b>	<b>286</b>	<b>41,570</b>
Net book values:					
<b>At 31 December 2021</b>	<b>40,892</b>	<b>7,560</b>	<b>7,709</b>	<b>200</b>	<b>56,361</b>
At 31 December 2020	30,248	5,913	9,925	252	46,338
Estimated useful life for calculation of depreciation	20-30 years	4-5 years	1-10 years	4-5 years	1-10 years

10.1 Additions includes right-of-use assets recognized by Group on adoption of FAS 32 Ijarah on 1 January 2021 amounted to USD 14.2 million.

10.2 The Group carries its lands at fair value and engaged an independent valuation specialist to assess fair values as at 31 December 2021 for land in Middle East and other South Asian countries.

The increase in the carrying amount of lands has been recognized in the statement of changes in equity and the decrease in the amount of lands has been recognized in the statement of income.

Deferred taxes related to the revaluation of lands have been calculated at the tax rate of the jurisdiction in which they located.

## 11 GOODWILL

	2021 US\$ '000	2020 US\$ '000
Balances at 1 January	14,050	14,502
Foreign exchange translation	(1,328)	(452)
<b>Balance at 31 December</b>	<b>12,722</b>	<b>14,050</b>

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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 12 OTHER ASSETS

	2021 US\$ '000	2020 US\$ '000
Collaterals pending sale	13,319	14,380
Deferred tax (12.1)	18,779	19,781
Advance against capital expenditure	3,922	6,206
Accounts receivable	21,898	13,570
Advance tax	575	667
Income receivable	61	358
Prepayments	3,025	1,753
Others	4,859	686
<b>Total</b>	<b>66,438</b>	<b>57,401</b>
Provision for impairment	(2,271)	(2,452)
	<b>64,167</b>	<b>54,949</b>

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

	2021 US\$ '000	2020 US\$ '000
Accounts payable	30,549	13,300
Margins received	21,615	36,038
Security deposit against Ijara Muntahia Bittamleek	910	1,890
Bills payable	27,151	30,740
Provision for employees benefits	9,912	7,001
Charity fund	624	805
Allowance for expected credit losses-unfunded facilities	718	368
Operating Ijarah liability	11,306	-
Others	6,861	15,269
	<b>109,646</b>	<b>105,411</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 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 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.

	2021	2020
	US\$ '000	US\$ '000
IAH - Non-banks	1,371,711	1,328,868
IAH - Banks	493,294	367,695
Profit equalisation reserve (note 14.1)	411	344
	<b>1,865,416</b>	<b>1,696,907</b>

### 14.1 Movement in profit equalisation reserve

	2021	2020
	US\$ '000	US\$ '000
Balance at 1 January	344	229
Amount apportioned from income allocable to equity of investment accountholders	67	115
Balance at 31 December	<b>411</b>	<b>344</b>

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 \$ 8.1 million (2020: US \$ 14.1 million) to equity of investment account holders for the year ended 31 December 2021.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

### 14.2 Equity of Investment Accountholders by maturity

	2021 US\$'000	2020 US\$'000
Saving Accounts	801,929	739,187
One Month Investment Account	183,648	109,179
Three Months Investment Account	255,407	225,324
Six Months Investment Account	90,097	54,051
Nine Months Investment Account	4,366	34,305
1 Year Investment Account	482,731	475,720
2 Years Investment Account	5,438	7,548
3 Years Investment Account	25,003	33,452
4 Years Investment Account	-	19
5 Years Investment Account	16,797	18,122
	<b>1,865,416</b>	<b>1,696,907</b>

### 14.3 Equity of Investment Accountholders by type

	2021 US\$'000	2020 US\$'000
Accounts on demand	801,929	739,187
Accounts on a contractual basis *	1,063,487	957,720
	<b>1,865,416</b>	<b>1,696,907</b>

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

## 15 SUBORDINATED MUDARABA

	2021 US\$'000	2020 US\$'000
Subordinated Mudaraba	19,439	12,883
	<b>19,439</b>	<b>12,883</b>

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

During the year first issue of AL Baraka Pakistan Limited Tier 2 Sukuk has matured having an interest rate of 6 M Kibor + 1.25% followed to an second issuance of same.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 16 OWNERS' EQUITY

	2021	2020
	US\$ '000	US\$ '000
<i>(i) Share capital</i>		
Authorised 6,000,000 ordinary shares (2020: 6,000,000) of US\$ 100 each	600,000	600,000
Issued and fully paid 1,364,578 ordinary shares (2020: 1,364,578) of US \$ 100 each	136,458	136,458

Additional information on shareholding pattern:

Names and nationalities of the major shareholder having an interest of 5% or more are as follows:

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

Name	2020		
	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:

	2021			2020		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	outstanding shares
Less than 1%	58,823	12	4.31%	58,823	12	4.31%
1% up to less than 5%	50,000	1	3.66%	50,000	1	3.66%
	108,823	13	7.97%	108,823	13	7.97%

### *(ii) Additional Tier 1 (AT1) Capital*

	2021	2020
	US\$ '000	US\$ '000
Subordinated Mudaraba debt	111,000	111,000

The Bank held additional tier 1 capital (subordinated mudaraba) amounted to USD 111 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 30 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 \$ 30 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

For the year ended 31 December 2021

## 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

	2021 US\$ '000	2020 US\$ '000
Letters of credit	108,005	106,072
Guarantees	108,823	60,765
Foreign exchange contracts	262,447	201,936
Acceptances	16,448	11,312
Taxation	5,200	1,443
Others	26	80
	<b>500,949</b>	<b>381,608</b>

## 18 INCOME FROM FINANCINGS

	2021 US\$ '000	2020 US\$ '000
Sales and other receivables	30,004	46,172
Ijarah Muntahia Bittamleek	22,002	15,490
Musharakas	36,627	33,819
	<b>88,633</b>	<b>95,481</b>

	2021 US\$ '000	2020 US\$ '000
Income from jointly financed financings	81,657	85,981
Income from self financed financings	6,976	9,500
	<b>88,633</b>	<b>95,481</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 19 INCOME FROM INVESTMENTS

	2021 US\$ '000	2020 US\$ '000
Yield, coupon or return on investments	44,487	39,741
Gain on sale of investments	3,638	15,950
Dividends	6,570	2,438
Gain/ (loss) on disposal and revaluation of investment properties	1,288	(1,846)
Rental Income	179	77
	<b>56,162</b>	<b>56,360</b>
	2021 US\$ '000	2020 US\$ '000
Income from jointly financed investments	16,473	11,773
Income from self financed investments	39,689	44,587
	<b>56,162</b>	<b>56,360</b>

## 20 REVENUE FROM BANKING SERVICES

	2021 US\$ '000	2020 US\$ '000
Fees and commissions	8,077	5,981
Letters of credit and acceptances	2,550	2,220
Guarantees	733	522
	<b>11,360</b>	<b>8,723</b>

## 21 OTHER INCOME

	2021 US\$ '000	2020 US\$ '000
Foreign exchange gain - net	5,257	6,134
Others	1,241	1,173
	<b>6,498</b>	<b>7,307</b>

## 22 OTHER OPERATING EXPENSES

	2021 US\$ '000	2020 US\$ '000
Administrative expenses	5,901	6,931
Premises costs	5,302	10,366
Business expenses	15,686	13,344
General expenses	1,242	1,171
	<b>28,131</b>	<b>31,812</b>

## 23 EXPECTED CREDIT LOSSES / ALLOWANCES FOR IMPAIRMENT - NET

	2021 US\$ '000	2020 US\$ '000
Receivables (note 4)	(16,692)	(15,617)
Ijara Muntahia Bittamleek and Ijara Receivables (note 5)	852	(2,221)
Musharakas (note 6)	(1,080)	(2,576)
Investments at amortized cost (note 7)	232	(382)
Investments at fair value through equity (note 7.2)	263	(491)
Contingencies and commitments	(366)	(53)
Others (23.1)	(544)	(18)
	<b>(17,335)</b>	<b>(21,358)</b>

23.1 Others mainly includes the revaluation loss on land owned by the Group amounted to USD 342 thousand (2020: Nil)

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 24 TAXATION

	2021 US\$ '000	2020 US\$ '000
Taxation relates to subsidiary in Pakistan and comprise:		
<b>Consolidated statement of financial position:</b>		
Advance tax - net	575	667
Deferred tax	18,779	19,781
<b>Consolidated statement of income:</b>		
Current tax	(1,110)	(2,009)
Deferred tax	1,065	(2,190)
	(45)	(4,199)

## 25 CASH AND CASH EQUIVALENTS

	2021 US\$ '000	2020 US\$ '000
For the purpose of cash flows, cash and cash equivalents represent:		
Cash in hand	33,564	44,349
Balances with central banks (unrestricted accounts)	5,633	12,364
Balances with other banks and financial institutions	187,195	165,139
Receivables, commodities and wakala placements (with an original maturity of 90 days or less)	69,592	160,934
	295,984	382,786

## 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, Shari'a supervisory board and external auditors.

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

	Parent and Other Shareholders		Other Related Parties		Total	
	2021 US\$ '000	2020 US\$ '000	2021 US\$ '000	2020 US\$ '000	2021 US\$ '000	2020 US\$ '000
<b>Assets:</b>						
Cash and balances with banks and financial institutions	6	5	903	5,105	909	5,110
Receivables	-	-	5,442	17,636	5,442	17,636
Musharaka	-	-	1,433	1,717	1,433	1,717
Investments	22,820	20,197	88,155	79,036	110,975	99,233
Other assets	8,900	6,824	537	430	9,437	7,254
	31,726	27,026	96,470	103,924	128,196	130,950
<b>Liabilities:</b>						
Current account	5,890	12,866	2,988	30,562	8,878	43,428
Other liabilities	4	97	1,765	901	1,769	998
	5,894	12,963	4,753	31,463	10,647	44,426
<b>Equity of investment accountholders</b>	36,326	7,224	18,970	42,988	55,296	50,212
<b>Off-balance sheet equity of investment accountholders</b>	41,389	30,835	117,139	125,939	158,528	156,774
<b>Contingencies and commitments</b>	2,172	2	10,330	30,914	12,502	30,916

