

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

Basel III, Pillar III Disclosures

31 December 2023

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

Basel III, Pillar III Disclosures
for the year ended 31 December 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 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 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 consolidates its financial subsidiary (Al Baraka Bank (Pakistan) Limited).

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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 2023			31 December 2022		
	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/ (Accumulated losses)	17,949			7,976		
Current year (loss) / profit	(28,568)			12,791		
Unrealized gains and losses on available for sale financial instruments	6,882			3,961		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(65,851)			(56,440)		
Other reserves	(289)			(140)		
Total CET1 capital before minority interest	116,387			154,413		
Minority interest in banking subsidiaries in tier-1 capital	9,828			10,573		
Total CET1 capital prior to regulatory adjustments	126,215			164,985		
Less:						
Goodwill	7,967			9,917		
Intangible other than mortgage servicing rights	5,962			6,081		
Deferred tax assets subject to adjustment	3,673			1,411		
Total CET 1 capital after the regulatory adjustments above (CET 1a)	108,613			147,576		
Other Capital (AT1 & T 2)						
Instruments issued to parent company		96,000	-		96,000	-
Instruments issued by banking subsidiaries to third parties		-	3,524		-	4,923
Assets revaluation reserve - property, plant, and equipment		-	314		-	343
Eligible Expected Credit Losses (ECL) Stages 1 & 2		-	7,383		-	7,316
Total Available AT1 & T2 Capital		96,000	11,221		96,000	12,582
Total CET 1 Capital	108,613			147,576		
Total T1 Capital		204,613			243,576	
Total Capital			215,834			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	31 December 2023	31 December 2022
	Capital requirements US \$ '000	Capital requirements US \$ '000
Receivables	14,560	12,898
Ijara Muntahia Bittamleek & Ijara receivables	17,944	13,948
Musharakat	7,839	8,673
	40,343	35,519

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 2023		31 December 2022	
	Self Financed US \$ '000	Financed by IAH US \$ '000	Self Financed US \$ '000	Financed by IAH US \$ '000
Market risk - standardised approach				
Price risk	480	-	235	-
Equities Position Risk	58	-	87	-
Foreign exchange risk	8,836	-	9,199	-
Total of market risk - standardised approach	9,374	-	9,521	-
Multiplier	12.50	12.50	12.50	12.50
	117,175	-	119,014	-
Eligible Portion for the purpose of the calculation	100%	30%	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	117,175	-	119,014	-
Total market RWE		117,175		119,014
		12.50%		12.50%
Minimum capital requirement		14,647		14,877

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2 CAPITAL ADEQUACY (continued)

Table – 4. Capital Requirements for operational risk

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

	31 December	31 December
	2023	2022
	US \$ '000	US \$ '000
Indicators of operational risk		
Average gross income	87,088	91,300
Multiplier	12.5	12.5
	<hr/>	<hr/>
	1,088,600	1,141,255
	<hr/>	<hr/>
Eligible Portion for the purpose of the calculation	15%	15%
	<hr/>	<hr/>
Total operational RWE	163,290	171,188
	<hr/>	<hr/>
	12.50%	12.50%
	<hr/>	<hr/>
Minimum capital requirement	20,411	21,399
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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:

	31 December 2023			31 December 2022		
	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	24.78%	23.49%	12.47%	29.26%	27.83%	16.86%
Minimum regulatory requirements*	19.41%	16.45%	12.70%	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	19.51%	16.44%	12.70%	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,

	31 December 2023			31 December 2022		
	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	19.41%	16.45%	12.70%	15.79%	13.34%	11.83%
Minimum regulatory requirements*	11.50%	7.50%	6.00%	11.50%	7.50%	6.00%

