

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

Basel III, Pillar III Disclosures

30-Jun-2023

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

Basel III, Pillar III Disclosures
for the period ended 30 June 2023

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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 seven 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,

For details on the Group's subsidiary as of 30 June 2023, 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.

Table – 1. Capital structure

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

	30-Jun-23			31-Dec-22		
	CET 1 US \$ '000	AT1 US \$ '000	Tier 2 US \$ '000	CET 1 US \$ '000	AT1 US \$ '000	Tier 2 US \$ '000
Common Equity Tier 1 (CET1)						
Issued and fully paid ordinary shares	151,458			151,458		
General reserves	8,687			8,687		
Statutory reserves	26,119			26,119		
Retained earnings	19,102			7,976		
Current cumulative net income/ (losses)	(8,340)			12,791		
Unrealized gains and losses on available for sale financial instruments	3,550			3,961		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(56,581)			(56,440)		
Other reserves	(162)			(140)		
Total CET1 capital before minority interest	135,843			154,412		
Minority interest in banking subsidiaries	9,425			10,573		
Total CET1 capital prior to regulatory adjustments	145,268			164,985		
Less						
Goodwill	7,852			9,917		
Intangible other than mortgage servicing rights	5,127			6,081		
Deferred tax assets	-			1,411		
Total CET 1 capital after the regulatory adjustments above (CET 1a)	132,289			147,576		
Other Capital (AT1 & T 2)						
Instruments issued by parent company		96,000	-		96,000	-
Instruments issued by banking subsidiaries to third parties		-	3,751		-	4,923
Assets revaluation reserve - property, plant, and equipment		-	343		-	343
Expected Credit Losses (ECL) Stages 1 & 2		-	8,159		-	7,316
Regulatory adjustment due to breach in CET1		-	-		-	-
Total Available AT1 & T2 Capital		96,000	12,253		96,000	12,582
Total CET 1 Capital	132,289			147,576		
Total T1 Capital		228,289			243,576	
Total Capital			240,542			256,158

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2 CAPITAL ADEQUACY (continued)

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

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

Type of Islamic financing contracts	30 June 2023	31 December 2022
	Capital requirements US \$ '000	Capital requirements US \$ '000
Receivables	6,905	13,702
Ijara Muntahia Bitamleek & Ijara receivables	9	15,535
Musharaka	8,398	8,673
	15,312	37,910

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:


	30-Jun-23		31-Dec-22	
	Self Financed US \$ '000	IAH US \$ '000	Self Financed US \$ '000	Financed by IAH US \$ '000
Market risk - standardised approach				
Price risk	77	-	235	-
Equities Position Risk	51	-	87	-
Foreign exchange risk	8,068	-	9,199	-
Total of market risk - standardised approach	8,196	-	9,521	-
Multiplier	12.50	12.50	12.50	12.50
	102,450	-	119,013	-
Eligible Portion for the purpose of the calculation	100%	30%	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	102,450	-	119,013	-
Total market RWE		102,450		119,013
		12.50%		12.50%
Minimum capital requirement		12,808		14,877

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

Indicators of operational risk	30 June 2023	31 December 2022
	US \$ '000	US \$ '000
Average gross income	91,300	91,300
Multiplier	12.5	12.5
	1,141,250	1,141,250
Eligible Portion for the purpose of the calculation	15%	15%
Total operational RWE	171,188	171,188
	12.50%	12.50%
Minimum capital requirement	21,398	21,398

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2 CAPITAL ADEQUACY (continued)

Table – 5. Capital adequacy ratios

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

	30-Jun-23			31-Dec-22		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Group's Capital adequacy ratio	25.97%	24.65%	14.28%	29.26%	27.83%	16.86%
Minimum regulatory requirements*	12.50%	10.50%	9.00%	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	18.35%	14.80%	10.89%	19.72%	15.77%	12.30%

* Minimum required by CBB regulations under Basel III

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

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:

	30-Jun-23			31-Dec-22		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Capital adequacy ratio	18.59%	15.57%	10.89%	15.79%	13.34%	11.83%
Minimum regulatory requirements*	11.50%	7.50%	6.00%	11.50%	7.50%	6.00%

*There are no capital conversion buffer required as per SBP requirements.

3 RISK MANAGEMENT

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

a) Credit risk

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

Table – 7. Credit risk exposure

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

	30-Jun-23				31-Dec-22			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Total gross credit exposure	*Average gross exposure over the period	Total gross credit exposure	*Average gross credit risk exposure over the period	Total gross credit exposure	*Average gross credit exposure over the period	Total gross credit exposure	*Average gross credit exposure over the period
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Funded								
Cash and balances with banks and financial institutions	283,179	227,767	-	-	-	31,551	162,440	158,418
Receivables	342	373	545,611	474,414	462	738	448,384	509,050
Ijara Muntahia Bittamleek and Ijara receivables	13,733	13,639	635,480	610,495	14,321	24,973	547,635	502,049
Musharaka	24,088	24,475	149,719	153,099	32,019	39,848	207,426	239,399
Investments	653,727	587,342	387,500	456,850	655,178	643,616	485,391	454,092
Investment in real estate	8,836	8,836	-	-	8,836	10,285	-	-
Premises and equipment	91,528	92,286	-	-	88,901	91,625	61,693	43,405
Other assets	53,079	39,268	753	17,247	-	-	-	-
Unfunded exposure								
Contingencies and commitments	147,442	158,925	-	-	180,490	200,474	-	-
	1,275,954	1,152,911	1,719,063	1,712,105	980,207	1,043,110	1,912,969	1,906,413

*Average balances are computed based on quarter end balances.