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 26 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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

	Parent and Other Shareholders		Other Related Parties		Total	
	2021	2020	2021	2020	2021	2020
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Income from jointly financed sales	-	-	373	318	373	318
Income from jointly financed, other financings and investments	-	-	103	58	103	58
Other income	319	319	41	-	360	319
investment accountholders	-	-	-	42	-	42
	319	319	517	418	836	737
<b>Expenses</b>						
Return on equity of investment accountholders before Group's share as a Mudarib	48	21	818	1,727	866	1,748
Other expenses	349	349	2,674	2,672	3,023	3,021
	397	370	3,492	4,399	3,889	4,769

Compensation of key management personnel is as follows:

	2021	2020
	US\$ '000	US\$ '000
Salaries	4,594	4,047
Other benefits	1,942	1,727
	6,536	5,774

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 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 2021 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
<b>Assets</b>										
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
<b>Total assets</b>	<b>603,553</b>	<b>128,098</b>	<b>59,218</b>	<b>252,959</b>	<b>756,507</b>	<b>509,932</b>	<b>193,313</b>	<b>57,964</b>	<b>301,898</b>	<b>2,863,442</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS SUBORDINATED DEBT AND OWNERS' EQUITY</b>										
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
<b>Total liabilities</b>	<b>490,305</b>	<b>103,721</b>	<b>35,357</b>	<b>53,156</b>	<b>2,337</b>	<b>21,463</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>706,339</b>
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
<b>Total owners' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>272,248</b>	<b>272,248</b>
<b>Total liabilities, equity of investment accountholders, subordinated mudaraba and owner's equity</b>	<b>1,732,419</b>	<b>340,822</b>	<b>240,669</b>	<b>156,333</b>	<b>37,650</b>	<b>59,971</b>	<b>23,330</b>	<b>-</b>	<b>272,248</b>	<b>2,863,442</b>
<b>Net gap</b>	<b>(1,128,866)</b>	<b>(212,724)</b>	<b>(181,451)</b>	<b>96,626</b>	<b>718,857</b>	<b>449,961</b>	<b>169,983</b>	<b>57,964</b>	<b>29,650</b>	<b>-</b>
<b>Cumulative net gap</b>	<b>(1,128,866)</b>	<b>(1,341,590)</b>	<b>(1,523,041)</b>	<b>(1,426,415)</b>	<b>(707,558)</b>	<b>(257,597)</b>	<b>(87,614)</b>	<b>(29,650)</b>	<b>-</b>	<b>-</b>
<b>Off-balance sheet equity of investment accountholders</b>	<b>38,010</b>	<b>141,177</b>	<b>230,540</b>	<b>87,448</b>	<b>76,037</b>	<b>100,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>673,212</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 27 RISK MANAGEMENT (continued)

### a) Liquidity risk (continued)

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2020 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
<b>Assets</b>										
Cash and balances with banks and financial institutions	221,852	-	-	-	-	-	-	-	73,025	294,877
Receivables	273,687	120,568	38,518	38,184	16,919	6,693	429	702	61,736	557,436
Ijara Muntahia Bittamleek and Ijara Receivables	6,264	27,960	14,337	42,396	35,889	56,260	97,706	22,548	18,150	321,510
Musharakas	-	76,596	9,446	106,106	103,520	34,323	13,188	-	7,101	350,280
Investments	71,779	-	78,108	22,253	415,633	310,104	630	1,000	88,584	988,091
Investments in real estate	-	-	-	9,813	-	-	-	-	-	9,813
Investment in Joint Venture	-	-	-	-	-	-	-	-	14,631	14,631
Premises and equipment	-	-	-	-	-	-	-	-	46,338	46,338
Goodwill	-	-	-	-	-	-	-	-	14,050	14,050
Other assets	17,379	2,782	1,952	7,245	20,881	21	-	-	4,689	54,949
<b>Total assets</b>	<b>590,961</b>	<b>227,906</b>	<b>142,361</b>	<b>225,997</b>	<b>592,842</b>	<b>407,401</b>	<b>111,953</b>	<b>24,250</b>	<b>328,304</b>	<b>2,651,975</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS SUBORDINATED DEBT AND OWNERS' EQUITY</b>										
Current accounts	384,137	-	-	-	-	-	-	-	-	384,137
Murabaha and other payables	28,380	87,097	28,332	41,400	-	-	-	-	-	185,209
Other liabilities	101,820	2,377	374	840	-	-	-	-	-	105,411
<b>Total liabilities</b>	<b>514,337</b>	<b>89,474</b>	<b>28,706</b>	<b>42,240</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>674,757</b>
Equity of investment accountholders	895,910	151,958	318,639	161,664	82,500	64,677	21,559	-	-	1,696,907
Subordinated debts	2,605	-	894	-	9,384	-	-	-	-	12,883
<b>Total owners' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>267,428</b>	<b>267,428</b>
<b>Total liabilities, Equity of investment accountholders, subordinate debts and owner's equity</b>	<b>1,412,852</b>	<b>241,432</b>	<b>348,239</b>	<b>203,904</b>	<b>91,884</b>	<b>64,677</b>	<b>21,559</b>	<b>-</b>	<b>267,428</b>	<b>2,651,975</b>
<b>Net gap</b>	<b>(821,891)</b>	<b>(13,526)</b>	<b>(205,878)</b>	<b>22,093</b>	<b>500,958</b>	<b>342,724</b>	<b>90,394</b>	<b>24,250</b>	<b>60,876</b>	<b>-</b>
<b>Cumulative net gap</b>	<b>(821,891)</b>	<b>(835,417)</b>	<b>(1,041,295)</b>	<b>(1,019,202)</b>	<b>(518,244)</b>	<b>(175,520)</b>	<b>(85,126)</b>	<b>(60,876)</b>	<b>-</b>	<b>-</b>
<b>Off-balance sheet equity of investment accountholders</b>	<b>293,903</b>	<b>58,819</b>	<b>40,992</b>	<b>13,682</b>	<b>15,811</b>	<b>100,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>523,207</b>



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 27 RISK MANAGEMENT (continued)

### a) Liquidity risk (continued)

#### *COVID-19*

The effects of COVID-19 on the liquidity and funding risk profile of the banking system are evolving and are subject to ongoing monitoring and evaluation. The CBB has announced various measures to combat the effects of COVID-19 and to ease the liquidity in banking sector. Following are some of the significant measures that has an impact on the liquidity risk and regulatory capital profile of the Group:

- Payment holiday for 6 months to eligible customers;
- Concessionary repo to eligible banks at zero percent for 2020;
- Reduction of cash reserve ratio from 5% to 3%;
- Reduction of LCR and NSFR ratio from 100% to 80%; and
- Aggregate of modification loss and incremental ECL provision for stage 1 and stage 2 from March to December 2020 to be added back to Tier 1 capital for the two years ending 31 December 2020 and 31 December 2021. And to deduct this amount proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

### 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 27 RISK MANAGEMENT (continued)

### b) Market risk (continued)

#### Foreign exchange risk (continued)

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

	2021 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
	2020 US\$ '000
Pakistani Rupees	68,607
Euro	(2,706)
Kuwaiti Dinars	53
Pound Sterling	(3,832)
Egyptian Pound	4,063
Algerian Dinar	6,000
Chinese Yuan	490

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 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

Currency 2019	Particular	Change	Exposures in US \$ '000	Effect on equity/ Income Statement in US \$ '000
Pakistani Rupees	Net long Position	20%	68,607	13,721
Euro	Net Short Position	20%	2,706	541
Kuwaiti Dinars	Net long Position	20%	53	11
Pound Sterling	Net Short Position	20%	3,832	766
Egyptian Pound	Net long Position	20%	4,063	813
Algerian Dinar	Net long Position	20%	6,000	1,200

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 27 RISK MANAGEMENT (continued)

### 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.

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:

	Change in equity price 2021 %	Effect on equity/ Income Statement 2021 US \$ '000	Change in equity price 2020 %	Effect on equity/ Income Statement 2020 US \$ '000
<b>Market indices</b>				
Pakistan Stock Exchange	10%	114	10%	381
Egyptian Stock Exchange	10%	479	10%	406
Jordan Stock Exchange	10%	2,282	10%	2,019

### 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:

	*GCC US\$ '000	Rest of the world US\$ '000	Total US\$ '000
<b>31 December 2021</b>			
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
	<b>665,382</b>	<b>448,245</b>	<b>1,113,627</b>

	*GCC US\$ '000	Rest of the world US\$ '000	Total US\$ '000
<b>31 December 2020</b>			
Banking	33,802	6,102	39,904
Government	465,068	273,661	738,729
Investment companies	114,835	-	114,835
Manufacturing	-	77,293	77,293
Real estate	3,164	1,342	4,506
Others	10,125	2,699	12,824
	<b>626,994</b>	<b>361,097</b>	<b>988,091</b>

\* 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.