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3 RISK MANAGEMENT

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

a) Credit risk

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

Table – 7. Credit risk exposure

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

	31 December 2023				31 December 2022			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	*Average gross credit exposure over the period US \$ '000	*Average gross credit exposure over the period US \$ '000	*Average gross credit exposure over the period US \$ '000	*Average gross credit exposure over the period US \$ '000	*Average gross credit exposure over the period US \$ '000	*Average gross credit exposure over the period US \$ '000	*Average gross credit exposure over the period US \$ '000	*Average gross credit exposure over the period US \$ '000
Funded								
Cash and balances with banks and financial institutions	218,803	240,715	24,573	1,718	-	31,551	162,440	158,418
Receivables	49,834	12,731	399,749	435,478	462	738	448,384	509,050
Ijara Muntahia Bittamleek and Ijara receivables	11,558	12,974	623,217	620,601	14,320	24,973	547,635	502,049
Musharakat	22,913	23,661	135,360	144,676	32,018	39,848	207,426	239,399
Investments	563,088	575,234	509,774	483,124	655,178	643,616	485,391	454,092
Investments in real estate	7,722	8,557	-	-	8,836	10,285	-	-
Premises and equipment	92,135	91,917	-	-	88,901	76,154	9,419	-
Other assets	43,286	44,090	520	7,153	-	15,472	52,274	43,405
Unfunded exposure								
Contingencies and commitments	150,717	161,262	-	-	180,490	200,474	-	-
	1,160,056	1,171,141	1,693,193	1,692,750	980,205	1,043,111	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:

	31 December 2023				31 December 2022			
	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	123,684	95,119	7,333	17,240	-	-	117,708	44,732
Receivables	49,836	-	266,386	133,362	462	-	300,892	147,492
Ijara Muntahia Bittamieek and Ijara receivables	11,558	-	622,927	290	14,321	-	547,156	478
Musharakat	-	22,913	-	135,360	-	32,019	-	207,426
Investments	338,322	224,766	280,654	229,120	388,901	266,277	252,319	233,072
Investment in real estate	7,722	-	-	-	8,836	-	-	-
Premises and equipment	76,002	16,133	-	-	79,154	19,166	-	-
Other assets	22,322	20,963	-	521	(52,934)	43,514	37,488	24,206
	629,445	379,894	1,177,300	515,893	438,740	360,976	1,255,563	657,406

* 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.

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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 2023				31 December 2022			
	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	27,192	-	-	-	21,438	-	689	-
Claims on Sovereigns	665,188	-	438,811	-	508,061	-	595,347	-
Claims on Public Sector Entities	71,614	-	64,342	-	100,309	-	70,142	-
Claims on banks	67,590	2,899	34,861	-	7,146	10,143	58,157	-
Claims on corporate	23,003	147,740	449,559	-	22,799	170,347	464,024	-
Mortgages	-	-	572,868	-	-	-	529,705	-
Past dues receivables	-	78	33,359	-	463	-	21,886	-
Regulatory Retail Portfolio	-	-	72,298	-	-	-	112,021	-
Equity investment	36,503	-	390	-	35,089	-	426	-
Investment in Funds	1,000	-	-	-	1,000	-	-	-
Holding of Real Estate	88,598	-	19,878	-	92,590	-	23,105	-
Other assets	28,651	-	6,827	-	10,822	-	37,468	-
	1,009,339	150,717	1,693,193	-	799,716	180,490	1,912,969	-

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:


	31 December 2023		31 December 2022	
	Self financed	Financed by IAH	Self financed	Financed by IAH
	Funded US \$ '000	Funded US \$ '000	Funded US \$ '000	Funded US \$ '000
Cash and balances with bank	50	-	3	46
Receivables	-	1,318	-	836
Musharakat	-	1,522	-	1,370
Investments	52,099	-	52,244	-
Other Assets	7,681	-	6,261	-
Contingencies and commitments	2,025	-	2,000	-
	61,855	2,840	60,508	2,253

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

	31 December	31 December
	2023	2022
	Self financed US \$ '000	Self financed US \$ '000
Assets		
Investment in a subsidiary*	94,201	94,201
	94,201	94,201

*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.