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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:

	30-Jun-23				31-Dec-22			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	*geographic area		*geographic area		*geographic area		*geographic area	
	Middle East	Other Asian countries	Middle East	Other Asian countries	Middle East	Other Asian countries	Middle East	Other Asian countries
US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	
Cash and balances with banks	189,888	66,750	-	26,541	-	-	117,708	44,732
Receivables	342	-	419,147	126,464	462	-	300,892	147,492
Ijara Muntahia Bittamleek and Ijara receivables	13,733	-	635,112	368	14,321	-	547,156	478
Musharaka	-	24,088	-	149,719	-	32,019	-	207,426
Investments	471,663	213,463	151,793	204,288	388,901	266,277	252,319	233,072
Investment in real estate	8,836	-	-	-	8,836	-	-	-
Premises and equipment	75,003	16,525	-	-	26,220	62,681	37,488	24,205
Other assets	37,352	20,604	-	5,630	-	-	-	-
	796,617	341,450	1,206,052	513,010	438,740	360,977	1,255,563	657,405

* 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.

Table – 9. Credit risk – counterparty type breakdown

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

	30-Jun-23				31-Dec-22			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Funded	Unfunded	Funded	Unfunded	Funded	Unfunded	Funded	Unfunded
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Cash items	26,925	-	134	-	21,438	-	689	-
Claims on Sovereigns	737,339	-	310,802	-	508,061	-	595,347	-
Claims on Public Sector Entities	70,712	-	78,207	-	100,309	-	70,142	-
Claims on banks	103,111	2,480	154,780	-	7,146	10,143	58,157	-
Claims on corporate	23,953	144,684	461,712	-	22,799	170,347	464,024	-
Mortgage	-	-	580,765	-	-	-	529,705	-
Past dues receivables	342	78	25,043	-	463	-	21,886	-
Regulatory Retail Portfolio	-	-	80,272	-	-	-	112,021	-
Equity investment	34,614	-	337	-	35,089	-	426	-
Investment in Funds	1,000	-	-	-	1,000	-	-	-
Holding of Real Estate	90,993	-	20,282	-	92,590	-	23,105	-
Other assets	39,323	-	6,728	-	10,822	-	37,468	-
	1,128,512	147,442	1,719,062	-	799,717	180,490	1,912,970	-

For the purpose of rating, the Group is using External Credit Assessment Institutions (ECAIs) Standard & Poors, Moodys, Capital Intelligence, Fitch and other approved credit rating agencies for assigning risk weight to assets.

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

	30-Jun-23		31-Dec-22	
	Self financed Funded US \$ '000	Financed by Funded US \$ '000	Self financed Funded US \$ '000	Financed by IAH Funded US \$ '000
Cash and balances with bank	2	46	3	46
Receivables	-	978	-	836
Musharaka	-	1,161	-	1,370
Ijara Muntahia Bittamleek and Ijara Receivables	-	-	-	-
Investments	25,836	26,975	52,244	-
Other Assets	7,725	-	6,261	-
Contingencies and commitments	2,000	-	2,000	-
	35,563	29,180	60,508	2,252

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

	30 June 2023	31 December 2022
	Self financed US \$ '000	Self financed US \$ '000
Assets		
Investment in a subsidiary*	94,475	94,201
	94,475	94,201
Contingencies and commitments		
Letters of credit	-	-
Acceptances	-	-
	-	-

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 30 June 2023:

Counterparties *	Funded US \$ '000
Counterparty # 1	478,295
Counterparty # 2	294,186
Counterparty # 3	95,792
Counterparty # 4	82,951
Counterparty # 5	53,898


* 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 2022:

Counterparties *	Funded US \$ '000
Counterparty # 1	467,060
Counterparty # 2	348,059
Counterparty # 3	103,874
Counterparty # 4	64,376
Counterparty # 5	53,797
Counterparty # 6	45,189

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

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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:

2023	US \$ '000
Counterparty # 1	8,091
Counterparty # 2	723
Counterparty # 3	361
Counterparty # 4	227
Counterparty # 5	130
Counterparty # 6	66
Counterparty # 7	50
Counterparty # 8	38
Counterparty # 9	25

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

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3 RISK MANAGEMENT (continued)
 a) Credit risk (continued)

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown

57% of Group assets are financed by equity of IAH, while 43% are self financed. The following table summarises the residual contractual maturity breakdown of the whole credit portfolio as of 30 June 2023, broken down by major types of credit exposure:

	Up to 3 months US \$	3 to 6 months US \$	6 months to 1 year US \$	1 to 3 years US \$	3 to 5 years US \$	5 to 10 years US \$	10 to 20 years US \$	Over 20 years US \$	No fixed maturity US \$	Total US \$
ASSETS										
Cash and balances with banks	193,122	-	-	-	-	-	-	-	90,057	283,179
Receivables	242,163	93,679	32,815	68,797	45,852	22,204	4,148	-	30,985	545,954
Ijara Muntahia Bitamleek and Ijara income receivables	17,561	5,594	25,354	75,982	68,105	119,957	242,364	93,295	-	649,212
Musharaka	611	3,941	1,034	67,875	48,773	16,855	22,243	-	12,876	173,808
Investments*	40,664	-	126	355,825	403,884	185,876	356	1,000	34,450	1,022,181
Investment in real estate	-	-	-	8,836	-	-	-	-	-	8,836
Investment in joint venture	-	-	-	-	-	-	-	-	19,045	19,045
Premises and equipment	429	279	878	2,360	1,163	437	-	-	85,982	91,528
Goodwill	-	-	957	-	13,948	-	-	-	7,852	7,852
Other assets	37,064	478	-	-	-	-	-	-	1,384	53,831
Total assets	531,614	104,971	61,164	579,675	581,525	345,129	269,111	99,806	282,431	2,855,426
LIABILITIES: EQUITY OF INVESTMENT ACCOUNTHOLDERS										
Due to banks and financial institutions	37,721	328,199	81,263	36	146	7,155	-	-	-	454,520
Current accounts**	317,547	-	-	-	-	-	-	-	-	317,547
Other liabilities	87,539	1,711	3,931	10,514	1,235	2,195	-	-	-	107,125
Total liabilities	442,807	329,910	85,194	10,550	1,381	9,350	-	-	-	879,192
Equity of investment accountholders	1,153,817	113,962	288,288	95,211	67,764	-	-	-	-	1,719,062
Subordinated Debt	892	-	-	5,245	-	6,067	-	-	-	12,204
Total owners' equity	-	-	-	-	-	-	-	-	244,968	244,968
Total liabilities, Equity of investment accountholders and owner's equity	1,597,516	443,872	373,482	111,006	69,145	15,417	-	-	244,968	2,855,426
Net gap	(1,065,902)	(328,921)	(312,318)	468,669	512,380	329,712	269,111	99,806	37,463	-
Cumulative net gap	(1,065,902)	(1,404,823)	(1,717,141)	(1,248,472)	(736,092)	(406,380)	(137,269)	(37,463)	-	-
Off-balance sheet equity of investment accountholders	-	9,291	8,130	89,812	17,181	29,001	-	-	-	153,415

* Investments in 1 to 3 years are easily convertible into liquid funds.

** Current Accounts are shown under up to 3 months maturity in the above table. However, most of these current accounts are stable funds which are expected to be available to the bank on continuous basis.

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown (continued)

71% of Group assets are financed by equity of IAH, while 29% are self financed. The following table summarises the residual contractual maturity breakdown of the total assets portfolio as of 31 December 2022, broken down by major types of exposure:

	Up to 3 months US \$	3 to 6 months US \$	6 months to 1 year US \$	1 to 3 years US \$	3 to 5 years US \$	5 to 10 years US \$	10 to 20 years US \$	Over 20 years US \$	No fixed maturity US \$	Total US \$
ASSETS										
Cash and balances with banks	226,392,499	-	-	-	-	-	-	-	86,213,705	312,606,204
Receivables	236,293,962	97,505,609	24,366,787	48,069,680	29,334,797	20,373,204	2,566,587	3,888,914	22,824,602	485,236,352
Ijara Muntahia Bita'maleek and ijara income receivables	13,907,183	26,682,271	14,899,330	47,427,085	46,993,431	91,776,340	165,670,166	53,074,776	1,064,689	481,475,291
Musharaka	12,484,310	937,732	17,419,014	77,545,532	150,899,244	38,144,483	24,512,541	-	6,076,370	329,021,236
Investments	101,041,410	189,239	-	82,144,526	506,941,672	353,496,520	571,145	1,000,000	66,281,954	1,113,626,666
Investment in real estate	-	-	-	9,525,805	-	-	-	-	9,525,805	9,525,805
Investment in Joint Venture	-	-	-	-	-	-	-	-	18,699,987	18,699,987
Premises and equipment	259,079	259,079	518,158	2,072,630	2,072,630	5,161,575	-	-	45,998,330	56,361,481
Goodwill	-	-	-	6,151,933	20,263,536	-	-	-	12,722,624	12,722,624
Other assets	30,695,833	2,544,227	2,014,802	-	-	-	-	-	2,465,760	64,166,111
Total assets	621,074,277	128,088,156	59,216,091	252,957,390	756,505,511	509,932,132	193,312,469	57,963,680	284,380,041	2,863,441,757
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS										
Due to banks and financial institutions	19,610,515	16,516,108	6,404,343	51,028,522	243,838	7,630,668	-	-	-	101,436,194
Current accounts**	353,428,980	-	-	-	-	-	-	-	-	353,428,980
Borrowings	28,928,774	84,531,263	28,367,917	-	-	-	-	-	-	141,827,954
Other liabilities	87,934,067	2,671,818	585,368	2,127,300	2,093,457	14,233,712	-	-	-	109,645,742
Total liabilities	489,902,357	103,721,188	35,357,628	53,155,822	2,337,295	21,864,580	-	-	-	706,338,870
Equity of investment accountholders	993,163,236	237,069,460	287,928,532	177,295,869	76,621,980	69,967,479	23,329,166	-	-	1,865,415,724
Subordinated debt	1,080,398	31,810	-	8,497,934	-	9,629,277	-	-	-	19,439,419
Total owners' equity	-	-	-	-	-	-	-	-	272,247,744	272,247,744
Total liabilities, Equity of investment accountholders and owner's equity	1,484,165,992	340,822,458	323,286,160	238,949,626	78,959,275	101,661,336	23,329,166	-	272,247,744	2,863,441,757
Net gap	(863,091,715)	(212,724,302)	(264,068,069)	14,007,765	677,546,236	408,250,796	169,983,303	57,963,680	12,132,297	-
Cumulative net gap	(863,091,715)	(1,075,816,017)	(1,339,884,086)	(1,325,876,321)	(648,330,086)	(240,079,290)	(70,095,987)	(12,132,297)	-	-
Off-balance sheet equity of invest	-	17,077,276	8,130,000	13,861,878	19,638,162	100,000,000	-	-	-	158,527,336