The risk management department has also enhanced its monitoring of financing portfolio by reviewing the performance of exposures to sectors expected to be directly or indirectly impacted by COVID-19 to identify potential Significant Increase in Credit Risk (SICR). The Group has updated its inputs and assumptions for computation of Expected Credit Losses (ECL). In this regards, the ECL were estimated based on a range of forecast economic conditions as at that date and considering that the situation is fast evolving, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 27 RISK MANAGEMENT (continued)

### c) Credit risk (continued)

Scenario analysis has been conducted with various stress assumptions taking into consideration all model parameters i.e. probability weighting of economic scenarios, probability of default, loss given default, exposure of default and period of exposure. Furthermore, a comprehensive assessment of all corporate clients has been undertaken covering all relevant factors including but not limited to financial standing, industry outlook, facility structure, depth of experience, shareholder support etc. Each industry under the portfolio has a wide spectrum of clients, ranging from clients vulnerable to the outbreak to clients having strong financial standing to withstand the downturn and the qualitative adjustments have been considered accordingly.

#### Type of credit risk

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

#### 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	
	2021 US\$ '000	2020 US\$ '000
Receivables	485,237	557,436
Musharakas	329,021	350,280
Ijara Muntahia Bittamleek and Ijara receivables	461,475	321,510
Investments at amortized cost	977,526	889,106
Balances with banks and financial institutions	279,042	250,528
Other assets	25,122	12,828
Contingencies and commitments	233,276	380,086
	<b>2,790,699</b>	<b>2,761,774</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 27 RISK MANAGEMENT (continued)

### c) Credit risk (continued)

#### 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.

Type of Islamic Financing Contract	31 December 2021			
	Neither past due nor non performing	Past due but performing	Non performing Islamic financing contracts	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Receivables	451,365	26,603	83,110	561,078
Musharakas	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

Type of Islamic Financing Contract	31 December 2020			
	Neither past due nor non performing	Past due but performing	Non performing Islamic financing contracts	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Receivables	511,921	17,268	91,381	620,570
Musharakas	347,569	2,280	10,505	360,354
Ijara Muntahia Bittamleek and Ijara receivables	304,481	413	26,609	331,503
	1,163,971	19,961	128,495	1,312,427

#### Aging analysis of past due but performing Islamic financing contracts

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

Type of Islamic Financing Contract	31 December 2020			
	Less than 30 days	31 to 60 days	61 to 90 days	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Receivables	4,045	1,716	11,507	17,268
Musharakas	1,874	224	182	2,280
Ijara Muntahia Bittamleek and Ijara receivable	385	15	13	413
	6,304	1,955	11,702	19,961

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 27. RISK MANAGEMENT (Continued)

### c) Credit risk (continued)

Aging of Non-Performing Facilities

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

	31 December 2020				
	3-6 Months	6-12 Months	1-3 Years	3 Years & Above	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Receivables	29,663	1,615	31,647	28,456	91,381
Musharakas	788	1,485	5,350	2,882	10,505
Ijara Muntahia Bittamleek and Ijara receivables	2,981	39	15,046	8,543	26,609
	33,432	3,139	52,043	39,881	128,495

#### 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 Jiddiyah (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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 27. RISK MANAGEMENT (Continued)

### c) Credit risk (continued)

#### 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. However, initially the Group wide policy will be to set up obligor ratings only (which does not prevent individual subsidiary internally to also rate facilities).

#### d) Operational risk

In response to the COVID-19 outbreak, there were various changes in the Bank's working model; interaction with customers, digital modes of payment and settlement, customer acquisition and executing contracts, and carrying out transactions with and on behalf of the customers. The management of the Group enhanced its monitoring mechanisms to identify potential risks arising from the current situation and its impact that lead to changes in the way business is conducted. The operational risk unit has carried out a comprehensive review of the existing control environment which includes controls over effective segregation of duties, access, authorization and reconciliation procedures, staff training and education and various processes for the identification and prevention of operational risks. While these risks cannot be completely eliminated, as of 31 December 2021, the Group did not identify any significant issues relating to operational risks which were not already subject to effective control processes and thus, neutralized.

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:

#### 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 28. CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

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

Geographical region	Assets		Liabilities and Subordinated mudaraba		Equity of investment accountholders	
	2021	2020	2021	2020	2021	2020
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Middle East	1,536,068	1,376,288	306,063	246,907	918,974	656,173
Europe	43,692	53,081	2,070	2,148	-	56
Asia	1,212,919	1,125,309	385,671	343,649	757,026	750,955
Others	70,763	97,297	31,974	94,936	189,416	289,723
	<b>2,863,442</b>	<b>2,651,975</b>	<b>725,778</b>	<b>687,640</b>	<b>1,865,416</b>	<b>1,696,907</b>

Industry sector	Assets		Liabilities and Subordinated mudaraba		Equity of investment accountholders	
	2021	2020	2021	2020	2021	2020
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Trading and manufacturing	350,581	405,357	75,656	64,699	151,296	190,212
Banks and financial institutions	895,302	996,263	240,701	280,216	597,587	434,469
Construction	22,564	28,415	6,571	9,279	12,573	12,395
Others	1,594,995	1,221,940	402,850	333,446	1,103,960	1,059,831
	<b>2,863,442</b>	<b>2,651,975</b>	<b>725,778</b>	<b>687,640</b>	<b>1,865,416</b>	<b>1,696,907</b>

### 29 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

### 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:

Geographical region	Middle East		Other Asian Countries	
	2021 US\$ '000	2020 US\$ '000	2021 US\$ '000	2020 US\$ '000
Assets	1,631,055	1,463,023	1,232,387	1,188,952
Liabilities, equity of investment accountholders, and Subordinated mudaraba	1,450,309	1,291,857	1,140,885	1,092,690
Total income	50,281	51,323	52,310	51,047
Total operating expenses	(38,843)	(35,631)	(33,774)	(33,602)
Net operating income	11,438	15,692	18,536	17,445
Expected Credit Losses /Provision for impairment - net and write back of written off	(4,975)	(11,899)	(12,360)	(9,459)
Taxation	-	-	(45)	(4,199)
Income for the year	6,463	3,793	6,131	3,787

### 31. SOCIAL RESPONSIBILITY

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

### 32. COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported net income or owner's equity.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 33. 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% (reduced to 80% upto 31 December 2021). The Group's consolidated NSFR ratio as of 31 December 2021 is 206.64%.

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

Item	Unweighted Values (i.e. before applying relevant factors)				Total weighted value
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
<b>Available Stable Funding (ASF):</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>	<b>US\$ '000</b>
<b>Capital:</b>	<b>197,030</b>	<b>-</b>	<b>-</b>	<b>16,245</b>	<b>213,274</b>
Regulatory Capital	197,030	-	-	-	197,030
Other Capital Instruments	-	-	-	16,245	16,245
<b>Retail deposits and deposits from small business customers:</b>	<b>-</b>	<b>954,378</b>	<b>40,060</b>	<b>11,742</b>	<b>907,062</b>
Stable deposits	-	6,509	-	-	6,183
Less stable deposits	-	947,869	40,060	11,742	900,879
<b>Wholesale funding:</b>	<b>-</b>	<b>1,178,601</b>	<b>145,447</b>	<b>68,255</b>	<b>438,883</b>
Operational deposits	-	-	-	-	-
Other wholesale funding	-	1,178,601	145,447	68,255	438,883
<b>Other liabilities:</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>122,299</b>	<b>122,299</b>
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
All other liabilities not included in the above categories	-	-	-	122,299	122,299
<b>Total ASF</b>	<b>197,030</b>	<b>2,132,979</b>	<b>185,507</b>	<b>218,541</b>	<b>1,681,518</b>
<b>Required Stable Funding (RSF):</b>					
Total NSFR high-quality liquid assets (HQLA)	820,854	-	23,323	-	63,442
Deposits held at other financial institutions for operational 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	-	229,907	-	33,850	68,336

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

## 33. NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (Continued)

Item	Unweighted Values (i.e. before applying relevant factors)				
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>Required Stable Funding (RSF):</b>					
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	272,970	49,754	828,353	161,362
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	-	-	-	176,239	114,555
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange- traded equities	-	-	-	60,000	36,677
<b>Other assets:</b>					
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	168,214	-	-	-	168,214
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	176,463	-	-	-	176,463
<b>OBS items</b>	<b>493,824</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,691</b>
<b>Total RSF</b>	<b>1,659,355</b>	<b>502,877</b>	<b>73,077</b>	<b>1,098,442</b>	<b>813,740</b>
<b>NSFR (%)</b>					<b>206.64%</b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

# Supplementary Financial Information

at 31 December 2021

The attached financial information does not form part of the consolidated financial statements

## SUPPLEMENTARY DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Spread of COVID 19 pandemic and resulted social shutdown jeopardized the economic prospects across the globe and disrupted billions of lives. In addition to loss of precious lives, such pandemic lead to plunge in investment activity amid with heightened uncertainty, erosion of human capital and the ruptures in trade and supply linkage amongst economies. Key policy maker faced severe challenges to save the people from rapidly spreading disease or potential starvation/ loss in income resulted from these resultant precautionary measures. Although, the governments and multilateral bodies introduced the fiscal stimuli (such as reduction in policy rates, sanctioning of subsidies/ grants or injecting money in economies etc.) but could not be able to contain the contraction in economies in year 2020.

During the current financial year, the uncertainties associated with prospective economic recoveries remained high, during the financial year, due to multiple waves of pandemic, evolution of new strains of virus, administrative hurdles in completing the vaccination process and lack of information about prospective capabilities of vaccine to protect from disease. Further, the fiscal stimulus programs offered by the government resulted in increase in leveraging or raising debt levels posing severe fiscal management challenges.