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 11. Credit risk – concentration of risk

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

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2023:

Counterparties *	<u>Funded</u> US \$ '000
Counterparty # 1	476,222
Counterparty # 2	325,161
Counterparty # 3	114,573
Counterparty # 4	84,171
Counterparty # 5	40,307
Counterparty # 6	34,551


* 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 *	<u>Funded</u> 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 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:

<u>2023</u>	<i>US \$ '000</i>
Counterparty # 1	8,047
Counterparty # 2	1,878
Counterparty # 3	734
Counterparty # 4	352
Counterparty # 5	162
Counterparty # 6	159
Counterparty # 7	120
Counterparty # 8	69
Counterparty # 9	38
Counterparty # 10	26
Counterparty # 11	24
Counterparty # 12	2
Counterparty # 13	
Counterparty # 14	

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Highly leveraged counter parties (continued)

<u>2022</u>	<i>US \$ '000</i>
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 – 13. Credit risk – credit quality of Islamic financing contracts by counterparty type

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

	31 December 2023					31 December 2022				
	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	33,476	86,923	25,676	14,786	46,461	17,114	79,564	7,083	31,917	40,563
Investment Firms	-	555	-	-	555	-	595	-	-	595
Individuals	1,636	13,621	3,531	2,645	7,445	551	9,216	4,605	1,515	3,095
	35,112	101,099	29,207	17,431	54,461	17,665	89,374	11,689	33,433	44,253

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 31 December 2023:

	Specific allowances						Balance at 31 December 2023 US \$ '000
	Balance as at	Charges	Net Transit in	Write-Back	Write-offs	Exchange	
	01 January	during the	/(out) Stage3	during the	during the	difference on	
	2023	year	during the	year	year	opening balance	
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Corporates	53,345	8,013	1,285	(1,404)	-	(5,840)	55,399
Individuals	4,133	3,802	25	(4)	-	(655)	7,301
Others	10,698	318	-	-	(44)	(2,229)	8,743
	68,176	12,133	1,310	(1,408)	(44)	(8,724)	71,443

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

	Specific allowances						Balance at 31 December 2022 US \$ '000
	Balance as at	Charges	Net transit in/	Write-Back	Write-offs	Exchange	
	01 January	during the	(out) Stage3	during the	during the	difference on	
	2022	year	during the	year	year	opening balance	
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Corporates	62,797	7,303	(102)	(3,764)	(4,779)	(8,110)	53,345
Individual	4,230	827	-	-	(88)	(836)	4,133
Others	12,847	687	-	-	(31)	(2,805)	10,698
	79,874	8,817	(102)	(3,764)	(4,898)	(11,751)	68,176

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

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

	31 December 2023		31 December 2022	
	Non-performing Islamic financing contracts US \$ '000	ECL for Stage 3 US \$ '000	Non-performing Islamic financing contracts US \$ '000	ECL for stage 3 US \$ '000
Middle East	55,929	30,367	37,501	23,851
Other Asian countries	45,170	41,086	51,873	44,325
	101,099	71,443	89,374	68,176

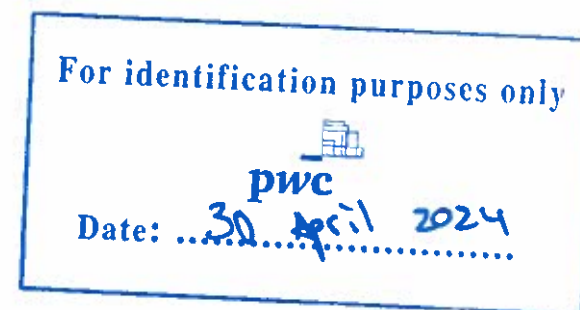
Table – 16. Credit risk – restructured Islamic financing contracts

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

	31 December 2023 Total US \$ '000	31 December 2022 Total US \$ '000
Restructured Islamic financing contracts	26,642	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.

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.



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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:

	31 December 2023		31 December 2022	
	Gross positive FV of contracts US \$ '000	* Collateral held US \$ '000	Gross positive FV of contracts US \$ '000	* Collateral held US \$ '000
Cash and balances with banks and financial institutions	243,376	-	162,440	-
Receivables	449,583	263,696	448,846	286,804
Ijara Muntahia Bittamleek and Ijara receivables	634,775	613,155	561,955	495,426
Musharaka	158,273	158,274	239,444	239,444
Investments	1,072,862	-	1,140,569	-
Investment in real estate	7,722	-	8,836	-
Premises and equipment	92,135	-	98,320	-
Other assets	43,806	-	52,274	-
	2,702,532	1,035,125	2,712,684	1,021,674