* Investments in 1 to 3 years are easily convertible into liquid funds.

** Current Accounts are shown under up to 3 months maturity in the above table. However, most of these current accounts are stable funds which are expected to be available to the bank on continuous basis.

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

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

	30-Jun-23					31-Dec-22				
	Past due but performing US \$ '000	Non-performing Islamic financing contracts US \$ '000	Aging of non performing facilities			Past due but performing US \$ '000	Non-performing Islamic financing contracts US \$ '000	Aging of non performing facilities		
			90 days to 1 year US \$ '000	1 year to 3 years US \$ '000	Over 3 years US \$ '000			90 days to 1 year US \$ '000	1 year to 3 years US \$ '000	Over 3 years US \$ '000
Corporates	23,228	74,936	43,601	11,690	19,644	17,114	79,564	7,083	31,917	40,563
Investment Firms	-	555	-	-	555	-	595	-	-	595
Individuals	1,647	10,274	6,217	1,309	2,749	551	9,216	4,605	1,515	3,095
Others	281	-	-	-	-	-	-	-	-	-
	25,156	85,765	49,818	12,999	22,948	17,665	89,375	11,688	33,432	44,253

Table – 14. Credit Risk – provision against financing facilities by counterparty type

The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 30 June 2023.

	Specific allowances								
	Opening Balance	Charges during the period	Net transition in Stage3 during the year	Write-Back during the year	Write-offs during the year	Write-back of written off during the year	Transferred to investment risk reserve	Exchange difference on opening balance	Balance at the end of the year
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Corporates	53,347	2,588	712	(1,127)	-	-	-	(6,185)	49,315
Individuals	4,130	2,032	8	(3)	-	-	-	(694)	5,473
Others	10,699	(33)	-	-	-	-	-	(2,352)	8,314
	68,176	4,587	720	(1,130)	-	-	-	(9,231)	63,102

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 2022:

	Specific allowances								
	Opening Balance	Charges during the period	Net transition in Stage3 during the year	Write-Back during the year	Write-offs during the year	Write-back of written off during the year	Transferred to investment risk reserve	Exchange difference on opening balance	Balance at the end of the year
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Corporates	62,797	7,303	(102)	(3,764)	(4,779)	-	-	(8,108)	53,347
Individual	4,230	827	-	-	(86)	-	-	(639)	4,130
Others	12,847	687	-	-	(31)	-	-	(2,804)	10,699
	79,874	8,817	(102)	(3,764)	(4,898)	-	-	(11,751)	68,176

Table – 15. Credit risk – non performing facilities and provisions

The following table summarises the total non performing facilities and provisions disclosed by geographical area as of:

	30-Jun-23			31-Dec-22		
	Non-performing Islamic financing contracts US \$ '000	ECL for Stage 3 US \$ '000	ECL for Stage 1 and 2 US \$ '000	Non-performing Islamic financing contracts US \$ '000	ECL for stage 3 US \$ '000	ECL for Stage 1 and 2 US \$ '000
Middle East	41,789	26,060	11,875	37,501	23,851	10,370
Other Asian countries	43,987	37,042	4,878	51,873	44,325	4,664
	85,776	63,102	16,753	89,374	68,176	15,034

Table – 16. Credit risk – restructured Islamic financing contracts

The following table summarises the total outstanding Islamic financing contracts that were restructured during the year as of:

	30 June 2023 Total US \$ '000	31 December 2022 Total US \$ '000
Restructured Islamic financing contracts	12,798	6,541

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.

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 17. Counterparty credit risk exposure

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

	30-Jun-23		31-Dec-22	
	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	283,179	-	162,440	-
Receivables	545,953	255,537	448,847	286,804
Ijara Muntahia Bittamleek	649,213	557,367	581,955	495,426
Musharaka	173,807	173,807	239,444	239,444
Investments	1,041,227	-	1,140,569	-
Investment in real estate	8,836	-	8,836	-
Premises and equipment	91,528	-	98,319	-
Other assets	53,831	-	52,273	-
	2,847,674	986,711	2,712,683	1,021,675

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

Table – 18. Counterparty credit risk exposure

The following table summarises exposure by type of Islamic financing contract that is covered by eligible collateral after the application of haircuts as of:

	30-Jun-23		31-Dec-22	
	Gross positive FV of contracts	Collateral held	Gross positive FV of contracts	Collateral held
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Receivables	545,953	12,834	448,847	15,989
Ijara Muntahia Bittamleek & Ijara income receivable	649,213	37,481	561,955	11,727

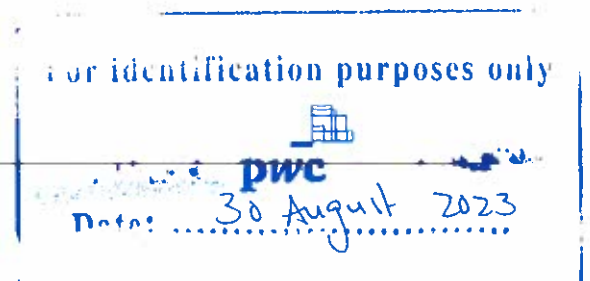
b) Market risk

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

Table – 19. Market risk capital requirements

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

	30-Jun-23			31-Dec-22		
	Equity Position Risk	Price risk	Foreign exchange risk	Equity Position Risk	Price risk	Foreign exchange risk
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
RWE	638	963	100,845	-	1,092	114,985
Capital requirements (12.5%)	80	120	12,606	-	136	14,373
Maximum value of RWE	748	1,279	100,845	-	1,361	128,405
Minimum value of RWE	638	963	82,581	-	1,063	108,886



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3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 20. 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 30 June 2023:

	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
Private equity	35,151	35,543	29,088	6,063	11,742
Real estate related	39,490	39,388	-	39,490	3,255
	75,641	75,931	29,088	46,553	15,022

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 2022:

	Total gross exposure US \$ '000	Average gross exposure over the period US \$ '000	Publicly held US \$ '000	Privately held US \$ '000	Capital requirement US \$ '000
Managed funds	1,000	1,000	-	1,000	25
Private equity	35,515	41,586	29,613	5,902	10,319
Real estate related	38,985	35,128	-	38,985	1,203
	75,500	77,714	29,613	45,888	11,547

The Bank carries a diversified portfolio of equity investments containing the securities held for trading or short-term capital gains and stakes in a few entities to secure strategic objectives like entrance in certain market or business segment. More specifically, the securities amounted to USD 0.5 million (2021: USD 1.2 million), in such portfolio, were held to generate capital gains.

Table – 21. Equity gains or losses in Banking Book

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

	30-Jun-23 US \$ '000	31-Dec-22 US \$ '000
Cummulative realised gains arising from sale or liquidation	(1,200)	1,023
Total unrealised gains recognised in the balance sheet but not through P&L	3,550	3,961
Unrealised gross gains included in Tier One Capital	3,550	3,961
Assets revaluation reserve - property, plant, and equipment	343	343

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3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 21. Equity gains or losses in Banking Book (continued)

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.

Table – 22. Profit rate mismatch

The following are the profit rate mismatch between the rate of return on assets and the expected funding due to the sources of finance as of:

	30-Jun-23				
	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	Over 3 years US \$ '000
Receivables	242,163	93,679	32,815	68,797	108,499
Ijara Muntahia Bittamleek and Ijara Income Receivables	17,561	6,594	25,354	75,982	523,721
Musharaka	611	3,941	1,034	67,875	100,347
Investments-Sukuk	19,518	-	126	355,825	590,116
Profit rate sensitive assets	279,853	104,214	59,329	568,479	1,322,683
Murabaha and other payables	-	-	-	-	-
Equity of investment accountholders	1,153,817	113,982	288,288	95,211	67,764
Subordinated debt	892	-	-	5,245	6,067
Profit rate sensitive liabilities	1,154,709	113,982	288,288	100,456	73,831
Profit rate gap	(874,856)	(9,768)	(228,959)	468,023	1,248,852
Profit rate sensitivity (200bps)	(17,497)	(195)	(4,579)	9,360	24,977

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3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 22. Profit rate mismatch (continued)

	31-Dec-22				
	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	Over 3 years US \$ '000
Receivables	152,886	114,095	37,675	59,122	85,068
Ijara Muntahia Bittamleek and Ijara Income Receivables	7,703	6,343	13,381	60,872	473,656
Musharaka	15,187	3,590	9,840	58,335	152,492
Investments-Sukuk	28,083	3,022	321	413,343	620,299
Profit rate sensitive assets	203,859	127,050	61,217	591,672	1,331,515
Murabaha and other payables	36,818	60,276	64,759	532	9,411
Equity of investment accountholders	1,390,187	209,957	212,748	64,635	35,442
Subordinated debt	1,314	-	-	6,625	7,661
Profit rate sensitive liabilities	1,428,319	270,233	277,507	71,792	52,514
Profit rate gap	(1,224,460)	(143,183)	(216,290)	519,880	1,279,001
Profit rate sensitivity (200bps)	(24,489)	(2,864)	(4,326)	10,398	25,580

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 mudaraba 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 Mudaraba 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

Table – 23. Foreign currency translation risk

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

	Jun-23 Total equivalent US \$ '000
Pakistani rupees	91,786
Euro	(16,789)
Kuwaiti dinars	62
Pound sterling	(5,330)
Egyptian Pound	1,930
Algerian Dinar	6,000
Others	1,068

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3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 23. Foreign currency translation risk (continued)

	<u>Dec-22</u>
	Total equivalent US \$ '000
Pakistani rupees	105,677
Euro	(15,908)
Kuwaiti dinars	56
Pound sterling	(4,705)
Egyptian Pound	2,372
Algerian Dinar	6,000
Others	553

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

Foreign currency risk sensitivity analysis

In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks approach which calculates the effect on assets and income of the Group as a result of 20% appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is calculated using various percentages based upon the judgement of the management of the Group.

Table – 24. Foreign currency risk sensitivity analysis

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

At 30 June 2023

Currency	Particular	Change	Exposures in US \$ '000	Effect on profit and loss/Equity US \$ '000
Pakistani rupees	Net long Position	20%	91,786	18,357
Euro	Net short Position	20%	16,789	3,358
Kuwaiti dinars	Net long Position	20%	62	12
Pound sterling	Net short Position	20%	5,330	1,066
Egyptian Pound	Net long Position	20%	1,930	388
Algerian Dinar	Net long Position	20%	6,000	1,200
Others	Net long Position	20%	1,068	214

At 31 December 2022

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

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH)

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

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in the Group's credit risk, liquidity risk, and other risks policies of the group. The strategic objectives of the investments of the

- 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 [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and equity of investment accountholders) times average funds of equity of IAH].

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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 web-site. 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.

	30 June 2023 US \$ '000	31 December 2022 US \$ '000
Penalty charges		
Central Bank of Bahrain		
Discrepancies in credit, risk and compliance procedures and reporting of past dues	-	-
Delays in settlement of ATM balances*	40	-
Compliance with AML regulations	-	-
Discrepancies in corporate governance disclosure	-	-
Anomalies in standing orders, EFTS and other electronic channels	63	119
	103	119
State Bank of Pakistan		
Various non-compliances with domestic laws and regulations	33	273

* This penalty was paid in year 2018 but was waived off subsequent to yearend.

*There was a penalty amounted to USD 1 thousand related to certain discrepancies in Corporate Governance paid subsequent to year 201

Non-Shari'a complaint income

The Group has received US \$ 0000 thousand (2021: US \$ 0000 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

Table – 25. Equity of Investment Accountholders

The following table summarises the breakdown of equity of IAH and the analysis of profit equalisation reserve, investment risk reserve and return on equity of IAH as of:

	30 June 2023 US \$ '000	31 December 2022 US \$ '000
IAH - Non-banks	1,376,698	1,370,739
IAH - Banks	341,764	541,820
Profit equalisation reserve	600	411
Investment risk reserve	-	-
	1,719,062	1,912,969

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 26. Ratio of reserves to total IAH

The following table summarises the ratio of reserves to the total amount of equity of IAH as of:

	30 June 2023	31 December 2022
PER to IAH (%)	0.03%	0.02%
IRR to IAH (%)	0.00%	0.00%

Table – 27. Equity of Investment Accountholders by Islamic financing product type

The following table summarises the percentage of IAH financing for each type of Shari's-compliant contract to total equity of IAH financing as of:

	30 June 2023	31 December 2022
Receivables	31.74%	23%
Musharaka	8.71%	11%
Ijara Muntahia Bittamleek & Ijara income receivable	36.97%	29%
Investments	28.28%	25%
Other assets	-5.70%	12%

Table – 28. Equity of Investment Accountholders by Counterparty Type

The following table summarises the percentage of equity of investment accountholders for each category of counterparty to total equity as of:

Counterparty type	30 June 2023	31 December 2022
Banks	19.92%	28%
Investment Firms	6.56%	6%
Corporates	23.21%	17%
Retail	43.51%	43%
Others	6.80%	6%

Table – 29. Investment Accountholders share of profit

The following table summarises the share of profits earned by and paid out to equity of IAH and the Group as Mudarib for the year ended:

	30 June 2023	31 December 2022	31 December 2021	31 December 2020	31 December 2019
Administrative expenses charged to equity of investment accountholders	3,703	7,493	8,052	14,061	8,863
Share of profits earned by IAH, before transfers to/from reserves	66,294	122,330	82,941	87,437	84,531
Percentage share of profit earned by IAH before transfer to/from reserves	4%	6%	4.64%	5.37%	6.06%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	60,247	102,033	58,566	63,761	75,287
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	4%	5%	3.28%	3.91%	5.40%
Share of profit paid out to Bank as mudarib	6,048	20,297	24,374	23,676	9,244
Mudarib Fee to total Investment Profits	9%	17%	29.39%	27.08%	10.94%

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 30. Movement in profit equalisation reserve

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

	30 June 2023 US \$ '000	31 December 2022 US \$ '000	31 December 2021 US \$ '000	31 December 2020 US \$ '000	31 December 2019 US \$ '000
Balance at 1 January	411	411	344	229	115
Amount utilized on initial implementation of FAS 30	-	-	-	-	-
Restated balances as on 01 January	411	411	344	229	115
Amount apportioned from income	189	-	67	115	114
Foreign exchange gain / (loss)	-	-	-	-	-
	600	411	411	344	229
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	0.29%	-	0.00	0.00	0.00

Table – 31. Movement in investment risk reserve

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

	30 June 2023 US \$ '000	31 December 2022 US \$ '000	31 December 2021 US \$ '000	31 December 2020 US \$ '000	31 December 2019 US \$ '000
Balance at 1 January	-	-	-	-	-
Amount utilized on initial implementation of FAS 30	-	-	-	-	-
Restated balances as on 01 January	-	-	-	-	-
Amount apportioned from income	-	277	-	-	-
Amount apportioned to provision	-	(277)	-	-	-
	-	-	-	-	-
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	Nil	0.00	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 2018: up to 70%) as per the terms of IAH agreements.

Table – 32. Equity of Investment Accountholders rate of return

The following table summarises the average rate of return over the period:

	Average 30 June 2023 Rate of return %		
	Bahrain		Pakistan
	BD	US \$	
Saving Accounts	0.07%	0.07%	6.59%
One Month Term Deposits	2.70%	2.63%	5.45%
Three Months Term Deposits	3.78%	3.69%	5.67%
Six Months Term Deposits	3.98%	3.89%	6.64%
Nine Months Term Deposits	4.33%	4.24%	-
1 Year Term Deposits	4.58%	4.49%	9.77%
2 Years Term Deposits	4.63%	4.54%	11.63%
3 Year Term Deposits	4.68%	4.59%	12.76%
4 Years Term Deposits	4.73%	4.64%	12.25%
5 Years Term Deposits	4.78%	4.69%	13.17%

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

	Average		
	31 December 2022 Rate of return %		
	Bahrain		Pakistan
	BD	US \$	
Saving Accounts	0.00	0.00	0.07
One Month Term Deposits	0.01	0.01	0.05
Three Months Term Deposits	0.02	0.02	0.06
Six Months Term Deposits	0.02	0.02	0.07
Nine Months Term Deposits	0.30	0.02	-
1 Year Term Deposits	0.30	0.03	0.09
2 Years Term Deposits	0.30	0.03	0.11
3 Year Term Deposits	0.30	0.03	0.13
4 Years Term Deposits	0.30	0.03	0.12
5 Years Term Deposits	0.30	0.03	0.13

Table – 33. Equity of Investment Accountholders by type of assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 30 June 2023:

	Opening	Movement	Closing
	Actual		Actual
	Allocation		Allocation
	US \$ '000	US \$ '000	US \$ '000
Cash and balances with banks	172,739	(271,447)	(98,708)
Receivables	448,384	97,227	545,611
Ijara Muntahia Bittamleek	547,635	87,846	635,480
Musharaka	207,426	(57,707)	149,719
Investments	485,391	817	486,208
Other assets	51,394	(50,641)	753
	1,912,969	(193,905)	1,719,063

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 2022:

	Opening	Movement	Closing
	actual		actual
	allocation		allocation
	US \$ '000	US \$ '000	US \$ '000
Cash and balances with banks	191,276	(18,537)	172,739
Receivables	484,124	(35,740)	448,384
Ijara Muntahia Bittamleek	426,107	121,528	547,635
Musharaka	276,152	(68,726)	207,426
Investments	452,408	32,983	485,391
Ijara income receivables	-	-	-
Other assets	35,349	16,046	51,395
	1,865,416	47,553	1,912,969

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 34. Equity of Investment Accountholders profit earned and paid

The following table summarises the amount and percentage of profits earned and paid out to profit sharing investment accounts over the past five years:

	Profit earned		Profit paid to IAH	
	US \$ '000	%age	US \$ '000	%age
2023	66,294	3.87%	60,247	3.52%
2022	122,330	6.45%	102,033	5.38%
2021	82,941	9.28%	58,566	6.56%
2020	87,437	5.37%	63,761	3.91%
2019	84,531	6.06%	75,287	5.40%

* Annualised

Table - 35. Treatment of assets financed by Equity of Investment Accountholders

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 30 June 2023:

	RWA US\$ '000	RWA for capital adequacy purposes US\$ '000	Capital charges US\$ '000
Type of Claims			
Claims on Sovereign	228	68	9
Claims on PSEs	1,438	431	54
Claims on Banks	78,847	23,654	2,957
Claims on Corporates	379,932	113,980	14,248
Claims on Investment Firms	-	-	-
Regulatory Retail Portfolio	60,202	18,061	2,258
Mortgage	312,134	93,640	11,705
Past due facilities	25,605	7,682	960
Investment in securities	809	243	30
Holding of Real Estates	81,127	24,338	3,042
Other Assets	6,728	2,018	252
	947,050	284,115	35,515

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2022:

	RWA US\$ '000	RWA for capital adequacy purposes US\$ '000	Capital charges US\$ '000
Type of Claims			
Claims on Sovereign	397	119	15
Claims on PSEs	654	196	25
Claims on Banks	26,323	7,897	987
Claims on Corporates	412,309	123,693	15,462
Claims on Investment Firms	-	-	-
Regulatory Retail Portfolio	84,006	25,202	3,150
Mortgage	285,849	85,755	10,719
Past due facilities	21,561	6,468	809
Investment in securities	1,022	307	38
Holding of Real Estates	86,994	26,098	3,262
Other Assets	37,467	11,240	1,405
	956,582	286,975	35,872

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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:

- (a) Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;
- (b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and
- (c) Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

Table – 36. Off-balance sheet equity of Investment Accountholders by Islamic product type

The following table summarises the breakdown of Off-balance sheet equity of IAH by type of Islamic financing contracts as of:

Islamic products

	30 June 2023	31 December 2022
<i>On balance sheet jointly financed assets*</i>		
Others		
Receivables	84.89%	86%
Investments	15.11%	14%

* Funds received under "Wakala" contracts are commingled or invested under multi level arrangements in " On Balance Sheet Equity of Investment Accountholders. In this regards, the distribution of such assets is duly given in section "C".