The Government of Bahrain, spearheaded by the National Taskforce for Combating the Coronavirus, and its associated ministries and authorities have been quick to implement their own strategies to limit both the spread of COVID-19 and its impact upon Bahrain's economy, with such strategies receiving high praise from the World Health Organization.

In order to limit the spread of COVID-19 within the country the Government of Bahrain has implemented the following:

- Health: the introduction of social distancing regulations, whereby gatherings of more than five individuals in public places are banned, a requirement for individuals to always maintain a gap of no less than one meter between one another, and the closure of nurseries, schools and universities;
- Consumer protection: the issuing of resolutions by the Ministry of Trade, Industry of Tourism fixing the maximum prices chargeable for products such as face masks and disinfectants and prohibiting the exporting of such products for a period of three months;
- Safety: the closure of all non-essential businesses from 26 March until 9 April (if able to, online trading is still permitted); and
- Law and order: a prohibition by the General Directorate of Bahrain's Criminal Investigation and Forensic Science on rumours and the spreading of fake news, with those spreading such information facing prosecution; and increased police patrols enforcing social distancing regulations.

In order to help stabilize the economy, the Government of Bahrain introduced stimulus packages to mitigate the economic impact of COVID-19 for both individuals and businesses, which includes the following key polices:

- Payments of salaries to employees of private sector;
- Waiver of electricity bills;
- Exemption from municipal fees for individuals and businesses;
- Exemption of industrial land rental fees for all businesses;
- Exemption of tourism levies for all tourism-related industry;
- Increasing the size of the liquidity support fund; and
- Redirection of all Tamkeen programs to support adversely affected businesses and the restructuring of debts issued by Tamkeen.

The Central Bank of Bahrain has introduced several regulatory measures, including:

- Multiple deferrals were offered to domestic borrowers both individuals and businesses;
- Relaxation of the loans-to-value ratio for new residential mortgages for Bahrainis;
- Increasing the maximum amount permitted by contactless payments to BHD50 (\$133) from BHD20 (\$53);
- Capping merchant fees imposed on debit card transactions to 0.8%;
- Provision to retail banks of concessionary repo arrangements for a period of up to six months at zero per cent interest, on a case-by-case basis in 2020
- Reduction of the cash reserve ratio for all retail banks to 3% from 5%;
- Reduction of its one-week deposit facility, overnight deposit, one-month deposit and lending rates;
- Prohibiting retail banks from blocking the accounts of customers who have either lost their employment or have retired if that customer has a financing arrangement with the bank; and
- Requiring all foreign exchange companies to sterilise all currency, both local and foreign, which includes either exposing currency to ultraviolet irradiation or high temperatures of isolation of currency for a minimum of three days.



## SUPPLEMENTARY DISCLOSURES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In essence, with our core business values and being a responsible organization, the Bank stood side by side with our community in such a time of distress. Further, the safety and security of our most precious resource, "human capital" was also been remained the utmost priority of the Bank during the current financial year.

- the Bank ensured constant supply of core banking services to our esteemed customer base, in a safer environment by following best health care standards in branches/ point of sales and practices and provision of majority of basic banking services through electronic channels;
- further, the Bank provided 6months profit free payment holidays and allowed utilization of credit limits without extra charge, to ease financial burden on people in such as distressed situation in financial year 2020;
- furthermore, the Bank provided additional deferments (but with profit in accordance with terms of agreements and principles of Sharia) and offered rescheduling to customers deeply suffering from financial crises;
- moreover, the Bank given donations/ support to domestic organization to increase awareness about precautionary measures against such disease and delivered financial assistance to people in need; and
- a significant amount of investment made on technologies to support work from remotely and reduce concentration of people in office to achieve the prescribed levels of social distancing. Further, the face-to-face interactions was discouraged and people were pursued to use the electronic channels for business meetings and essential communications. Furthermore, the work place was sanitized on a regular basis, essential supplies like sanitizers, masks etc. made available on desks of employees, ensured temperature check at the time of entrance of premises and encouraged staff having symptoms to stay at home.

The Bank revamped its core business strategies and practices to protect the organization from the effects of one of the biggest economic crises in human history. The Bank strictly adhered with basics of prudent banking and undertaken immediate measures given as follows:

- maintained high liquidity levels, primarily in current accounts, to meet any potential contingency;
- fresh deployments were predominantly made in easily liquefiable modes or avenues like listed sukuk, short term bills etc.
- the management was remained in close contact with customers to provide them any requisite support (like bridge financing, deferrals etc.) in management of their finances;
- diverged energies to optimize the operations like closure of branches, ATMs, introduction of voluntary retirement programs and curtailment of unnecessary activities;
- effective utilization of domestic and regional relationships to accelerate the supply of liquidity and reemphasized market successful products; and
- foster growth in avenues/ customer/ business segments carrying lower risk like sovereigns.



# Basel III, Pillar III Disclosures

for the year ended 31 December 2021

## Content

- 1 INTRODUCTION
- 2 CAPITAL ADEQUACY
- 3 RISK MANAGEMENT
  - a) Credit risk
  - b) Market risk
  - c) Equity of Investment Accountholders
  - d) Off-balance sheet equity of Investment Accountholders
  - e) Liquidity risk
- 4 OTHERS

# Additional Public Disclosures

31 December 2021

## 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 Shari'a 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 2021, 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) and significant investment Itqan Capital Company are consolidated as per the requirement of the CA Module. As a result of consolidation of Itqan Capital for regulatory purposes, the amounts in certain tables within the quantitative disclosures might not match the amounts reported in the consolidated financial statements of the Group.

## Additional Public Disclosures

31 December 2021

### 2 CAPITAL ADEQUACY (Continued)

**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 2021			31 December 2020		
	CET 1 US\$ '000	AT1 US\$ '000	T2 US\$ '000	CET 1 US\$ '000	AT1 US\$ '000	T2 US\$ '000
<b>Common Equity Tier 1 (CET1)</b>						
Issued and fully paid ordinary shares	136,458	-	-	136,458	-	-
General reserves	8,687	-	-	8,687	-	-
Statutory reserves	24,840	-	-	23,831	-	-
Accumulated losses	(20,947)	-	-	(15,844)	-	-
Current year profit	10,093	-	-	3,462	-	-
Unrealized gains and losses on available for sale financial instruments	3,899	-	-	1,121	-	-
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(42,985)	-	-	(36,345)	-	-
Other reserves	(98)	-	-	(94)	-	-
<b>Total CET1 capital before minority interest</b>	<b>119,947</b>	<b>-</b>	<b>-</b>	<b>121,276</b>	<b>-</b>	<b>-</b>
Minority interest in banking subsidiaries	14,017	-	-	13,471	-	-
<b>Total CET1 capital prior to regulatory adjustments</b>	<b>133,964</b>	<b>-</b>	<b>-</b>	<b>134,747</b>	<b>-</b>	<b>-</b>
<b>Less:</b>						
Goodwill	29,805	-	-	31,133	-	-
Intangible other than mortgage servicing rights	7,561	-	-	6,039	-	-
Deferred tax assets	9,776	-	-	11,575	-	-
<b>Total CET 1 capital after the regulatory adjustments above (CET 1a)</b>	<b>86,822</b>	<b>-</b>	<b>-</b>	<b>86,000</b>	<b>-</b>	<b>-</b>
<b>Other Capital (AT1 &amp; T2)</b>						
Instruments issued by parent company	-	111,000	-	-	111,000	-
Instruments issued by banking subsidiaries to third parties	-	83	8,037	-	132	4,541
Assets revaluation reserve - property, plant, and equipment	-	-	-	-	-	-
Expected Credit Losses (ECL) Stages 1 & 2	-	-	7,835	-	-	7,303
<b>Total Available AT1 &amp; T2 Capital</b>	<b>-</b>	<b>111,083</b>	<b>15,872</b>	<b>-</b>	<b>111,132</b>	<b>11,844</b>
<b>Total CET 1 Capital</b>	<b>86,822</b>	<b>-</b>	<b>-</b>	<b>86,000</b>	<b>-</b>	<b>-</b>
<b>Total T1 Capital</b>	<b>-</b>	<b>197,905</b>	<b>-</b>	<b>-</b>	<b>197,132</b>	<b>-</b>
<b>Total Capital</b>	<b>-</b>	<b>-</b>	<b>213,777</b>	<b>-</b>	<b>-</b>	<b>208,976</b>

**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 2021 Capital requirements US\$ '000	31 December 2020 Capital requirements US\$ '000
<b>Type of islamic financing contracts</b>		
Receivables	14,972	16,954
Ijara Muntahia Bittamleek & Ijara receivables	12,110	8,399
Musharaka	11,790	15,421
	<b>38,872</b>	<b>40,774</b>

## Additional Public Disclosures

31 December 2021

### 2 CAPITAL ADEQUACY (Continued)

**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 2021		31 December 2020	
	Self Financed US\$ '000	Financed by IAH US\$ '000	Self Financed US\$ '000	Financed by IAH US\$ '000
Market risk - standardised approach				
Price risk	-	-	238	-
Foreign exchange risk	11,416	-	6,337	-
<b>Total of market risk - standardised approach</b>	<b>11,416</b>	<b>-</b>	<b>6,575</b>	<b>-</b>
<b>Multiplier</b>	<b>12.50</b>	<b>12.50</b>	<b>12.50</b>	<b>12.50</b>
Eligible Portion for the purpose of the calculation	142,700	-	82,188	-
Risk Weighted Exposures ("RWE") for CAR Calculation	100%	100%	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	142,700	-	82,188	-
Total market RWE		142,700		82,188
Minimum capital requirement		12.50%		12.50%
		17,838		10,273