* 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:

	31 December 2023		31 December 2022	
	FV of contracts US \$ '000	Collateral held US \$ '000	Gross positive FV of contracts US \$ '000	Collateral held US \$ '000
Receivables	449,583	12,146	448,846	17,142
Ijara Muntahia Bittamleek & Ijara income receivable	634,775	34,082	561,955	11,727

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3 RISK MANAGEMENT (continued)

b) Market risk

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

Table – 19. Market risk capital requirements

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

	31 December 2023			31 December 2022		
	<i>Equity</i>	<i>Price</i>	<i>Foreign</i>	<i>Equity</i>	<i>Price</i>	<i>Foreign</i>
	<i>Position</i>	<i>risk</i>	<i>exchange</i>	<i>Position</i>	<i>risk</i>	<i>exchange</i>
	<i>Risk</i>	<i>risk</i>	<i>risk</i>	<i>Risk</i>	<i>risk</i>	<i>risk</i>
	<i>US \$</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$</i>	<i>US \$ '000</i>	<i>US \$ '000</i>
RWE	719	6,003	110,453	-	1,092	114,985
Capital requirements (12.5%)	90	750	13,807	-	136	14,373
Maximum value of RWE	748	6,003	110,453	-	1,361	128,405
Minimum value of RWE	627	963	82,581	-	1,063	108,886

Table – 20. Equity position risk in Banking Book

The following table summarises the total and average gross exposure of equity based structures by type as of 31 December 2023:

	<i>Total</i>	<i>Average</i>	<i>Publicly</i>	<i>Privately</i>	<i>Capital</i>					
						<i>gross</i>	<i>gross</i>	<i>held</i>	<i>held</i>	<i>requirement</i>
						<i>exposure</i>	<i>exposure</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>
	<i>US \$ '000</i>	<i>over the</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>					
		<i>period</i>								
		<i>US \$ '000</i>								
Managed funds	1,000	1,000	-	1,000	26					
Equity investments	36,893	36,064	30,840	6,053	11,198					
Real estate related	36,563	37,981	-	36,563	4,025					
	74,456	75,045	30,840	43,616	15,248					

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3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 20. Equity position risk in Banking Book (continued)

The following table summarises the total and average gross exposure of equity based structures by type as of 31 December 2022:

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

The 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 Nil (2022: USD 0.5 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:

	31-Dec-23 US \$ '000	31-Dec-22 US \$ '000
Cummulative realised (losses) / gains arising from sale or liquidation	(990)	1,023
Total unrealised gains recognised in the balance sheet but not through P&L	6,879	3,961
Unrealised gross gains included in Tier One Capital	6,879	3,961
Assets revaluation reserve - property, plant, and equipment	314	343

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; and
- Policy interest rates promulgated by domestic and leading global monetary agencies.

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3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

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:

	31-Dec-23				
	Up to 3	3 to 6	6 months	1 to 3	Over
	months	months	to 1 year	years	3 years
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Receivables	162,470	73,146	44,173	68,121	101,673
Ijara Muntahia Bittamleek and Ijara Income Receivables	17,826	13,731	14,708	76,476	612,034
Musharaka	367	2,319	3,747	80,387	71,454
Investments-Sukuk	16,316	-	21,118	414,626	546,346
Profit rate sensitive assets	196,979	89,196	83,746	639,610	1,231,507
Murabaha and other payables					
Equity of investment accountholders	1,032,269	250,104	235,053	105,111	70,657
Subordinated Mudaraba	499	-	-	5,448	6,030
Profit rate sensitive liabilities	1,032,768	250,104	235,053	110,559	76,687
Profit rate gap	(835,789)	(160,908)	(151,307)	629,051	1,154,820
Profit rate sensitivity (200bps)	(16,716)	(3,218)	(3,026)	10,581	23,096
	31-Dec-22				
	Up to 3	3 to 6	6 months	1 to 3	Over
	months	months	to 1 year	years	3 years
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Receivables	152,886	114,095	37,675	59,122	85,068
Ijara Muntahia Bittamleek and Ijara Income Receivables	7,703	6,343	13,381	60,872	473,656
Musharaka	15,187	3,590	9,840	58,335	152,492
Investments-Sukuk	28,083	3,023	321	413,343	620,300
	203,859	127,051	61,217	591,672	1,331,516
Profit rate sensitive assets	36,818	60,276	64,759	532	9,411
Murabaha and other payables					
Equity of investment accountholders	1,390,187	209,957	212,748	64,635	35,442
Subordinated debt	1,314	-	-	6,625	7,661
	1,428,319	270,233	277,507	71,792	52,514
Profit rate sensitive liabilities	(1,224,460)	(143,182)	(216,290)	519,880	1,279,002
Profit rate gap	(24,489)	(2,864)	(4,326)	10,398	25,580
Profit rate sensitivity (200bps)					