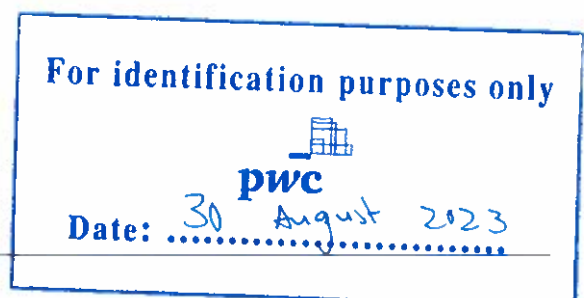
Table – 37. Off-balance sheet equity of Investment Accountholders by counterparty type

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

Counterparty type

	30 June 2023	31 December 2022
<i>On balance sheet jointly financed assets*</i>		
Others		
Banks	37.70%	49%
Corporate	53.88%	41%
Sovereigns	8.42%	10%

* 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".



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3 RISK MANAGEMENT (continued)

d) Off-balance sheet equity of Investment Accountholders (continued)

Table – 38. Off-balance sheet equity of Investment Accountholders by type of assets

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 30 June 2023:

	Opening actual allocation US\$ '000	Movement US\$ '000	Closing actual allocation US\$ '000
<i>On balance sheet jointly financed assets</i>	640,848	(174,836)	466,011
	<u>640,848</u>	<u>(174,836)</u>	<u>466,011</u>
Others			
Receivables	170,744	(32,382)	138,362
Investments	19,101	(4,049)	15,052
	<u>189,845</u>	<u>(36,431)</u>	<u>153,414</u>
	<u><u>830,693</u></u>	<u><u>(211,267)</u></u>	<u><u>619,425</u></u>

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2022:

	Opening actual allocation US\$ '000	Movement US\$ '000	Closing actual allocation US\$ '000
<i>On balance sheet jointly financed assets</i>	514,684	126,163	640,848
	<u>514,684</u>	<u>126,163</u>	<u>640,848</u>
Others			
Receivables	117,137	45,476	162,613
Investments	41,390	(14,159)	27,231
	<u>158,527</u>	<u>31,317</u>	<u>189,844</u>
	<u><u>673,211</u></u>	<u><u>157,480</u></u>	<u><u>830,692</u></u>

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3 RISK MANAGEMENT (continued)

d) Off-balance sheet equity of Investment Accountholders (continued)

Table – 39. Off-balance sheet equity of Investment Accountholders historical returns

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

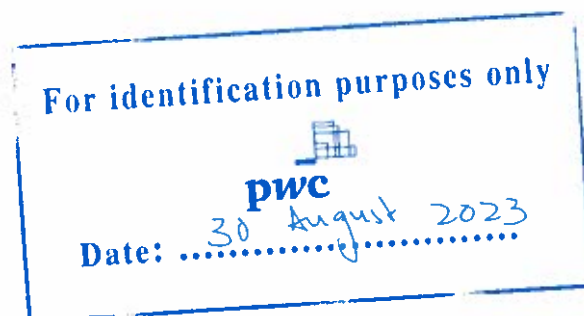
	June 2023	December 2022	December 2021	December 2020	December 2019
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Gross Income	21,187	34,555	25,593	17,153	23,830
Mudarib Fee	(3,782)	11,310	9,945	3,821	11,563

The Group's share of profit as a Mudarib for managing Off-balance sheet equity of Investment accountholders and their share of income is based on the terms and conditions of the related mudarib agreements. These mudarib agreements are done at the individual Counter party level.

e) Liquidity risk

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

- a. Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.
- b. Establish approval processes to ensure adherence to liquidity risk management processes.
- c. Require periodic calculations to determine the extent to which the segments are funding long-term assets with short-term liabilities.
- d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.
- e. Establish limits on the degree of concentrations that are deemed acceptable. This should:
 - i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the segments manage their assets and liquidity profile to mitigate the risk; and
 - ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the segments conduct an impact analysis on its dependency on any such concentrations.
- f. Provide for periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.



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3 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

- g. Provide for the review of alternate funding sources including stand-by facilities and lines of credit.
- h. Establish a framework for the composition of assets.
- i. Assess the acceptable mismatch in combination with currency commitments. The segments undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

Table – 40. Liquidity ratios

The following table summarises the liquidity ratios as of:

	30-Jun-23	31-Dec-22
Liquid assets to total assets	15.11%	8%
Short term assets to short term liabilities	28.89%	23%

Table – 41. Quantitative indicators of financial performance and position

	June 2023	December 2022	December 2021	December 2020	December 2019
Return on average equity	-3.0%	6%	4.7%	2.8%	2.0%
Return on average assets	-0.3%	1%	0.5%	0.3%	0.2%
Cost to Income Ratio	86.2%	72%	70.8%	67.7%	75.6%

* Return based on total income and equity (including non-controlling interest)

4 OTHERS

The responsibility for payment of Zakat is on individual shareholders and investment accountholders. However, 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.

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