**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 2021 US\$ '000	31 December 2020 US\$ '000
<b>Indicators of operational risk</b>		
Average gross income	86,183	83,314
<b>Multiplier</b>	<b>12.5</b>	<b>12.5</b>
Eligible Portion for the purpose of the calculation	1,077,288	1,041,425
<b>Total operational RWE</b>	<b>161,593</b>	<b>156,214</b>
Minimum capital requirement	12.50%	12.50%
	20,199	19,527

**Table – 5. Capital adequacy ratios**

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

	31 December 2021			31 December 2020		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
<b>Group's Capital adequacy ratio</b>	22.96%	21.26%	9.33%	25.41%	23.97%	10.46%
<b>Minimum regulatory requirements*</b>	12.50%	10.50%	9.00%	12.50%	10.50%	9.00%
<b>Al Baraka Bank Pakistan Limited **</b>	18.65%	13.89%	11.17%	17.63%	15.09%	12.19%
<b>Itqan Capital Company</b>	39.28%	39.28%	39.28%	24.40%	24.40%	24.40%

\* Minimum required by CBB regulations under Basel III

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

## Additional Public Disclosures

31 December 2021

### 2 CAPITAL ADEQUACY (Continued)

#### 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 2021			31 December 2020		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
<b>Capital adequacy ratio</b>	<b>13.25%</b>	<b>9.36%</b>	<b>9.36%</b>	12.90%	9.70%	9.70%
<b>Minimum regulatory requirements*</b>	<b>11.50%</b>	<b>10.00%</b>	<b>8.50%</b>	11.50%	10.00%	8.50%

### 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.



## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### a) Credit risk (continued)

**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 2021				31 December 2020			
	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 credit risk exposure over the period US\$ '000	Total gross credit exposure US\$ '000	*Average gross credit exposure over the period US\$ '000	Total gross credit exposure US\$ '000	*Average gross credit exposure over the period US\$ '000
<b>Funded exposure</b>								
Cash and balances with banks and financial institutions	122,462	96,220	191,276	139,708	192,379	116,897	104,000	272,691
Receivables	1,112	1,182	484,125	550,070	992	1,359	552,018	492,310
Ijara Muntahia Bittamleek and Ijara receivables	35,368	36,254	426,107	370,140	36,307	37,032	285,202	268,347
Musharaka	52,870	55,701	276,151	331,167	33,642	32,911	316,638	249,832
Investments	634,487	661,827	452,408	368,823	575,499	518,423	386,839	300,054
Investment in real estate	12,343	12,061	-	-	11,562	15,542	-	-
Premises and equipment	56,963	57,484	-	-	47,363	45,805	-	-
Other assets	29,833	40,993	35,349	26,779	3,870	15,311	52,210	52,917
<b>Unfunded exposure</b>								
Contingencies and commitments	233,276	224,977	-	-	178,150	152,637	-	-
	<b>1,178,714</b>	<b>1,186,699</b>	<b>1,865,416</b>	<b>1,786,687</b>	<b>1,079,764</b>	<b>935,917</b>	<b>1,696,907</b>	<b>1,636,151</b>

\*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 2021				31 December 2020			
	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	10,275	112,187	146,109	45,167	6,390	160,177	110,435	19,377
Receivables	1,112	-	263,703	220,422	992	-	332,866	219,152
Ijara Muntahia Bittamleek and Ijara receivables	35,368	-	424,569	1,538	36,307	-	282,122	3,080
Musharaka	-	52,870	-	276,151	-	33,642	-	316,638
Investments	392,423	242,064	252,327	200,081	388,643	186,856	208,382	178,457
Investment in real estate	12,343	-	-	-	11,562	-	-	-
Premises and equipment	31,136	25,827	-	-	31,382	15,980	-	-
Other assets	-	29,833	21,826	13,523	520	29,162	14,020	12,378
	<b>482,657</b>	<b>462,781</b>	<b>1,108,534</b>	<b>756,882</b>	<b>475,796</b>	<b>425,817</b>	<b>947,825</b>	<b>749,082</b>

\* 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.

## Additional Public Disclosures

31 December 2021

### 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 2021				31 December 2020			
	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	32,650	-	914	-	37,901	-	6,448	-
Claims on Sovereigns	548,348	-	473,599	-	478,797	11	495,288	-
Claims on Public Sector Entities	157,147	-	58,462	-	169,627	-	27,161	-
Claims on banks	58,329	29,026	199,060	-	87,662	40,571	223,829	-
Claims on corporate	24,498	204,250	492,266	-	21,229	137,562	456,117	-
Mortgage	-	-	411,272	-	-	-	284,936	-
Past dues receivables	-	-	33,833	-	992	6	46,290	-
Regulatory Retail Portfolio	-	-	144,512	-	-	-	119,479	-
Equity investment	35,445	-	340	-	34,054	-	246	-
Investment in Funds	4,767	-	-	-	4,308	-	-	-
Holding of Real Estate	58,260	-	13,858	-	55,636	-	4,341	-
Other assets	25,994	-	37,300	-	11,410	-	32,772	-
	945,438	233,276	1,865,416	-	901,616	178,150	1,696,907	-

For the purpose of rating, the Group is using ratings Issued by External Credit Assessment Institutions (ECAIs) for assigning risk weights 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 2021		31 December 2020	
	Self financed		Self financed	
	Funded US\$ '000	Unfunded US\$ '000	Funded US\$ '000	Unfunded US\$ '000
Cash and balances with bank	6	903	-	5,110
Receivables	-	5,442	-	17,636
Musharaka	-	1,433	-	1,717
Investments	56,632	-	44,891	-
Other Assets	9,437	-	6,824	-
Contingencies and commitments	12,503	-	30,914	-
	78,578	7,778	82,629	24,463

## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### a) Credit risk (Continued)

**Table – 10. Credit risk – related party transactions (Continued)**

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

	31 December 2021	31 December 2020
	Self financed US\$ '000	Self financed US\$ '000
<b>Assets</b>		
Investment in a subsidiary*	94,201	94,201
Equity investment in Itqan Capital	54,342	54,342
	<b>148,543</b>	<b>148,543</b>

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.

**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 2021:

Counterparties *	Funded US\$ '000
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
Counterparty # 12	33,992

\* 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 2020:

Counterparties *	Funded US\$ '000
Counterparty # 1	438,919
Counterparty # 2	200,154
Counterparty # 3	124,365
Counterparty # 4	100,000
Counterparty # 5	63,708
Counterparty # 6	60,889
Counterparty # 7	58,454
Counterparty # 8	52,922
Counterparty # 9	35,308
Counterparty # 10	33,658
Counterparty # 11	33,642

\* 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.

## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### a) Credit risk (Continued)

##### 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 is as follows:

2021	US\$ '000
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
2020	US\$ '000
Counterparty # 1	10,000
Counterparty # 2	8,036
Counterparty # 3	3,243
Counterparty # 4	1,855
Counterparty # 5	1,331
Counterparty # 6	358
Counterparty # 7	311
Counterparty # 8	234
Counterparty # 9	176
Counterparty # 10	167
Counterparty # 11	121
Counterparty # 12	99
Counterparty # 13	83
Counterparty # 14	55
Counterparty # 15	71
Counterparty # 16	43
Counterparty # 17	7
Counterparty # 18	4
Counterparty # 19	1

## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### a) Credit risk (Continued)

**Table – 12. 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 2021					31 December 2020				
	Past due but performing	Non-performing Islamic financing contracts	Aging of non performing facilities			Past due but performing	Non-performing Islamic financing contracts	Aging of non performing facilities		
			90 days to 1 year	1 year to 3 years	Over 3 years			90 days to 1 year	1 year to 3 years	Over 3 years
US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Corporates	27,336	107,208	33,292	30,420	43,496	19,423	93,285	12,571	46,098	34,616
Investment Firms	643	-	-	-	-	-	-	-	-	-
Individuals	494	6,326	1,928	1,696	2,702	538	13,317	2,107	5,944	5,266
Others	-	-	-	-	-	-	21,893	21,893	-	-
	28,473	113,534	35,220	32,116	46,198	19,961	128,495	36,571	52,042	39,882

**Table – 13. 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 2021:

	Specific allowances								
	Opening Balance	Charges during the year	Net Transit in/(out) Stage3 during the year	Write-Back during the year	Write-offs during the year	Write-back of written off during the year	Allocation from Investment Risk Reserve	Exchange difference on opening balance	Balance at the end of the year
Corporates	44,569	16,539	2,714	(1,733)	(2,618)	5,790	277	(2,741)	62,797
Individuals	6,755	1,325	(622)	(2,324)	(410)	-	-	(494)	4,230
Others	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

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 2020:

	Specific allowances								
	Opening Balance	Charges during the year	Net transit in/(out) Stage3 during the year	Write-Back during the year	Write-offs during the year	Write-back of written off during the year	Allocation from Investment Risk Reserve	Exchange difference on opening balance	Balance at the end of the year
Corporates	41,883	8,606	(286)	(103)	(4,690)	-	-	(841)	44,569
Individual	3,799	3,432	(35)	(355)	(2)	-	-	(84)	6,755
Others	8,118	2,727	-	(449)	-	-	-	(251)	10,145
	53,800	14,765	(321)	(907)	(4,692)	-	-	(1,176)	61,469

**Table – 14. 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 2021		31 December 2020	
	Non-performing Islamic financing contracts	ECL for Stage 3	Non-performing Islamic financing contracts	ECL for Stage 3
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Middle East	44,222	26,518	65,714	17,096
Other Asian countries	69,312	53,356	62,780	44,372
	113,534	79,874	128,494	61,468

## Additional Public Disclosures

31 December 2021

**Table – 15. 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 2021	31 December 2020
	US\$ '000	US\$ '000
Restructured Islamic financing contracts	34,737	8,141

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 – 16. Counterparty credit risk exposure**

The following table summarises the counterparty credit risk exposure covered by collateral as of:

	31 December 2021		31 December 2020	
	Gross positive FV of contracts	* Collateral held	Gross positive FV of contracts	* Collateral held
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Cash and balances with banks and financial institutions	313,738	-	296,380	-
Receivables	485,237	299,028	553,010	416,523
Ijara Muntahia Bittamleek and Ijara receivables	461,475	394,478	321,509	176,214
Musharaka	329,021	329,021	350,280	350,280
Investments	1,086,895	-	962,338	-
Investment in real estate	12,343	-	11,562	-
Premises and equipment	56,963	-	47,363	-
Other assets	65,182	-	56,080	-
	2,810,854	1,022,527	2,598,522	943,017

\* Collaterals values have been restricted to outstanding exposure of financing facilities.