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3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 22. Profit rate mismatch (continued)

This table contains the mismatch amongst profit bearing assets and liabilities to ensure compliance with public disclosure requirements. However, in lieu of inherent nature of Islamic Banking, such mismatches does not exists amongst assets and liabilities carried by the Bank as the bank has profit and loss sharing mudarba agreement with Investment accountholders. Whereby in case of any decrease in profit rates the corresponding impact has to be shared with the customers as per the mudaraba arrangement. It's hereby elaborated that the assets base represents receivable against various modes of sales/ deployment of funds under wakala and mudaraba arrangements, assets and receivables against Ijara and participations in ventures under Musharaka arrangements. While these assets are finance through capital, current accounts, funds received under mudaraba contract, payables against purchase and predominantly through funds received under profit sharing or Mudarba contracts. Therefore, the table given is just indicative of profit mismatches amongst assets and liabilities under various contracts.

Foreign exchange risk

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

Table – 23. Foreign currency translation risk


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

	<u>Dec-23</u>
	<i>Total</i>
	<i>equivalent</i>
	<i>US \$ '000</i>
Pakistani Rupees	101,007
Euro	661
Kuwaiti Dinars	6
Pound Sterling	(5,131)
Egyptian Pound	2,660
Algerian Dinar	6,000
Others	318

Table – 23. Foreign currency translation risk (continued)

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

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3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 23. Foreign currency translation risk (continued)

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 31 December 2023

Currency	Particular	Change	Exposures in US \$ '000	Effect on profit and loss/Equity US \$ '000
Pakistani rupees	Net Long Position	20%	101,007	20,201
Euro	Net Long Position	20%	661	132
Kuwaiti dinars	Net Long Position	20%	6	1
Pound sterling	Net Short Position	20%	5,131	1,026
Egyptian Pound	Net Long Position	20%	2,660	532
Algerian Dinar	Net Long Position	20%	6,000	1,200
Others	Net Long Position	20%	318	64

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 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

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.

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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 charges as per terms of contract.

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

Investment risk reserve

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

Profit equalisation reserve

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

Displaced commercial risk

The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Group has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the segment level (Pakistan and Bahrain).

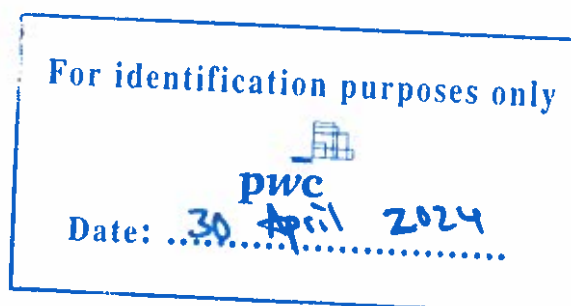
Complaint procedure / awareness programs

A complaint management system is established; procedures on handling complaints have been developed, new Complaints form has been introduced, a number of complaints channels are available where customers can communicate through branches, call centre, email, dedicated staff number and web-site. Monitoring procedures have been developed as well.