**Table – 17. 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 2021		31 December 2020	
	Gross positive FV of contracts	Collateral held	Gross positive FV of contracts	* Collateral held
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Receivables	485,237	16,153	553,010	38,310
Ijara Muntahia Bittamleek & Ijara income receivable	461,475	15,128	321,509	12,149

### b) Market risk

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

**Table – 18. Market risk capital requirements**

The following table summarises the capital requirement for each category of market risk as of:

	31 December 2021		31 December 2020	
	Price risk	Foreign exchange risk	Price risk	Foreign exchange risk
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
RWE	-	142,699	2,973	79,213
Capital requirements (12.5%)	-	17,837	372	9,902
Maximum value of RWE	2,582	146,041	2,973	104,057
Minimum value of RWE	-	139,979	1,717	79,213

## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### b) Market risk (continued)

**Table – 19. Equity position risk in Banking Book**

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

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 2020:

	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	1,076	-	1,000	25
Equity investments	49,706	49,982	34,422	15,284	10,021
Real estate related	19,137	15,711	-	19,137	6,968
	69,843	66,769	34,422	35,421	17,014

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 1.2 million (2020: USD 3.9 million), in such portfolio, were held to generate capital gains.

**Table – 20. Equity gains or losses in Banking Book**

The following table summarises the cumulative realised and unrealised gains during the year ended:

	2021 US\$ '000	2020 US\$ '000
Cummulative realised gains arising from sale or liquidation	3,638	15,951
Total unrealised gains recognised in the balance sheet but not through P&L	3,899	1,121
Unrealised gross gains included in Tier One Capital	3,899	1,121
Assets revaluation reserve - property, plant, and equipment	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 continuously 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.



## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### b) Market risk (continued)

##### Table – 21. 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:

	2021				
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	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
<b>Profit rate sensitive assets</b>	<b>346,301</b>	<b>125,295</b>	<b>56,685</b>	<b>235,208</b>	<b>1,489,770</b>
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
<b>Profit rate sensitive liabilities</b>	<b>1,290,653</b>	<b>338,150</b>	<b>240,084</b>	<b>154,206</b>	<b>105,026</b>
<b>Profit rate gap</b>	<b>(944,352)</b>	<b>(212,855)</b>	<b>(183,399)</b>	<b>81,002</b>	<b>1,384,744</b>
<b>Profit rate sensitivity (200bps)</b>	<b>(18,887)</b>	<b>(4,257)</b>	<b>(3,668)</b>	<b>1,620</b>	<b>27,695</b>
	2020				
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Receivables	273,687	120,568	38,518	38,184	86,479
Ijara Muntahia Bittamleek and Ijara Income Receivables	6,264	27,960	14,337	42,396	230,553
Musharaka	-	76,596	9,446	106,106	158,132
Investments-Sukuk	65,768	-	78,108	22,253	722,978
<b>Profit rate sensitive assets</b>	<b>345,719</b>	<b>225,124</b>	<b>140,409</b>	<b>208,939</b>	<b>1,198,142</b>
Murabaha and other payables	28,380	87,097	28,332	41,400	-
Equity of investment accountholders	895,910	151,958	318,639	161,664	168,736
Subordinated debt	2,605	-	894	-	9,384
<b>Profit rate sensitive liabilities</b>	<b>926,895</b>	<b>239,055</b>	<b>347,865</b>	<b>203,064</b>	<b>178,120</b>
<b>Profit rate gap</b>	<b>(581,176)</b>	<b>(13,931)</b>	<b>(207,456)</b>	<b>5,875</b>	<b>1,020,022</b>
<b>Profit rate sensitivity (200bps)</b>	<b>(11,624)</b>	<b>(279)</b>	<b>(4,149)</b>	<b>118</b>	<b>20,400</b>

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.

## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### b) Market risk (continued)

##### Table – 22. Foreign currency translation risk

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

	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
	2020
	Total equivalent US\$ '000
Pakistani Rupees	68,607
Euro	(2,706)
Kuwaiti Dinars	53
Pound Sterling	(3,832)
Egyptian Pound	4,063
Algerian Dinar	6,000
Others	490

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 – 23. 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:

At 31 December 2021			Exposures in	"Effect on profit and loss/Equity
	Particular	Change	US\$ '000	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
Others	Net long Position	20%	1,339	268
At 31 December 2020			Exposures in	"Effect on profit and loss/Equity
	Particular	Change	US\$ '000	US\$ '000
Pakistani rupees	Net long Position	20%	68,607	13,721
Euro	Net short Position	20%	2,706	541
Kuwaiti dinars	Net long Position	20%	53	11
Pound sterling	Net short Position	20%	3,832	766
Egyptian Pound	Net long Position	20%	4,063	813
Algerian Dinar	Net long Position	20%	6,000	1,200
Others	Net long Position	20%	490	98

# Additional Public Disclosures

31 December 2021

## 3 RISK MANAGEMENT (Continued)

### c) Equity of Investment Accountholders

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 tenor 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  $[\text{total investment income less investment pool expenses}]$  divided by  $[\text{average funds generating income (shareholders and equity of investment accountholders)} \times \text{average funds of equity of IAH}]$ .

The Bank constantly update its investment strategies to maintain progress with latest development in markets. In lieu of prevailing market conditions, the Bank focused on sovereigns and segments carrying relatively lower risk and avoided the segment deeply affected by spread of Covid 19 pandemic.

## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### c) Equity of Investment Accountholders (Continued)

##### *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 website. Monitoring procedures have been developed as well.

The Group uses its website, print and electronic media for consumer awareness program and to inform about new products.

##### *Penalty charges*

	31 December 2021 US \$ '000	31 December 2020 US \$ '000
<b><u>Central Bank of Bahrain</u></b>		
Anomalies in standing orders, EFTS and other electronic channels	77	35
	77	35
<b><u>State Bank of Pakistan</u></b>		
Various non-compliances with domestic laws and regulations	2	560

##### *Non-Shari'a complaint income*

The Group has received US \$ 531 thousand (2020: US \$ 596 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### c) Equity of Investment Accountholders (Continued)

**Table – 24. 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 2021 US \$ '000	31 December 2020 US \$ '000
IAH - Non-banks	1,371,711	1,328,868
IAH - Banks	493,294	367,695
Profit equalisation reserve	411	344
	<b>1,865,416</b>	<b>1,696,907</b>

**Table – 25. 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 2021	31 December 2020
PER to IAH (%)	0.02%	0.02%
IRR to IAH (%)	Nil	Nil

**Table – 26. 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 2021	31 December 2020
Receivables	25.95%	32.53%
Musharaka	14.80%	18.66%
Ijara Muntahia Bittamleek & Ijara income receivable	22.84%	16.81%
Investments	24.25%	22.80%
Liquidity and others	12.15%	9.21%

## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### c) Equity of Investment Accountholders (Continued)

**Table – 27. 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 2021	31 December 2020
Banks	26.47%	21.69%
Investment Firms	5.50%	4.22%
Corporates	21.43%	23.79%
Residentials	39.97%	42.97%
Others	6.63%	7.33%

**Table – 28. 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 2021	31 December 2020	31 December 2019	31 December 2018	31 December 2017
Administrative expenses charged to equity of investment accountholders	8,052	14,061	8,863	10,577	7,079
Share of profits earned by IAH, before transfers to/from reserves	82,941	87,437	84,531	69,629	71,861
Percentage share of profit earned by IAH before transfer to/from reserves	4.64%	5.37%	6.06%	4.83%	4.73%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	58,567	63,761	75,287	53,151	53,553
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	3.28%	3.91%	5.40%	3.68%	3.52%
Share of profit paid out to Bank as mudarib	24,374	23,676	9,244	16,477	18,308
Mudarib Fee to total Investment Profits	29.39%	27.08%	10.94%	23.66%	25.48%

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 – 29. Movement in profit equalisation reserve**

The following table summarises the movement in profit equalisation reserve during the year ended:

	31 December 2021 US \$ '000	31 December 2020 US \$ '000	31 December 2019 US \$ '000	31 December 2018 US \$ '000	31 December 2017 US \$ '000
Balance at 1 January	344	229	115	572	551
Amount utilized on initial implementation of FAS 30	-	-	-	(572)	-
Restated balances as on 01 January	344	229	115	-	551
Amount apportioned from income	67	115	114	115	-
Foreign exchange gain / (loss)	-	-	-	-	21
	411	344	229	115	572
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	0.08%	0.13%	0.14%	0.16%	0.16%

## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### c) Equity of Investment Accountholders (Continued)

##### Table – 30. Movement in investment risk reserve

The following table summarises the movement in investment risk reserve during the year ended:

	31 December 2021 US \$ '000	31 December 2020 US \$ '000	31 December 2019 US \$ '000	31 December 2018 US \$ '000	31 December 2017 US \$ '000
Balance at 1 January	-	-	-	1,701	2,339
Amount utilized on initial implementation of FAS 30	-	-	-	(1,701)	-
Restated balances as on 01 January	-	-	-	-	2,339
Exchange difference	-	-	-	-	1
Amount apportioned from income	277	-	-	-	-
Amount apportioned to provision	(277)	-	-	-	(639)
	-	-	-	-	1,701
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	0.33%	Nil	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 2020: up to 70%) as per the terms of IAH agreements.

##### Table – 31. Movement in investment risk reserve

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%	-
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%
5 Years Term Deposits	2.53%	2.53%	7.84%



## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### c) Equity of Investment Accountholders (IAH) (Continued)

Table – 31. Movement in investment risk reserve (Continued)

	Average		Pakistan
	31 December 2020 Rate of return %		
	Bahrain	US \$	
Saving Accounts	0.10%	0.10%	3.25%
One Month Term Deposits	0.91%	0.70%	2.24%
Three Months Term Deposits	1.61%	1.34%	2.38%
Six Months Term Deposits	1.91%	1.52%	2.46%
Nine Months Term Deposits	2.23%	1.82%	-
1 Year Term Deposits	2.48%	2.07%	4.05%
2 Years Term Deposits	2.53%	2.11%	5.61%
3 Year Term Deposits	2.58%	2.21%	5.73%
4 Years Term Deposits	2.63%	2.30%	5.58%
5Years Term Deposits	2.68%	2.39%	6.11%

Table – 32. 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 2021:

	Opening	Movement	Closing
	Actual		Actual
	Allocation		Allocation
	US \$ '000	US \$ '000	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

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 2020:

	Opening	Movement	Closing
	Actual		Actual
	Allocation		Allocation
	US \$ '000	US \$ '000	US \$ '000
Cash and balances with banks	281,217	(177,217)	104,000
Receivables	444,055	107,962	552,018
Ijara Muntahia Bittamleek	245,047	40,155	285,202
Musharaka	197,561	119,077	316,638
Investments	254,236	132,603	386,839
Other assets	14,731	37,479	52,210
	1,436,847	260,059	1,696,907

## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### c) Equity of Investment Accountholders (Continued)

**Table – 32. 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 30 December 2021:

	Opening Actual Allocation	Movement	Closing Actual Allocation
	US \$ '000		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
	<b>1,822,350</b>	<b>43,066</b>	<b>1,865,416</b>

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 2020:

	Opening Actual Allocation	Movement	Closing Actual Allocation
	US \$ '000		US \$ '000
Cash and balances with banks	314,664	(210,664)	104,000
Receivables	491,451	60,567	552,018
Ijara Muntahia Bittamleek	251,477	33,725	285,202
Musharaka	274,763	41,875	316,638
Investments	232,878	153,961	386,839
Other assets	45,871	6,339	52,210
	<b>1,611,104</b>	<b>85,803</b>	<b>1,696,907</b>

**Table – 33. Movement in investment risk reserve**

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
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%
2016	61,137	4.53%	44,558	3.30%

## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### c) Equity of Investment Accountholders (IAH) (Continued)

**Table - 34. 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 2021:

Type of Claims	RWA	RWA for capital adequacy purposes	Capital charges
	US \$ '000	US \$ '000	US \$ '000
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
	<b>970,379</b>	<b>291,114</b>	<b>36,390</b>

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 2020:

Type of Claims	RWA	RWA for capital adequacy purposes	Capital charges
	US \$ '000	US \$ '000	US \$ '000
Claims on Sovereign	1,745	524	66
Claims on PSEs	2,276	683	85
Claims on Banks	122,123	36,637	4,580
Claims on Corporates	399,323	119,797	14,975
Mortgage	168,718	50,615	6,327
Regulatory Retail Portfolio	89,337	26,801	3,350
Past due facilities	44,969	13,491	1,686
Investment in securities	464	139	17
Holding of Real Estates	17,368	5,210	651
Other Assets	28,346	8,504	1,063
	<b>874,669</b>	<b>262,401</b>	<b>32,800</b>

## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### d) Off-balance sheet equity of Investment Accountholders

Off-balance sheet equity of Investment accountholders is invested and managed in accordance with Shari'a 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.

The Group has appropriate procedures and controls in place commensurate to the size of its portfolio which includes:

- 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;
- Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and
- 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 – 35. 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 2021	31 December 2020
<i>On balance sheet jointly financed assets*</i>		
Others		
Receivables	73.89%	85.73%
Investments	26.11%	14.27%

\* 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 – 36. 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 2021	31 December 2020
<i>On balance sheet jointly financed assets*</i>		
Others		
Banks	21.49%	22.86%
Corporate	57.53%	62.87%
Sovereigns	20.98%	14.27%

\* 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".

## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### d) Off-balance sheet equity of Investment Accountholders (Continued)

Table – 37. 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 2021:

	Opening actual allocation US\$ '000	Movement US\$ '000	Closing actual allocation US\$ '000
<i>On balance sheet jointly financed assets</i>	364,144	150,541	514,685
	364,144	150,541	514,685
<b>Others</b>			
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

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 2020:

	Opening actual allocation US\$ '000	Movement US\$ '000	Closing actual allocation US\$ '000
<i>Wakala Bi Al-Istithmar Pool</i>			
Receivables	156,650	(156,650)	-
Investments	4,655	(4,655)	-
	161,305	(161,305)	-
<i>On balance sheet jointly financed assets*</i>	177,397	186,747	364,144
	177,397	186,747	364,144
<b>Others</b>			
Receivables	142,262	(5,904)	136,357
Investments	161,509	(138,803)	22,706
	303,771	(144,707)	159,063
	642,473	(119,265)	523,207

## Additional Public Disclosures

31 December 2021

### 3 RISK MANAGEMENT (Continued)

#### d) Off-balance sheet equity of Investment Accountholders (Continued)

**Table – 38. Off-balance sheet equity of Investment Accountholders historical returns**

The following table summarises the historical returns over the past five year:

	December 2021 US\$ '000	December 2020 US\$ '000	December 2019 US\$ '000	December 2018 US\$ '000	December 2017 US\$ '000	December 2016 US\$ '000
Gross Income	25,593	17,153	23,830	1,175	1,491	1,810
Mudarib/ agency fee	(9,945)	(3,821)	(11,563)	91	105	118

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:

- Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.
- Establish approval processes to ensure adherence to liquidity risk management processes.
- Require periodic calculations to determine the extent to which the segments are funding long-term assets with short-term liabilities.
- 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.
- Establish limits on the degree of concentrations that are deemed acceptable. This should:
- 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
- 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.
- 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.
- Provide for the review of alternate funding sources including stand-by facilities and lines of credit.
- Establish a framework for the composition of assets.
- 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.

## Additional Public Disclosures

31 December 2021

### 3. RISK MANAGEMENT (Continued)

#### e) Liquidity risk (Continued)

**Table – 39. Liquidity ratios**

The following table summarises the liquidity ratios as of:

	31 December 2021	31 December 2020
Liquid assets to total assets	13.35%	17.19%
Short term assets to short term liabilities	34.18%	48.00%

**Table – 40. Quantitative indicators of financial performance and position**

	December 2021* US\$ '000	December 2020 US\$ '000	December 2019 US\$ '000	December 2018 US\$ '000	December 2017 US\$ '000	December 2016 US\$ '000
Return on average equity	4.7%	2.8%	2.0%	-8.2%	-2.7%	1.2%
Return on average assets	0.5%	0.3%	0.2%	-0.8%	-0.2%	0.1%
Cost to Income Ratio	70.8%	67.7%	75.6%	82.8%	103.1%	82.5%

\* 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. However, in lieu of best established corporate governance practices, the Bank has decided to change existing external auditor's M/S Ernst & Young and appointed Price Waterhouse Coopers as their new auditors for the year 2022 during the AGM held on 28 March 2022.