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

Penalty charges

	31 December 2023 US \$ '000	31 December 2022 US \$ '000
<u>Central Bank of Bahrain</u>		
Delays in settlement of ATM balances*	40	-
Anomalies in standing orders, EFTS and other electronic channels	78,628	119
Waiver of penalties on standing orders, EFTS and other electronic channels	(78,541)	-
	<u>27</u>	<u>119</u>
<u>State Bank of Pakistan</u>		
Various non-compliances with domestic laws and regulations	62	273
	<u>62</u>	<u>273</u>



3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Non-Shari'a complaint income

The Group has received US \$ 121 thousand (2022: US \$ 89 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:

	<i>31 December</i> 2023 US \$ '000	<i>31 December</i> 2022 US \$ '000
IAH - Non-banks	1,414,909	1,370,739
IAH - Banks	277,664	541,820
Profit equalisation reserve	720	411
	1,693,193	1,912,969

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:


	<i>31 December</i> 2023	<i>31 December</i> 2022
PER to IAH (%)	0.04%	0.02%
IRR to IAH (%)	Nil	Nil

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

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

	<i>31 December</i> 2023	<i>31 December</i> 2022
Receivables	23.61%	23.44%
Musharakat	7.99%	10.84%
Ijara Muntahia Bittamleek & Ijara income receivable	36.81%	28.63%
Investments	30.11%	25.37%
Liquidity and others	1.48%	11.72%

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 28. Equity of Investment Accountholders by Counterparty Type

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

Counterparty type	31 December 2023	31 December 2022
Banks	16.44%	28.34%
Investment Firms	6.91%	6.25%
Corporates	18.82%	17.06%
Residentials	50.74%	42.79%
Others	7.10%	5.55%

Table – 29. Investment Accountholders share of profit

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

	31 December 2023	31 December 2022	31 December 2021	31 December 2020	31 December 2019
Administrative expenses charged to equity of investment accountholders	7,355	7,493	8,052	14,061	8,863
Share of profits earned by IAH, before transfers to/from reserves	143,114	122,330	82,941	87,437	84,531
Percentage share of profit earned by IAH before transfer to/from reserves	8.50%	6.45%	4.64%	5.37%	6.06%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	130,713	102,033	58,567	63,761	75,287
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	7.70%	5.38%	3.28%	3.91%	5.40%
Share of profit paid out to Bank as mudarib	12,401	20,297	24,374	23,676	9,244
Mudarib Fee to total Investment Profits	8.70%	16.59%	29.39%	27.08%	10.94%

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

Table – 30. Movement in profit equalisation reserve

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

	31 December 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 apportioned from income	309	-	67	115	114
Balance at 31 December	720	411	411	344	229
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	0.20%	-	0.08%	0.13%	0.14%

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 31. Movement in investment risk reserve

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

	31 December 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 apportioned from income	-	-	277	-	-
Amount apportioned to provision	-	-	(277)	-	-
Balance at 31 December	-	-	-	-	-
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	Nil	Nil	0.33%	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 2022: up to 70%) as per the terms of IAH agreements.

Table – 32. Equity of Investment Accountholders rate of return

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

	Average		
	31 December 2023 Rate of return %		
	Bahrain		Pakistan
	BD	US \$	
Saving Accounts	0.07%	0.07%	6.86%
One Month Term Deposits	3.04%	2.99%	5.45%
Three Months Term Deposits	4.04%	3.97%	5.67%
Six Months Term Deposits	4.27%	4.21%	6.54%
Nine Months Term Deposits	4.56%	4.50%	-
1 Year Term Deposits	4.80%	4.74%	9.53%
2 Years Term Deposits	4.78%	4.71%	11.63%
3 Year Term Deposits	4.75%	4.69%	12.76%
4 Years Term Deposits	4.73%	4.66%	12.25%
5Years Term Deposits	4.70%	4.64%	13.17%

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

	Average		
	31 December 2022 Rate of return %		
	Bahrain	US \$	Pakistan
Saving Accounts	0.09%	0.09%	6.55%
One Month Term Deposits	1.41%	1.14%	5.39%
Three Months Term Deposits	2.09%	1.82%	5.80%
Six Months Term Deposits	2.28%	1.95%	6.72%
Nine Months Term Deposits	2.60%	2.30%	-
1 Year Term Deposits	2.85%	2.58%	9.09%
2 Years Term Deposits	2.90%	2.65%	11.38%
3 Year Term Deposits	2.95%	2.72%	12.51%
4 Years Term Deposits	3.00%	2.79%	12.25%
5 Years Term Deposits	3.05%	2.84%	12.92%

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


The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2023:

	Opening	Movement	Closing
	Actual		Actual
	Allocation		Allocation
	US \$ '000	US \$ '000	US \$ '000
Cash and balances with banks	172,739	(148,166)	24,573
Receivables	448,384	(48,636)	399,749
Ijara Muntahia Bittamleek	547,635	75,682	623,217
Musharaka	207,426	(72,066)	135,360
Investments	485,391	24,383	609,774
Other assets	51,394	(50,874)	520
	1,912,969	(219,776)	1,693,193

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
Other assets	35,349	16,045	51,394
	1,865,416	47,553	1,912,969

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the six months period ended 31 December 2023:

	<i>Opening Actual Allocation US \$ '000</i>	<i>Movement US \$ '000</i>	<i>Closing Actual Allocation US \$ '000</i>
Cash and balances with banks	-	24,573	24,573
Receivables	645,611	(145,862)	399,749
Ijara Muntahia Bittamleek	636,480	(12,263)	623,217
Musharaka	149,719	(14,359)	135,360
Investments	387,500	122,274	509,774
Other assets	753	(233)	520
	1,719,063	(25,870)	1,693,193

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


	<i>Opening actual allocation US \$ '000</i>	<i>Movement US \$ '000</i>	<i>Closing actual allocation US \$ '000</i>
Cash and balances with banks	197,274	(24,535)	172,739
Receivables	431,127	17,257	448,384
Ijara Muntahia Bittamleek	491,275	56,360	547,635
Musharaka	239,299	(31,873)	207,426
Investments	487,655	(2,264)	485,391
Other assets	26,984	24,411	51,395
	1,873,614	39,355	1,912,969

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:

	<i>Profit earned</i>		<i>Profit paid to IAH</i>	
	<i>US \$ '000</i>	<i>%age</i>	<i>US \$ '000</i>	<i>%age</i>
2023	143,114	8.50%	130,713	7.70%
2022	122,330	6.45%	102,033	5.38%
2021	82,941	4.64%	58,567	3.28%
2020	87,437	5.37%	63,761	3.91%
2019	84,531	6.06%	75,287	5.40%
2018	69,629	4.83%	53,151	3.68%

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2023:

Type of Claims	RWA US\$ '000	RWA for capital adequacy purposes US\$ '000	Capital charges US\$ '000
Claims on Sovereign	438,811	131,643	16,455
Claims on PSEs	64,342	19,303	2,413
Claims on Banks	34,861	10,458	1,307
Claims on Corporates	449,659	134,868	16,858
Mortgage	572,868	171,860	21,483
Regulatory Retail Portfolio	72,298	21,689	2,711
Past due facilities	33,359	10,008	1,251
Investment in securities	390	117	15
Holding of Real Estates	19,878	5,963	745
Other Assets	6,827	2,048	256
	1,693,193	507,957	63,494

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:

Type of Claims	RWA US\$ '000	RWA for capital adequacy purposes US\$ '000	Capital charges US\$ '000
Claims on Sovereign	595,347	178,604	22,326
Claims on PSEs	70,142	21,043	2,630
Claims on Banks	58,157	17,447	2,181
Claims on Corporates	464,024	139,207	17,401
Mortgage	529,705	158,911	19,864
Regulatory Retail Portfolio	112,021	33,606	4,201
Past due facilities	21,886	6,566	821
Investment in securities	426	128	16
Holding of Real Estates	23,105	6,931	866
Other Assets	37,467	11,240	1,405
	1,912,280	573,683	71,711

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.

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3 RISK MANAGEMENT (continued)

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

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

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

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

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

Islamic products	31 December 2023	31 December 2022
<i>On balance sheet jointly financed assets*</i>		
Others		
Receivables	84.60%	85.66%
Investments	15.40%	14.34%

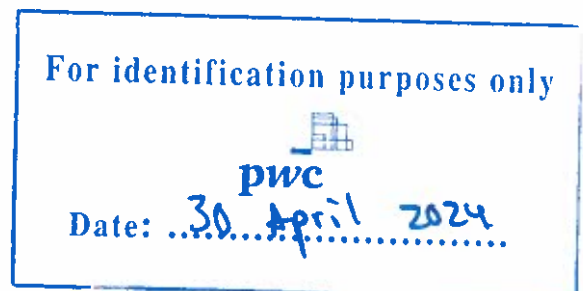
* Funds received under "Wakala" contracts are commingled or invested under multi level arrangements in " On Balance Sheet Equity of Investment Accountholders. In this regards, the distribution of such assets is duly given in section "C".

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

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

Counterparty type	31 December 2023	31 December 2022
<i>On balance sheet jointly financed assets*</i>		
Others		
Banks	38.00%	49.06%
Corporate	53.70%	40.88%
Sovereigns	8.30%	10.06%

* 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".



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 31 December 2023:

	<i>Opening actual allocation US\$ '000</i>	<i>Movement US\$ '000</i>	<i>Closing actual allocation US\$ '000</i>
<i>Wakala Bi Al-Isithmar</i>			
<i>on balance sheet jointly</i>			
<i>financed assets</i>	640,848	(278,787)	362,061
Receivables	170,744	(40,393)	130,351
Investments	19,101	(4,976)	14,125
	<u>830,693</u>	<u>(324,156)</u>	<u>506,537</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:

	<i>Opening actual allocation US\$ '000</i>	<i>Movement US\$ '000</i>	<i>Closing actual allocation US\$ '000</i>
<i>Wakala Bi Al-Isithmar</i>			
<i>on balance sheet jointly</i>			
<i>financed assets</i>	514,684	126,163	640,848
Receivables	125,268	45,476	170,744
Investments	33,259	(14,159)	19,101
	<u>673,211</u>	<u>157,480</u>	<u>830,693</u>

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

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

	<i>December 2023 US\$ '000</i>	<i>December 2022 US\$ '000</i>	<i>December 2021 US\$ '000</i>	<i>December 2020 US\$ '000</i>	<i>December 2019 US\$ '000</i>	<i>December 2018 US\$ '000</i>
Gross Income	41,601	34,555	25,593	17,153	23,830	1,175
Mudarib/ agency fee	(11,736)	11,310	(9,945)	(3,821)	(11,563)	91

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.

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3 RISK MANAGEMENT (continued)

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

Table – 40. Liquidity ratios

The following table summarises the liquidity ratios as of:

	31-Dec-23	31-Dec-22
Liquid assets to total assets	10.82%	7.58%
Short term assets to short term liabilities	24.29%	23.21%

Table – 41. Quantitative indicators of financial performance and position

	December 2023*	December 2022	December 2021	December 2020	December 2019	December 2018
Return on average equity	-9.9%	6.1%	4.7%	2.8%	2.0%	-8.2%
Return on average assets	-0.9%	0.6%	0.5%	0.3%	0.2%	-0.8%
Cost to Income Ratio	98.6%	72.4%	70.8%	67.7%	75.6%	82.8%

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

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4 OTHERS

The Bank pays Zakat on behalf of shareholders on their funds while the responsibility for such obligation lies on investment accountholders. While, in Pakistan, Zakah is deducted at source from the Equity of Investment accountholders as required by local laws.

The Group has dedicated staff and hires services of professional firms to ensure compliance with applicable laws and regulations. Further, the legal cases are actively followed in collaboration of legal councils and directly monitored by the strategic management.

Subject to the provisions thereof, deposits held with the Bahrain office of Al Baraka Islamic Bank B.S.C.(c) are covered by the Deposit Protection Scheme established by the Central Bank of Bahrain regulation concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

External Auditors

The Board Audit Committee has continued to review the work carried out by the external auditors during the year, in particular timeliness of reporting, quality of work and related fees. Overall the Audit Committee believes that the work of the external auditors has been of a sufficiently high standard and that the fees are reasonable and therefore recommended to the Board and accordingly to the annual general meeting (AGM) to re-appoint the external auditors as auditor for the 2023 financial year. The AGM has approved the reappointment of the external auditor for the year 2023 on 27 March 2024 and the related regulatory approval were taken.

For the year 2023, annual audit and quarterly review services amounted to US\$ 176,658 and other non-audit services amounted to US\$ 54,775.

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