For the year 2021, 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 2021

	Common Disclosure Template	PIRI	Reference
<b>Common Equity Tier 1 capital: instruments and reserves</b>			
1	Directly issued qualifying common share capital plus related stock surplus	136,458	E
2	Retained earnings	(10,855)	G
3	Accumulated other comprehensive income (and other reserves)	(5,657)	H-L
4	Not applicable	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	14,017	N
<b>6</b>	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>133,963</b>	
<b>Common Equity Tier 1 capital: regulatory adjustments</b>			
7	Prudential valuation adjustments		
8	Goodwill (net of related tax liability)	29,805	B
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	7,561	A
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	6,395	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)	3,380	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	-	
<b>28</b>	<b>Total regulatory adjustments to Common equity Tier 1</b>	<b>47,141</b>	
<b>29</b>	<b>Common Equity Tier 1 capital (CET1)</b>	<b>86,822</b>	
<b>Additional Tier 1 capital: instruments</b>			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	111,000	F
31	of which: classified as equity under applicable accounting standards	111,000	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	

# CBB - Composition of Capital Disclosure Requirements

## PD-1 Regulatory Capital Reconciliation

At 31 December 2021

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)	83	O
35	of which: instruments issued by subsidiaries subject to phase out	-	
<b>36</b>	<b>Additional Tier 1 capital before regulatory adjustments</b>	<b>111,083</b>	
<b>Additional Tier 1 capital: regulatory adjustments</b>			
37	Investments in own Additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	CBB specific regulatory adjustments	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
<b>43</b>	<b>Total regulatory adjustments to Additional Tier 1 capital</b>	<b>-</b>	
<b>44</b>	<b>Additional Tier 1 capital (AT1)</b>	<b>111,083</b>	
45	Hair Cut due to shortage in CET-1 Capital	-	
<b>46</b>	<b>Net Available Capital after regulatory adjustments and haircut</b>	<b>111,083</b>	
<b>47</b>	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>197,905</b>	
<b>Tier 2 capital: instruments and provisions</b>			
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)	8,037	D
51	of which: instruments issued by subsidiaries subject to phase out	-	
52	Assets revaluation reserve - property, plant, and equipment	471	P
53	Provisions	7,835	R
<b>54</b>	<b>Tier 2 capital before regulatory adjustments</b>	<b>16,343</b>	
<b>Tier 2 capital: regulatory adjustments</b>			
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)	-	
58	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
59	National specific regulatory adjustments	-	
<b>60</b>	<b>Total regulatory adjustments to Tier 2 capital</b>	<b>-</b>	
<b>61</b>	<b>Tier 2 capital (T2)</b>	<b>16,343</b>	
<b>62</b>	<b>Total capital (TC = T1 + T2)</b>	<b>214,248</b>	
<b>63</b>	<b>Total risk weighted assets</b>	<b>930,949</b>	
<b>Capital ratios and buffers</b>			
64	Common Equity Tier 1 (as a percentage of risk weighted assets)	9.33%	
65	Tier 1 (as a percentage of risk weighted assets)	21.26%	
66	Total capital (as a percentage of risk weighted assets)	23.01%	

## CBB - Composition of Capital Disclosure Requirements

### PD-1 Regulatory Capital Reconciliation

At 31 December 2021

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%	
68	of which: capital conservation buffer requirement	2.5%	
69	of which: bank specific countercyclical buffer requirement	N/A	
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)	2.8%	
<b>National minima including CCB (where different from Basel III)</b>			
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%	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
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)	9,020	
<b>Applicable caps on the inclusion of provisions in Tier 2</b>			
79	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	12,957	Q
80	Cap on inclusion of provisions in Tier 2 under standardised approach	7,835	
81	N/A		
82	N/A		
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)</b>			
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

Appendix PD-2, Step-1

	As per published financial statements 31 December 2021 US \$ '000	As per Consolidated PIRI Return 31 December 2021 US \$ '000
<b>Assets</b>		
Cash and balances with banks and financial institutions	312,606	313,737
Receivables	485,237	495,458
Ijara Muntahia Bittamleek & Ijara receivables	461,475	462,296
Musharaka	329,021	333,012
Investments	1,113,627	1,068,632
Investments in real estate	9,526	12,343
Investment in joint venture & associates	18,700	18,708
Premises and equipment	56,361	56,963
Goodwill	12,722	29,804
Other assets	64,167	65,183
<b>Total Assets</b>	<b>2,863,442</b>	<b>2,856,136</b>
<b>Liabilities</b>		
Current accounts	353,429	332,902
Murabaha and other payables	243,264	243,264
Other liabilities	109,646	131,132
<b>Total liabilities</b>	<b>706,339</b>	<b>707,298</b>
<b>Equity of Investment Account Holders</b>	<b>1,865,416</b>	<b>1,865,416</b>
<b>Subordinated debt</b>	<b>19,439</b>	<b>19,359</b>
<b>Shareholders' Equity</b>		
<b>CET 1</b>		
Share capital	136,458	136,458
Perpetual Tier1 capital	111,000	111,000
Retained earnings	(4,747)	(21,016)
Reserves	5,107	11,010
<b>Total Shareholders' Equity</b>	<b>247,818</b>	<b>237,452</b>
Non controlling interest	24,430	26,611
<b>Total Liabilities, URIA and shareholders' equity</b>	<b>2,863,442</b>	<b>2,856,136</b>

# CBB - Composition of Capital Disclosure Requirements

## Statement of Financial Position

Appendix PD-2, Step-2

	As per published financial statements 31 December 2021 US \$ '000	As per Consolidated PIRI Return 31 December 2021 US \$ '000	
<b>Assets</b>			
Cash and balances with banks and financial institutions	312,606	313,737	
Receivables	485,237	495,458	
Ijara Muntahia Bittamleek & Ijara income receivable	461,475	462,296	
Musharaka	329,021	333,012	
Investments carried at fair value through profit & loss	33,653	42,556	
Investments carried at amortized cost	977,526	977,947	
Investments carried at fair value through equity	102,448	48,129	
Investments in real estate	9,526	12,343	
Investment in joint venture & associates	18,700	18,708	
Premises and equipment	56,361	56,963	
of which intangibles	7,561	7,561	A
Goodwill	12,722	29,805	B
Other assets	64,167	61,802	
of which deferred tax subject to direct deduction		6,395	C1
of which deferred tax subject to threshold deduction		3,380	C2
<b>Total Assets</b>	<b>2,863,442</b>	<b>2,856,136</b>	
<b>Liabilities</b>			
Current accounts	353,429	332,902	
Murabaha and other payables	243,264	243,264	
Other liabilities	109,646	124,210	
<b>Total liabilities</b>	<b>706,339</b>	<b>700,376</b>	
<b>Equity of Investment Account Holders</b>	<b>1,865,416</b>	<b>1,865,416</b>	
<b>Subordinated debt</b>	<b>19,439</b>	<b>19,359</b>	
of which allowed as T2		8,037	D
<b>Shareholders' Equity</b>			
<b>CET 1</b>			
Share capital	136,458	136,458	E
Perpetual AT1 Capital	111,000	111,000	F
Retained Earnings / (Accumulated losses)	5,107	(10,855)	G
Statutory reserve	24,840	24,840	H
General reserves	8,687	8,687	I
Foreign exchange reserve	(42,988)	(42,985)	J
Revaluation reserve on investments	4,342	3,899	K
Other reserves	(99)	(98)	L
Non controlling interest	24,430	26,611	M
NCI CET1		14,017	N
NCI AT1		83	O
<b>Tier 2</b>			
Revaluation reserve on premises and equipment	471	471	P
Expected credit losses for stage1 and stage2	-	12,957	Q
of which allowed as T2		7,835	R
<b>Total Shareholders' Equity</b>	<b>272,248</b>	<b>270,985</b>	
<b>Total Liabilities, URIA and shareholders' equity</b>	<b>2,863,442</b>	<b>2,856,136</b>	

Legal entities included within the regulatory scope of consolidation but excluded from the accounting scope of consolidation:

Name	Activities	Total Assets	Total Equity
Itqan Capital Company	Fund management and investment advisory	14,477	12,878

# CBB - Composition of Capital Disclosure Requirements

## Disclosure template for main features of regulatory capital instruments

### Appendix PD-3

1	Issuer	Al Baraka Islamic Bank	Al Baraka Islamic Bank	Al Baraka Islamic Bank	Al Baraka Bank (Pakistan) Limited	Al Baraka Bank (Pakistan) Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	NA	NA	NA	NA	NA
3	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						
4	Transitional CBB rules	CET 1	AT1	AT1	Tier 2	Tier 2
5	Post-transitional CBB rules	CET 1	AT1	AT1	Tier 2	Tier 2
6	Eligible at solo/group/group&solo	Both solo and Group	Both solo and Group	Both solo and Group	GROUP	GROUP
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares	Subordinated Mudaraba debt	Subordinated Mudaraba debt	Unrestricted Mudaraba Sukuk	Unrestricted Mudaraba Sukuk
8	Amount recognised in regulatory capital (Currency in USD K, as of most recent reporting date)	136,458	81,000	30,000	8,498	9,829
9	Par value of instrument	100	Not Applicable	Not Applicable	NA	NA
10	Accounting classification	Equity	Equity	Equity	Bullet Payment after 7 Years	Bullet Payment after 10 Years
11	Original date of issuance	Various	2018	2019	2017	2021
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	Not Applicable	Perpetual	Perpetual	2024	2031
14	Issuer call subject to prior supervisory approval	Not Applicable	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
16	Subsequent call dates, if applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Coupons / dividends						
17	Fixed or floating dividend/coupon	As decided by shareholder	Fixed	Fixed	Floating	Floating
18	Coupon rate and any related index	Not Applicable	Various	Various	6 Month Kibor + 0.75%	6 Month Kibor + 1.50%
19	Existence of a dividend stopper	Not Applicable	Yes	Yes	No	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	Not Applicable	No	No	Not Applicable	Not Applicable
22	Noncumulative or cumulative	Not Applicable	Non-cummulative	Non-cummulative	Non-cummulative	Non-cummulative
23	Convertible or non-convertible	Not Applicable	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
25	If convertible, fully or partially	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
26	If convertible, conversion rate	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
27	If convertible, mandatory or optional conversion	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
28	If convertible, specify instrument type convertible into	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
29	If convertible, specify issuer of instrument it converts into	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
30	Write-down feature	Not Applicable	Yes	Yes	No	No
31	If write-down, write-down trigger(s)	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
32	If write-down, full or partial	Not Applicable	Full	Full	Not Applicable	Not Applicable
33	If write-down, permanent or temporary	Not Applicable	Permanent	Permanent	Not Applicable	Not Applicable
34	If temporary write-down, description of write-up mechanism	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	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
36	Non-compliant transitioned features	Not Applicable	No	No	No	No
37	If yes, specify non-compliant features	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable