

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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

**REPORT OF THE FATWA AND SHARIA SUPERVISORY  
BOARD,  
BOARD OF DIRECTORS' REPORT,  
INDEPENDENT AUDITORS' REPORT TO THE  
SHAREHOLDERS AND  
CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2022**

Date: 14<sup>th</sup> Rajab 1444 A.H.  
Corresponding to: 5<sup>th</sup> February 2023

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

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

### To the Shareholders of alBaraka Islamic Bank

Praise be to Allah, the Almighty, and Peace and Blessings be upon our Prophet Muhammad, his Family, and Companions.

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

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

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

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


### In our opinion:

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

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



Shaikh Esam Ishaq  
Chairman of Sharia Supervisory Board



Shaikh Dr. Nedham Yaqoobi  
Member of sharia Supervisory Board



Shaikh Judge Waleed Al Mahmood  
Member of sharia Supervisory Board



Mohamed Jasim Ebrahim  
Sharia Officer & Secretary of Sharia Supervisory Board

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

## BOARD OF DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

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

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

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

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

## BOARD OF DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

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

## BOARD OF DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2022



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

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

The Islamic International Rating Agency has maintained Al Baraka Islamic Bank's international scale investment grade credit rating of BB (long term)/A3 (short term) with a stable outlook and a national scale rating of BBB+ (long term)/A3 (short term) with a stable outlook. At the same time, the VIS Credit Rating Company Limited reaffirmed long term/ short term credit rating of A+/A-1 on a national scale. Such ratings reflects the strong capacity of the Group to meet its financial obligations and commitments and the presence of a strong compliance and governance environment.

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

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



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

## BOARD OF DIRECTORS' REPORT

### FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

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

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

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

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

**AL BARAKA ISLAMIC BANK B.S.C. (CLOSED)**  
**BOARD OF DIRECTORS' REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

**Details of the Board of Directors Remunerations:**

*All amounts in Bahraini Dinars (unless otherwise stated)*

Name	Fixed Remunerations			Variable Remunerations <sup>(1)</sup>						End of service award <sup>(1)</sup>	Aggregate amount (excluding expenses allowance)	Expenses allowance	
	Remunerations of the Chairman and Board <sup>(2)</sup>	Total allowance for attending Board and committee meetings	Salaries	Others	Total	Remunerations of the Chairman and Board	Bonus	Incentive plans	Others				Total
<b>First: independent Directors:</b>													
1. Saleh Salman Al Kawari	15,000	15,834	-	-	30,834	-	-	-	-	-	-	30,834	-
2. Yousef Ali Bin Fadil	15,000	14,703	-	-	29,703	-	-	-	-	-	-	29,703	5,348
3. Abdulrahman Abdulla Mohamed	15,000	16,965	-	-	31,965	-	-	-	-	-	-	31,965	-
4. Abdulrahman Abdulla Al Sayed	15,000	15,834	-	-	30,834	-	-	-	-	-	-	30,834	-
5. Adnan Abdulla Al Bassam	15,000	16,965	-	-	31,965	-	-	-	-	-	-	31,965	-
<b>Second: Non-Executive Directors:</b>													
6. Abdullatif Abdulrahim Janahi	15,000	14,703	-	-	29,703	-	-	-	-	-	-	29,703	-
7. Dr. Khalid Abdulla Ateeq	15,000	16,965	-	-	31,965	-	-	-	-	-	-	31,965	-
8. Abdulrazzaq Abdulkhaleq Abdulla	15,000	14,703	-	-	29,703	-	-	-	-	-	-	29,703	-
<b>Third: Executive Directors:</b>													
9. Hamad Abdulla Al-Oqab <sup>(3)</sup>	15,000	14,703	-	-	29,703	-	-	-	-	-	-	29,703	-
<b>TOTAL</b>	<b>135,000</b>	<b>141,375</b>	<b>-</b>	<b>-</b>	<b>276,375</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>276,375</b>	<b>5,348</b>

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

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

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

**AL BARAKA ISLAMIC BANK B.S.C. (CLOSED)  
BOARD OF DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2022**

**Details of the Executive Management Remunerations:**

*All amounts in Bahraini Dinars (unless otherwise stated)*

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

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



**Saleh Salman Al Kawari**  
Chairman  
Al Baraka Islamic Bank B.S.C. (c)  
Manama, Kingdom of Bahrain  
21 February 2023





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

### *Report on the audit of the consolidated financial statements*

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#### *Our opinion*

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

#### **What we have audited**

The Group's consolidated financial statements comprise:

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

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#### *Basis for opinion*

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

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

#### **Independence**

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



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

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

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#### *Other information*

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

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

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

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

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

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#### *Responsibilities of those charged with governance for the consolidated financial statements*

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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



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

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

*Report on other legal and regulatory and Sharia' requirements*

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

- i. The Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- ii. The financial information contained in the Report of the Fatwa and Sharia Supervisory Board and the Board of Directors' Report is consistent with the consolidated financial statements;
- iii. Nothing has come to our attention which causes us to believe that the Bank has, during the year, breached any of the applicable provisions of the Commercial Companies Law, CBB and the Financial Institutions Law, CBB Rulebook (Volume 2) and CBB directives or the items of its Memorandum and Articles of Association that would have a material adverse effect on its activities for the year ended 31 December 2022 or its financial position as at that date; and
- iv. Satisfactory explanations and information have been provided to us by the Board of Directors in response to all our requests.

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 BD'000	2021 BD'000
<b>ASSETS</b>			
Cash and balances with banks and financial institutions (FI)	3	61,239	117,854
Receivables	4	169,216	182,934
Ijara muntahia bittamleek and ijara receivables	5	211,856	173,976
Musharaka	6	90,270	124,040
Investments	7	423,044	419,837
Investment in joint venture	8	6,948	7,050
Investments in real estate	9	3,331	3,592
Premises and equipment	10	37,065	21,248
Goodwill	11	3,739	4,796
Other assets	12	19,708	24,192
<b>TOTAL ASSETS</b>		<b>1,026,416</b>	<b>1,079,519</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND OWNERS' EQUITY</b>			
<b>Liabilities</b>			
Current accounts		91,631	133,241
Murabaha and other payables		64,767	91,710
Other liabilities	13	42,671	41,337
<b>Total liabilities</b>		<b>199,069</b>	<b>266,288</b>
<b>Equity of investment accountholders (IAH)</b>	14	<b>721,190</b>	<b>703,262</b>
<b>Subordinated mudaraba</b>	15	<b>5,881</b>	<b>7,329</b>
<b>Owners' equity</b>			
Share capital	16	57,100	51,445
Additional tier-1 capital		36,192	41,847
Reserves		(6,595)	(1,791)
Retained earnings		6,093	1,929
<b>Equity attributable to parent's shareholders</b>		<b>92,790</b>	<b>93,430</b>
Non-controlling interest		7,486	9,210
<b>Total equity</b>		<b>100,276</b>	<b>102,640</b>
<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED MUDARABA AND OWNERS' EQUITY</b>		<b>1,026,416</b>	<b>1,079,519</b>
<b>OFF-BALANCE SHEET ITEMS:</b>			
<b>EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>		<b>313,171</b>	<b>253,801</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	17	<b>128,475</b>	<b>188,858</b>



Saleh Salman Al Kawari  
Chairman

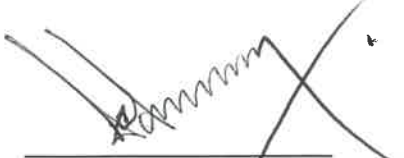


Hamad Abdulla Aloqab  
Chief Executive Officer and  
Board Member

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

**Al Baraka Islamic Bank B.S.C. (c)**  
**CONSOLIDATED STATEMENT OF INCOME**  
For the year ended 31 December 2022

	Notes	2022 BD'000	2021 BD'000
<b>INCOME FROM JOINTLY FINANCED ASSETS</b>			
Financings	18	35,907	30,785
Investments	19	16,324	6,210
<b>Income from jointly financed assets</b>		<b>52,231</b>	<b>36,995</b>
Return on equity of investment accountholders before Group's share as a Mudarib		(46,119)	(31,269)
Group's share as a Mudarib		7,652	9,189
<b>Return on equity of investment accountholders</b>		<b>(38,467)</b>	<b>(22,080)</b>
<b>Group's share as a Mudarib and Rabalmaal</b>		<b>13,764</b>	<b>14,915</b>
<b>INCOME FROM SELF FINANCED ASSETS</b>			
Financings	18	2,978	2,630
Share of income from investment in joint venture	8	1,225	1,534
Investments	19	15,161	14,963
<b>Income from self financed assets</b>		<b>19,364</b>	<b>19,127</b>
<b>INCOME FROM BANKING SERVICES AND OTHERS</b>			
Revenue from banking services	20	3,539	4,282
Other income	21	1,858	2,450
Group's mudarib / agency fee from off-balance sheet equity of investment accountholders		65	49
<b>Income from banking services and others</b>		<b>5,462</b>	<b>6,781</b>
<b>TOTAL OPERATING INCOME BEFORE OTHER FINANCING COST</b>		<b>38,590</b>	<b>40,823</b>
Other financing costs		(1,582)	(2,146)
<b>TOTAL OPERATING INCOME</b>		<b>37,008</b>	<b>38,677</b>
<b>OPERATING EXPENSES</b>			
Staff expenses		(12,312)	(13,022)
Depreciation and amortization	10	(3,051)	(3,750)
Other operating expenses	22	(11,416)	(10,606)
<b>TOTAL OPERATING EXPENSES</b>		<b>(26,779)</b>	<b>(27,378)</b>
<b>NET OPERATING INCOME</b>		<b>10,229</b>	<b>11,299</b>
Expected credit losses / Allowances for impairment - net	23	(2,202)	(6,536)
<b>INCOME BEFORE TAXATION</b>		<b>8,027</b>	<b>4,763</b>
Taxation	24	(1,829)	(15)
<b>INCOME FOR THE YEAR</b>		<b>6,198</b>	<b>4,748</b>
Attributable to:			
Equity shareholders of the parent		4,822	3,803
Non-controlling interest		1,376	945
		<b>6,198</b>	<b>4,748</b>

  
\_\_\_\_\_  
Saleh Salman Al Kawari  
Chairman

  
\_\_\_\_\_  
Hamad Abdulla Aloqab  
Chief Executive Officer and  
Board Member

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



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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2022

	<i>Equity attributable to shareholders of the parent</i>											
	<i>Reserves</i>											
	<i>Share capital</i>	<i>Additional tier-1 capital</i>	<i>Statutory</i>	<i>General</i>	<i>Employee defined benefit plan</i>	<i>Cumulative changes in fair value of investments</i>	<i>Revaluation of premises and equipment</i>	<i>Foreign exchange</i>	<i>Retained earnings</i>	<i>Total</i>	<i>Non-controlling interest</i>	
<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
<b>Balance at 1 January 2022</b>	51,445	41,847	9,363	3,275	(38)	1,637	178	(16,206)	1,929	93,430	9,210	102,640
Cumulative changes in fair value	-	-	-	-	-	(142)	-	-	-	(142)	(152)	(294)
Translation of foreign												
currency operations	-	-	-	-	-	-	-	(5,081)	-	(5,081)	(2,903)	(7,984)
Remeasurement loss on												
defined benefit plan	-	-	-	-	(15)	-	-	-	-	(15)	(11)	(26)
Revaluation of land	-	-	-	-	-	-	(48)	-	-	(48)	(34)	(82)
(Net off deferred tax)	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of Zakah	-	-	-	-	-	-	-	-	(176)	(176)	-	(176)
Redemption of AT1 Capital	-	(5,655)	-	-	-	-	-	-	-	(5,655)	-	(5,655)
Issuance of ordinary shares	5,655	-	-	-	-	-	-	-	-	5,655	-	5,655
Income for the year	-	-	-	-	-	-	-	-	4,822	4,822	1,376	6,198
Allocation to statutory reserve	-	-	482	-	-	-	-	-	(482)	-	-	-
<b>Balance at 31 December 2022</b>	<b>57,100</b>	<b>36,192</b>	<b>9,845</b>	<b>3,275</b>	<b>(53)</b>	<b>1,495</b>	<b>130</b>	<b>(21,287)</b>	<b>6,093</b>	<b>92,790</b>	<b>7,486</b>	<b>100,276</b>
Balance at 1 January 2021	51,445	41,847	8,983	3,275	(36)	588	-	(13,702)	(1,317)	91,083	9,739	100,822
Cumulative changes in fair value	-	-	-	-	-	1,049	-	-	-	1,049	(148)	901
Translation of foreign												
currency operations	-	-	-	-	-	-	-	(2,504)	-	(2,504)	(1,447)	(3,951)
Remeasurement loss on												
defined benefit plan	-	-	-	-	(2)	-	-	-	-	(2)	(2)	(4)
Distribution of Zakah	-	-	-	-	-	-	-	-	(177)	(177)	-	(177)
Revaluation of land												
(Net off deferred tax)	-	-	-	-	-	-	178	-	-	178	123	301
Income for the year	-	-	-	-	-	-	-	-	3,803	3,803	945	4,748
Allocation to statutory reserve	-	-	380	-	-	-	-	-	(380)	-	-	-
Balance at 31 December 2021	51,445	41,847	9,363	3,275	(38)	1,637	178	(16,206)	1,929	93,430	9,210	102,640

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

**Al Baraka Islamic Bank B.S.C. (c)**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2022

	Notes	2022 BD'000	2021 BD'000
<b>OPERATING ACTIVITIES</b>			
Income before taxation		8,027	4,763
Adjustments for:			
Depreciation and amortization	10	3,051	3,750
Expected credit losses / Allowances for impairment - net	23	2,202	6,536
Gain on sale of premises and equipment		(12)	(15)
Share of income from investment in joint venture	8	(1,225)	(1,534)
Gain on sale of investments		(386)	(1,372)
Unrealized loss on revaluation of investment properties		37	44
		<b>11,694</b>	12,172
Operating profit before changes in operating assets and liabilities			
Net changes in operating assets and liabilities:			
Balances with central banks in mandatory reserves		179	(4,972)
Receivables		2,563	(13,509)
Ijara muntahia bittamleek and ijara receivables		(37,863)	(52,447)
Musharaka		32,686	7,471
Other assets		3,349	(2,767)
Other liabilities		132	(7,491)
Murabaha and other payables		(26,943)	21,887
Current accounts		(41,612)	(11,577)
Equity of investment accountholders		17,927	63,528
Taxation paid		(776)	(775)
		<b>(38,664)</b>	11,520
Net cash (used in) / generated from operating activities			
<b>INVESTING ACTIVITIES</b>			
Purchase of investments		(112,601)	(140,650)
Investments sold / matured		91,547	95,845
Purchase of premises and equipment		(919)	(1,980)
Sale of premises and equipment		220	253
		<b>(21,753)</b>	(46,532)
Net cash used in investing activities			
<b>FINANCING ACTIVITIES</b>			
Receipt / (repayment) of subordinated mudaraba		(1,447)	2,472
		<b>(1,447)</b>	2,472
Net cash (used in) / generated from financing activities			
Foreign currency translation adjustments		(4,280)	(186)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(66,144)</b>	(32,726)
Cash and cash equivalents at 1 January		111,585	144,311
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	25	<b>45,441</b>	111,585

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

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

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

For the year ended 31 December 2022

	<i>Balance at 1 January 2022 BD'000</i>	<i>Net deposits / withdrawals BD'000</i>	<i>Gross income BD'000</i>	<i>Mudarib's / agency fee BD'000</i>	<i>Balance at 31 December 2022 BD'000</i>
<b><i>Wakala Bi Al-Istithmar</i></b>					
On balance sheet jointly financed assets	194,037	42,355	9,407	(4,199)	241,600
	<u>194,037</u>	<u>42,355</u>	<u>9,407</u>	<u>(4,199)</u>	<u>241,600</u>
<b>Others</b>					
Receivables	44,160	13,590	3,620	(65)	61,305
Investments	15,604	(5,338)	-	-	10,266
	<u>59,764</u>	<u>8,252</u>	<u>3,620</u>	<u>(65)</u>	<u>71,571</u>
	<u><u>253,801</u></u>	<u><u>50,607</u></u>	<u><u>13,027</u></u>	<u><u>(4,264)</u></u>	<u><u>313,171</u></u>
	<i>Balance at 1 January 2021 BD '000</i>	<i>Net deposits / withdrawals BD '000</i>	<i>Gross income BD '000</i>	<i>Mudarib's / agency fee BD '000</i>	<i>Balance at 31 December 2021 BD '000</i>
<b><i>Wakala Bi Al-Istithmar</i></b>					
On balance sheet jointly financed assets	137,283	54,974	5,481	(3,701)	194,037
	<u>137,283</u>	<u>54,974</u>	<u>5,481</u>	<u>(3,701)</u>	<u>194,037</u>
<b>Others</b>					
Receivables	51,406	(11,365)	4,169	(50)	44,160
Investments	8,560	7,044	-	-	15,604
	<u>59,966</u>	<u>(4,321)</u>	<u>4,169</u>	<u>(50)</u>	<u>59,764</u>
	<u><u>197,249</u></u>	<u><u>50,653</u></u>	<u><u>9,650</u></u>	<u><u>(3,751)</u></u>	<u><u>253,801</u></u>

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

## 1 INCORPORATION AND PRINCIPAL ACTIVITIES

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

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

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

The consolidated financial statements were approved by the Board of Directors on 8 February 2023.

## 2 ACCOUNTING POLICIES

### 2.1 Basis of preparation

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

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

### Regulatory non-compliance - CBB rule book volume 2 - High level standards

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

### 2.2 Statement of compliance

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

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)****2.3 Basis of consolidation**

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

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

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

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

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Statement of income and each component of OCI are attributed to the equity holders of the parent of the Bank and to the non-controlling interests (NCIs), even if this results in the NCIs having a deficit balance.

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

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

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.4 New standards, interpretations and amendments adopted by the Group**

**FAS 37 - Financial reporting by Waqf institutions**

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

**FAS 38 Wa'ad, Khiyar and Tahawwut**

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

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

**2.5.1 FAS 1 (Revised 2021) - General Presentation and Disclosures in the Financial Statements**

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

The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting.

Some of the significant revisions to the standard are as follows:

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

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



**2 ACCOUNTING POLICIES (continued)**

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

**2.5.2 FAS 39 - Financial Reporting for Zakah**

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

**2.5.3 FAS 40 - Financial Reporting for Islamic Finance Windows**

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

**2.6 Summary of accounting policies**

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

**2.6.1 Financial contracts**

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

**2.6.2 Cash and cash equivalents**

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

**2.6.3 Impairment, Credit Losses and Onerous Commitments**

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

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

**Stage 1: twelve months ECL**

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

**Stage 2: Lifetime ECL - not credit impaired**

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Lifetime ECL is the loss that results from all possible default events over the expected life of the financial contract.

**2 ACCOUNTING POLICIES (continued)**

**2.6 Summary of accounting policies (continued)**

**2.6.3 Impairment, Credit Losses and Onerous Commitments (continued)**

**Stage 2: Lifetime ECL - not credit impaired (continued)**

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

**Stage 3: Lifetime ECL – credit impaired**

Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the losses for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract. In this respect, the Bank recognises the lifetime expected credit losses for these financing with the PD set at 100%.

**Credit-impaired financial assets**

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

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

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

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

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

**Measurement of ECL**

Following are the key inputs into the measurement of ECL:

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.6 Summary of accounting policies (continued)**

**2.6.3 Impairment, Credit Losses and Onerous Commitments (continued)**

***Definition of default***

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

***Probability of default***

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

***Types of PDs used for ECL computation***

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

***Incorporation of forward - looking information***

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.6 Summary of accounting policies (continued)**

**2.6.3 Impairment, Credit Losses and Onerous Commitments (continued)**

**Loss Given Default**

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

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

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

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

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

**Exposure At Default (EAD)**

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

**On-balance sheet EADs**

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

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

**Off-balance sheet EADs**

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

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

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.6 Summary of accounting policies (continued)**

**2.6.3 Impairment, Credit Losses and Onerous Commitments (continued)**

***Significant Increase in Credit Risk***

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

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

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

***Renegotiated financial assets***

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

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

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

**Backward transition**

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

*From Stage 2 to stage 1*

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

*From stage 3 to stage 2*

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

**2 ACCOUNTING POLICIES (continued)**

**2.6 Summary of accounting policies (continued)**

**2.6.3 Impairment, Credit Losses and Onerous Commitments (continued)**

***Credit Conversion Factor***

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

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

***Write-offs***

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

**Presentation of allowance for credit losses in the consolidated statement of financial position**

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

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

**2.6.4 Investments**

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

***Investment in real estate***

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

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



**2 ACCOUNTING POLICIES (continued)**

**2.6 Summary of accounting policies (continued)**

**2.6.4 Investments (continued)**

*Investment in joint venture*

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

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

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

**2.6.5 Premises and equipment**

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.6 Summary of accounting policies (continued)**

**2.6.6 Financial instruments - initial recognition and subsequent measurement**

***Date of recognition***

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

***Initial and subsequent measurement of financial instruments***

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

***(i) Due from banks***

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

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

***(ii) Financing contracts***

***(a) Murabaha***

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

***(b) Ijarah Muntahia Bittamleek***

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

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

**2 ACCOUNTING POLICIES (continued)**

**2.6 Summary of accounting policies (continued)**

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

***Initial and subsequent measurement of financial instruments (continued)***

***(ii) Financing contracts (continued)***

***(c) Musharaka***

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

***(iii) Investments***

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

***(iv) Equity of investment account holders***

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

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

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

**2.6.7 Fair values**

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

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

- (i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the reporting date.
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- (iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

**2 ACCOUNTING POLICIES (continued)**

**2.6 Summary of accounting policies (continued)**

**2.6.8 Business combination and goodwill**

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

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

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

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

**2.6.9 Equity of investment account holders**

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

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

**2.6.10 Investment risk reserve**

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

**2.6.11 Profit equalisation reserve**

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

**2.6.12 Off-balance sheet equity of investment account holders**

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

**2 ACCOUNTING POLICIES (continued)**

**2.6 Summary of accounting policies (continued)**

**2.6.13 Revenue recognition**

*Murabaha receivable*

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

*Mudaraba financing*

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

*Wakala financing*

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

*Ijara Muntahia Bittamleek*

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

*Musharaka*

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

*Salam and Istisna'a receivables*

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

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

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

*Fees and commission income*

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

*Dividends*

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

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

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

*Income from debt type instrument*

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

*Rental income*

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

**2.6.14 Return on equity of investment accountholders**

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

**2 ACCOUNTING POLICIES (continued)**

**2.6 Summary of accounting policies (continued)**

**2.6.14 Return on equity of investment accountholders (continued)**

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

**2.6.15 Investment pool expenses**

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

**2.6.16 Taxation**

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

*Current*

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

*Deferred*

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

**2.6.17 Contingencies and Commitments**

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

A commitment is a binding contract for the exchange of a specified quantity of resources at a specific price on a specified future dates or date.

**2.6.18 Derecognition**

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

- (i) the right to receive cash flows from the asset has expired;
- (ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset; or
- (iii) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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



**2 ACCOUNTING POLICIES (continued)**

**2.6 Summary of accounting policies (continued)**

**2.6.19 Earnings prohibited by Shari'a**

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

**2.6.20 Foreign currencies**

**(i) Transactions and balances**

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

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

**(ii) Group companies**

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

**2.6.21 Employees' end of service benefits**

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

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

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

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

**2.6.22 Zakah**

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

**2.6.23 Joint and self financed**

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

**2 ACCOUNTING POLICIES (continued)**

**2.6 Summary of accounting policies (continued)**

**2.6.24 Offsetting**

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

**2.6.25 Shari'a supervisory board**

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

**2.6.26 Trade date accounting**

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

**2.6.27 Investment agency (Al-Wakala Bi Al-Istithmar)**

**a) Wakala as Muwakkil (Principal)**

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

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

**i. Pass through Investment**

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

**ii. Wakala Venture**

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

**b) Wakala as Wakeel (Agent)**

**i) Off Balance Sheet Approach**

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

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

**ii) Multi level arrangements**

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

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)****2.7 Judgements and estimates**

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

*Classification of investments*

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

*Impairment and uncollectibility of financial assets*

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

*Impairment of Goodwill*

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

*Going concern*

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

**3 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS**

		<b>2022</b>	2021
		<b>BD'000</b>	BD'000
Cash in hand		<b>8,342</b>	12,654
Balances with State Bank of Pakistan			
Current account		<b>3,127</b>	1,790
Mandatory reserves	3.1	<b>18,927</b>	25,467
		<b>22,054</b>	27,257
Balances with CBB			
Current account		<b>1,906</b>	334
Mandatory reserves	3.1	<b>13,396</b>	7,036
		<b>15,302</b>	7,370
Balances with other banks and financial institutions		<b>15,541</b>	70,573
		<b>61,239</b>	117,854

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

## 4 RECEIVABLES

	2022			2021		
	Self financed BD'000	Jointly financed BD'000	Total BD'000	Self financed BD'000	Jointly financed BD'000	Total BD'000
Commodities and wakala placements with FIs	-	16,522	16,522	-	26,243	26,243
Salam financing	-	14,138	14,138	-	20,879	20,879
Istisna'a financing	-	40,672	40,672	-	56,504	56,504
Murabaha	424	130,318	130,742	424	113,025	113,449
Bills receivable and others	-	5,961	5,961	-	5,380	5,380
Gross receivables	424	207,611	208,035	424	222,031	222,455
Deferred profits	-	(14,318)	(14,318)	-	(10,929)	(10,929)
	424	193,293	193,717	424	211,102	211,526
Allowances for expected credit losses (4.2)	(250)	(24,251)	(24,501)	(5)	(28,587)	(28,592)
Net receivables	174	169,042	169,216	419	182,515	182,934

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

	2022			
	Stage 1: 12- month ECL BD'000	Stage 2: Lifetime ECL not credit- impaired BD'000	Stage 3: Lifetime ECL credit- impaired BD'000	Total BD'000
Good (1-4)	88,897	8,526	-	97,423
Satisfactory (5-7)	51,491	20,398	-	71,889
Default (8-10)	-	-	24,405	24,405
	140,388	28,924	24,405	193,717
	2021			
	Stage 1: 12- month ECL BD'000	Stage 2: Lifetime ECL not credit- impaired BD'000	Stage 3: Lifetime ECL credit- impaired BD'000	Total BD'000
Good (1-4)	95,905	7,498	-	103,403
Satisfactory (5-7)	41,603	35,189	-	76,792
Default (8-10)	-	-	31,331	31,331
	137,508	42,687	31,331	211,526

During the year ended 31 December 2020, the modification loss amounted to BD 942 thousand was recorded in equity on payment holiday provided to eligible customers impacted by COVID 19 Pandemic against such receivables.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

**4 RECEIVABLES (continued)****4.1 Movements in deferred profit from murabaha contracts:**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Balance at 1 January	<b>10,871</b>	6,826
Murabaha sales revenue during the year	<b>283,565</b>	434,925
Murabaha cost of sales	<b>(274,558)</b>	(425,649)
Profit accrued during the year	<b>(5,371)</b>	(4,689)
Deferred profit written off during the year	<b>(124)</b>	(441)
Exchange Differences	<b>(103)</b>	(101)
<b>Balance at 31 December</b>	<b>14,279</b>	10,871

**4.2 Allowances for expected credit losses**

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

	<b>2022</b>			
	<b>Stage 1: 12-month ECL BD'000</b>	<b>Stage 2: Lifetime ECL not credit- impaired BD'000</b>	<b>Stage 3: Lifetime ECL credit- impaired BD'000</b>	<b>Total BD'000</b>
<b>Balance at 1 January</b>	<b>782</b>	<b>3,071</b>	<b>24,739</b>	<b>28,592</b>
<b>Changes during the year:</b>				
- transferred to Stage 1: 12 month ECL	-	-	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(35)	86	(51)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	(11)	11	-
Net remeasurement of loss allowance	(120)	323	2,247	2,450
Recoveries	-	-	(1,101)	(1,101)
	<b>(155)</b>	<b>398</b>	<b>1,106</b>	<b>1,349</b>
Amounts written off during the year	-	-	(1,660)	(1,660)
Foreign exchange (FX) translation	(14)	(42)	(3,724)	(3,780)
<b>Balance at 31 December</b>	<b>613</b>	<b>3,427</b>	<b>20,461</b>	<b>24,501</b>
	<b>2021</b>			
	<b>Stage 1: 12-month ECL BD'000</b>	<b>Stage 2: Lifetime ECL not credit- impaired BD'000</b>	<b>Stage 3: Lifetime ECL credit-impaired BD'000</b>	<b>Total BD'000</b>
<b>Balance at 1 January</b>	586	5,529	17,686	23,801
<b>Changes during the year:</b>				
- transferred to Stage 1: 12 month ECL	10	(7)	(3)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(75)	531	(456)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	(1,560)	1,560	-
Net remeasurement of loss allowance	278	(110)	7,659	7,827
Recoveries	-	-	(1,534)	(1,534)
	213	(1,146)	7,226	6,293
Allocation from investment risk reserve	-	-	104	104
Reclassification from Wakala Pool	-	-	-	-
Amounts written off during the year	-	(1,292)	(1,177)	(2,469)
Write back of written off	-	-	2,183	2,183
Foreign exchange (FX) translation	(17)	(20)	(1,283)	(1,320)
<b>Balance at 31 December</b>	<b>782</b>	<b>3,071</b>	<b>24,739</b>	<b>28,592</b>

At 31 December 2022

**5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES**

	2022			2021		
	<i>Self financed BD'000</i>	<i>Jointly financed BD'000</i>	<i>Total BD'000</i>	<i>Self financed BD'000</i>	<i>Jointly financed BD'000</i>	<i>Total BD'000</i>
Ijara muntahia bittamleek (5.1)	4,087	195,268	199,355	10,004	151,163	161,167
Ijara receivables (5.2)	1,379	14,070	15,449	3,450	12,701	16,151
	<b>5,466</b>	<b>209,338</b>	<b>214,804</b>	13,454	163,864	177,318
Allowance for expected credit losses (5.3)	(67)	(2,881)	(2,948)	(120)	(3,222)	(3,342)
	<b>5,399</b>	<b>206,457</b>	<b>211,856</b>	13,334	160,642	173,976

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

	2022			
	<i>Stage 1: 12-month ECL BD'000</i>	<i>Stage 2: Lifetime ECL not credit- impaired BD'000</i>	<i>Stage 3: Lifetime ECL credit- impaired BD'000</i>	<i>Total BD'000</i>
Good (1-4)	204,256	1,238	-	205,494
Satisfactory (5-7)	1,052	2,491	-	3,543
Default (8-10)	-	-	5,767	5,767
	<b>205,308</b>	<b>3,729</b>	<b>5,767</b>	<b>214,804</b>
	2021			
	<i>Stage 1: 12-month ECL BD'000</i>	<i>Stage 2: Lifetime ECL not credit- impaired BD'000</i>	<i>Stage 3: Lifetime ECL credit- impaired BD'000</i>	<i>Total BD'000</i>
Good (1-4)	166,475	4	-	166,479
Satisfactory (5-7)	1,514	2,276	-	3,790
Default (8-10)	-	-	7,049	7,049
	<b>167,989</b>	<b>2,280</b>	<b>7,049</b>	<b>177,318</b>

During the year ended 31 December 2020, the modification loss amounted to BD 2.3 million was recorded in equity on payment holiday provided to eligible customers impacted by COVID 19 Pandemic against such Ijara Muntahia Bittamleek.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

**5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)****5.1 Ijara muntahia bittamleek**

	2022			2021		
	<i>Self financed BD'000</i>	<i>Jointly financed BD'000</i>	<i>Total BD'000</i>	<i>Self financed BD'000</i>	<i>Jointly financed BD'000</i>	<i>Total BD'000</i>
<b>Land and building</b>						
Cost	-	233,650	233,650	-	179,610	179,610
Accumulated depreciation	-	(38,387)	(38,387)	-	(29,907)	(29,907)
Net book value	-	195,263	195,263	-	149,703	149,703
<b>Equipment</b>						
Cost	5,608	6	5,614	13,405	3,335	16,740
Accumulated depreciation	(1,521)	-	(1,521)	(3,401)	(1,972)	(5,373)
Net book value	4,087	6	4,093	10,004	1,363	11,367
<b>Others</b>						
Cost	-	-	-	-	238	238
Accumulated depreciation	-	-	-	-	(141)	(141)
Net book value	-	-	-	-	97	97
<b>TOTAL</b>						
Cost	5,608	233,655	239,263	13,405	183,183	196,588
Accumulated depreciation	(1,521)	(38,387)	(39,908)	(3,401)	(32,020)	(35,421)
Net book value	4,087	195,268	199,355	10,004	151,163	161,167

**5.2 Ijara receivables**

	2022			2021		
	<i>Self financed BD'000</i>	<i>Jointly financed BD'000</i>	<i>Total BD'000</i>	<i>Self financed BD'000</i>	<i>Jointly financed BD'000</i>	<i>Total BD'000</i>
Ijara receivables	1,379	14,070	15,449	3,450	12,701	16,151
	1,379	14,070	15,449	3,450	12,701	16,151

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

**5 IJARA MUNTAHIA BITTAMLEEK AND IJARA RECEIVABLES (continued)****5.3 Allowances for expected credit losses**

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

	<b>2022</b>			
	<b>Stage 1: 12-month ECL BD'000</b>	<b>Stage 2: Lifetime ECL not credit- impaired BD'000</b>	<b>Stage 3: Lifetime ECL credit- impaired BD'000</b>	<b>Total BD'000</b>
<b>Balance at 1 January</b>	293	18	3,031	3,342
<b>Changes during the year:</b>				
- transferred to Stage 1: 12 month ECL	-	-	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(31)	31	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	-	(2)	2	-
Net remeasurement of loss allowance	(22)	(4)	326	300
Recoveries / write-backs	-	-	(318)	(318)
Allowances for credit losses	(53)	25	10	(18)
Amounts written off during the year	-	-	(187)	(187)
FX translation	-	-	(189)	(189)
<b>Balance at 31 December</b>	<b>240</b>	<b>43</b>	<b>2,665</b>	<b>2,948</b>
	<b>2021</b>			
	<b>Stage 1: 12-month ECL BD'000</b>	<b>Stage 2: Lifetime ECL not credit- impaired BD'000</b>	<b>Stage 3: Lifetime ECL credit- impaired BD'000</b>	<b>Total BD'000</b>
<b>Balance at 1 January</b>	337	86	3,345	3,768
<b>Changes during the year:</b>				
- transferred to Stage 1: 12 month ECL	108	(46)	(62)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	-	250	(250)	-
Net remeasurement of loss allowance	(152)	(272)	181	(243)
Recoveries / write-backs	-	-	(78)	(78)
	(44)	(68)	(209)	(321)
Amounts written off during the year	-	-	(9)	(9)
FX translation	-	-	(96)	(96)
<b>Balance at 31 December</b>	<b>293</b>	<b>18</b>	<b>3,031</b>	<b>3,342</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

## 6 MUSHARAKA

	2022			2021		
	Self financed BD'000	Jointly financed BD'000	Total BD'000	Self financed BD'000	Jointly financed BD'000	Total BD'000
Musharakat	12,071	82,282	94,353	19,932	107,955	127,887
Allowances for expected credit losses (6.1)	-	(4,083)	(4,083)	-	(3,847)	(3,847)
	<b>12,071</b>	<b>78,199</b>	<b>90,270</b>	19,932	104,108	124,040

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

	2022			
	Stage 1: 12-month ECL BD'000	Stage 2: Lifetime ECL not credit- impaired BD'000	Stage 3: Lifetime ECL credit- impaired BD'000	Total BD'000
Good (1-4)	81,012	3,919	-	84,931
Satisfactory (5-7)	2,673	3,227	-	5,900
Default (8-10)	-	-	3,522	3,522
	<b>83,685</b>	<b>7,146</b>	<b>3,522</b>	<b>94,353</b>

	2021			
	Stage 1: 12-month ECL BD'000	Stage 2: Lifetime ECL not credit- impaired BD'000	Stage 3: Lifetime ECL credit- impaired BD'000	Total BD'000
Good (1-4)	97,270	9,904	-	107,174
Satisfactory (5-7)	2,273	14,020	-	16,293
Default (8-10)	-	-	4,420	4,420
	<b>99,543</b>	<b>23,924</b>	<b>4,420</b>	<b>127,887</b>

At 31 December 2022

**6 MUSHARAKAS (continued)****6.1 Allowances for expected credit losses**

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

	<b>2022</b>			<b>Total BD'000</b>
	<b>Stage 1: 12- month ECL BD'000</b>	<b>Stage 2: Lifetime ECL not credit- impaired BD'000</b>	<b>Stage 3: Lifetime ECL credit- impaired BD'000</b>	
<b>Balance at 1 January</b>	<b>648</b>	<b>857</b>	<b>2,342</b>	<b>3,847</b>
<b>Changes during the year:</b>				
- transferred to Stage 1: 12 month ECL	32	(32)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(61)	61	-	-
Net remeasurement of loss allowance	262	72	750	1,084
Recoveries / write-backs	-	-	-	-
	<b>233</b>	<b>101</b>	<b>750</b>	<b>1,084</b>
FX translation	(142)	(189)	(517)	(848)
<b>Balance at 31 December</b>	<b>739</b>	<b>769</b>	<b>2,575</b>	<b>4,083</b>
	<b>2021</b>			
	<b>Stage 1: 12- month ECL BD'000</b>	<b>Stage 2: Lifetime ECL not credit- impaired BD'000</b>	<b>Stage 3: Lifetime ECL credit- impaired BD'000</b>	<b>Total BD'000</b>
<b>Balance at 1 January</b>	620	1,035	2,143	3,798
<b>Changes during the year:</b>				
- transferred to Stage 2: Lifetime ECL not credit-impaired	(33)	33	-	-
Net remeasurement of loss allowance	119	(113)	608	614
Recoveries / write-backs	-	-	(207)	(207)
	86	(80)	401	407
FX translation	(58)	(98)	(202)	(358)
<b>Balance at 31 December</b>	<b>648</b>	<b>857</b>	<b>2,342</b>	<b>3,847</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

## 7 INVESTMENTS

	2022			2021		
	Self financed BD'000	Jointly financed BD'000	Total BD'000	Self financed BD'000	Jointly financed BD'000	Total BD'000
<b>i) Debt-type instruments at fair value through statement of income</b>						
<b>Quoted</b>						
Sukuk	-	-	-	-	12,687	12,687
<b>ii) Debt-type instruments at fair value through equity (Note 7.1)</b>						
<b>Quoted</b>						
Sukuk	94,503	84,971	179,474	85,097	61,279	146,376
<b>Unquoted</b>						
Sukuk	4,646	2,737	7,383	-	1,322	1,322
	<b>99,149</b>	<b>87,708</b>	<b>186,857</b>	<b>85,097</b>	<b>62,601</b>	<b>147,698</b>
<b>iii) Debt-type instruments at amortised cost (Note 7.1)</b>						
<b>Quoted</b>						
Sukuk	126,298	62,978	189,276	124,282	63,228	187,510
<b>Unquoted</b>						
Sukuk	1,024	24,492	25,516	5,745	27,742	33,487
	<b>127,322</b>	<b>87,470</b>	<b>214,792</b>	<b>130,027</b>	<b>90,970</b>	<b>220,997</b>
Allowances for expected credit losses	(85)	(34)	(119)	(124)	(44)	(168)
	<b>226,386</b>	<b>175,144</b>	<b>401,530</b>	<b>215,000</b>	<b>153,527</b>	<b>368,527</b>
<b>iv) Equity-type instruments at fair value through equity - note (Note 7.2)</b>						
<b>Quoted</b>						
Listed equity shares	11,072	91	11,163	11,414	115	11,529
<b>Unquoted</b>						
Unlisted equity shares	3,362	193	3,555	23,849	167	24,016
Managed funds	377	-	377	377	-	377
Real estate funds	617	7,688	8,305	617	4,202	4,819
	<b>15,428</b>	<b>7,972</b>	<b>23,400</b>	<b>36,257</b>	<b>4,484</b>	<b>40,741</b>
Provision for impairment	(1,761)	(125)	(1,886)	(1,959)	(159)	(2,118)
	<b>13,667</b>	<b>7,847</b>	<b>21,514</b>	<b>34,298</b>	<b>4,325</b>	<b>38,623</b>
<b>Total investments</b>	<b>240,053</b>	<b>182,991</b>	<b>423,044</b>	<b>249,298</b>	<b>170,539</b>	<b>419,837</b>

Included in unquoted investments which are held at fair value through equity are investments amounting to BD 10.8 million (2021: BD 27.8 million) which are held at cost less provision for impairment. These are mainly investments in unlisted companies whose shares are not traded on active markets. The investments are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for determining a reliable fair value.

**7 INVESTMENTS (continued)**

The Group's investments in sukuk held at amortised cost amounting to BD 214.8 million (2021: BD 381.25 million) has a fair value amounting to BD 207.1 million (2021: BD 381.6 million).

Investments stated at a carrying amount of BD 181.6 million (2021: BD 187.0 million) are placed in custody of a financial institution to secure a financing line.

**7.1 Debt-type instruments at amortised cost**

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

	<b>2022</b>		
	<b>Stage 1: 12-month ECL BD'000</b>	<b>Stage 2: Lifetime ECL not credit-impaired BD'000</b>	<b>Total BD'000</b>
Good (1-4)	191,807	-	191,807
Satisfactory (5-7)	209,842	-	209,842
	<b>401,649</b>	<b>-</b>	<b>401,649</b>
	<b>2021</b>		
	<b>Stage 1: 12-month ECL BD'000</b>	<b>Stage 2: Lifetime ECL not credit-impaired BD'000</b>	<b>Total BD'000</b>
Good (1-4)	157,462	-	157,462
Satisfactory (5-7)	211,233	-	211,233
	<b>368,695</b>	<b>-</b>	<b>368,695</b>

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

	<b>2022</b>		
	<b>Stage 1: 12-month ECL BD'000</b>	<b>Stage 2: Lifetime ECL not credit-impaired BD'000</b>	<b>Total BD'000</b>
<b>Balance at 1 January</b>	<b>168</b>	<b>-</b>	<b>168</b>
<b>Changes during the year</b>			
Net remeasurement of loss allowance	(48)	-	(48)
	(48)	-	(48)
FX translation	(1)	-	(1)
<b>Balance at 31 December</b>	<b>119</b>	<b>-</b>	<b>119</b>

At 31 December 2022

**7 INVESTMENTS (continued)****7.1 Debt-type instruments at amortised cost (continued)**

	2021		Total BD'000
	Stage 1: 12- month ECL BD'000	Stage 2: Lifetime ECL not credit- impaired BD'000	
<b>Balance at 1 January</b>	172	84	256
<b>Changes during the year</b>			
- transferred to Stage 1: 12 month ECL	28	(28)	-
Net remeasurement of loss allowance	(31)	(56)	(87)
	(3)	(84)	(87)
FX translation	(1)	-	(1)
<b>Balance at 31 December</b>	168	-	168

**7.2 Provision for impairment on equity type investments**

	2022 BD'000	2021 BD'000
<b>Balance at 1 January</b>	2,118	2,334
Charge for the year	-	315
Reversal for the year	(70)	(414)
Exchange difference	(162)	(117)
<b>Balance at 31 December</b>	1,886	2,118

**8 INVESTMENT IN JOINT VENTURE**

	2022 BD'000	2021 BD'000
<b>Balance at 1 January</b>	7,050	5,516
Net share of income for the year	1,225	1,534
Dividend received for the year	(1,327)	-
<b>Balance at 31 December</b>	6,948	7,050

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

**Summarised statement of financial position**

	2022 BD'000	2021 BD'000
Non-current assets	2,087	8,753
Current assets	12,029	5,933
Current liabilities	(493)	(864)
<b>Net assets</b>	13,623	13,822
Group's ownership in equity	6,948	7,050
<b>Net carrying amount</b>	6,948	7,050

**8 INVESTMENT IN JOINT VENTURE (continued)**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>Summarised statement of profit and loss</b>		
Total income	<b>2,655</b>	3,286
Total expenses	<b>(253)</b>	(278)
<b>Total comprehensive income</b>	<b>2,402</b>	3,008
<b>Group's net share of profit</b>	<b>1,225</b>	1,534

**9 INVESTMENTS IN REAL ESTATE**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>Balance at 1 January</b>	<b>3,592</b>	3,700
Disposals during the year	<b>(224)</b>	(64)
Unrealized loss on remeasurement	<b>(37)</b>	(44)
<b>Balance at 31 December</b>	<b>3,331</b>	3,592

**10 PREMISES AND EQUIPMENT**

	<i>Land, Building &amp; Right of Use Assets</i>	<i>Computer Software &amp; license</i>	<i>Office furniture and equipment</i>	<i>Vehicles</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Cost:					
<b>At 1 January 2022</b>	<b>21,419</b>	<b>5,840</b>	<b>9,477</b>	<b>183</b>	<b>36,919</b>
Additions (10.1)	<b>20,068</b>	<b>339</b>	<b>1,306</b>	<b>-</b>	<b>21,713</b>
Disposals	<b>(664)</b>	<b>-</b>	<b>(205)</b>	<b>(70)</b>	<b>(939)</b>
Exchange difference	<b>(3,418)</b>	<b>(801)</b>	<b>(1,043)</b>	<b>(40)</b>	<b>(5,302)</b>
<b>At 31 December 2022</b>	<b>37,405</b>	<b>5,378</b>	<b>9,535</b>	<b>73</b>	<b>52,391</b>
Accumulated depreciation:					
<b>At 1 January 2022</b>	<b>6,002</b>	<b>2,991</b>	<b>6,570</b>	<b>108</b>	<b>15,671</b>
Depreciation for the year	<b>1,412</b>	<b>686</b>	<b>943</b>	<b>10</b>	<b>3,051</b>
Related to disposals	<b>(500)</b>	<b>-</b>	<b>(197)</b>	<b>(34)</b>	<b>(731)</b>
Exchange difference	<b>(1,233)</b>	<b>(590)</b>	<b>(819)</b>	<b>(23)</b>	<b>(2,665)</b>
<b>At 31 December 2022</b>	<b>5,681</b>	<b>3,087</b>	<b>6,497</b>	<b>61</b>	<b>15,326</b>
Net book values:					
<b>At 31 December 2022</b>	<b>31,724</b>	<b>2,291</b>	<b>3,038</b>	<b>12</b>	<b>37,065</b>
At 31 December 2021	15,417	2,849	2,907	75	21,248
Estimated useful life for calculation of depreciation					
	20-30 years	4-5 years	1-10 years	4-5 years	1-10 years

**10.1** The Bank has acquired head office building having fairvalue of BD 19.6 million against the transfer of equity stake in majority owned investment in Itqan Capital Company during the current year.

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

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At 31 December 2022

**11 GOODWILL**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Balances at 1 January	<b>4,796</b>	5,297
Foreign exchange translation	<b>(1,057)</b>	(501)
<b>Balances at 31 December</b>	<b>3,739</b>	4,796

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

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

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

**12 OTHER ASSETS**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Collaterals pending sale	<b>4,138</b>	5,021
Deferred tax (12.1)	<b>5,029</b>	7,080
Advance against capital expenditure	<b>1,638</b>	1,479
Accounts receivable	<b>7,547</b>	8,256
Advance tax	-	217
Income receivable	<b>1</b>	23
Prepayments	<b>1,235</b>	1,140
Others	<b>787</b>	1,832
<b>Total</b>	<b>20,375</b>	25,048
Provision for impairment	<b>(667)</b>	(856)
	<b>19,708</b>	24,192

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

At 31 December 2022

<b>13 OTHER LIABILITIES</b>	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Accounts payable	10,116	11,517
Margins received	8,711	8,149
Security deposit against ijara muntahia bittamleek	136	343
Bills payable	11,951	10,236
Provision for employees benefits	3,356	3,737
Charity fund	149	235
Allowance for expected credit losses-unfunded facilities	35	271
Operating Ijarah liability	3,078	4,262
Others	5,139	2,587
	<b>42,671</b>	<b>41,337</b>

**14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)**

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

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
IAH - Non-banks	516,769	517,135
IAH - Banks	204,266	185,972
Profit equalisation reserve (note 14.1)	155	155
	<b>721,190</b>	<b>703,262</b>

**14.1 Movement in profit equalisation reserve**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
<b>Balance at 1 January</b>	<b>155</b>	<b>129</b>
Amount apportioned from income allocable to equity of investment accountholders	-	26
<b>Balance at 31 December</b>	<b>155</b>	<b>155</b>



**14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)****14.1 Movement in profit equalisation reserve (continued)**

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

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

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

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

The Group's share, as Mudarib, in the profits of equity of investment accountholders is upto a maximum of 70% (2021: upto 70%) as per the terms of IAH agreements.

The Group has charged a total administrative expense of BD 2.8 million (2021: BD 3 million) to equity of investment account holders for the year ended 31 December 2022.

**14.2 Equity of Investment Accountholders by maturity**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Saving Accounts	<b>258,935</b>	302,327
One Month Investment Account	<b>64,093</b>	69,235
Three Months Investment Account	<b>161,307</b>	96,288
Six Months Investment Account	<b>23,120</b>	33,967
Nine Months Investment Account	<b>2,088</b>	1,646
1 Year Investment Account	<b>171,657</b>	181,990
2 Years Investment Account	<b>3,841</b>	2,050
3 Years Investment Account	<b>18,548</b>	9,427
4 Years Investment Account	<b>1,065</b>	-
5 Years Investment Account	<b>16,536</b>	6,332
	<b>721,190</b>	<b>703,262</b>

**14.3 Equity of Investment Accountholders by type**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Accounts on demand	<b>258,934</b>	302,327
Accounts on a contractual basis *	<b>462,256</b>	400,935
	<b>721,190</b>	<b>703,262</b>

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

**15 SUBORDINATED MUDARABA**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Subordinated Mudaraba Sukuk	<b>5,881</b>	7,329
	<b>5,881</b>	7,329

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

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

**16 OWNERS' EQUITY**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
(i) <i>Share capital</i>		
Authorised 6,000,000 ordinary shares (2021: 6,000,000) of BD 37.7 each	<b>226,200</b>	226,200

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Issued and fully paid 1,514,578 ordinary shares (2021: 1,364,578) of BD 37.7 each	<b>57,100</b>	51,445

*Additional information on shareholding pattern:*

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

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

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

The Bank has only one class of shares and the holders of these shares have equal voting rights.

Following is the distribution schedule of shares, setting out the number and percentage of other shareholders along with categories:

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

**16 OWNERS' EQUITY (continued)***(ii) Additional Tier 1 (AT1) Capital*

	<b>2022</b>	2021
	<b>BD'000</b>	BD'000
Subordinated Mudaraba	<b>36,192</b>	41,847

The Bank held additional tier 1 capital (subordinated mudaraba) amounted to BD 41.8 million, received from ultimate parent. Such capital was raised from time to time to ensure compliance with minimum capital requirement (MCR) and capital adequacy requirement (CAR) as prescribed by Central Bank of Bahrain. The Bank raised additional tier 1 capital amounted to BD 30.5 million against cash consideration and BD 5.7 million against equity shares.

Summary of terms and conditions are as follows:

- Subordinated mudaraba amounted to BD 30.5 million carries expected profit ranging from 6% to 9% per annum, on a semi-annual basis;
- Subordinated mudaraba amounted to BD 5.7 million carries expected profit rate, which is 30% of the dividend or profit to be received on underlying equity investments shall be distributed to the Ultimate Parent, subject to and in accordance with terms and conditions, on an annual basis;
- the investor will not have a right to claim the profit and such event of nonpayment of profit will not be considered as event of default; and
- such instruments are recognised under equity in the consolidated statement of financial position and the corresponding profits paid to investor are accounted as appropriation of profits.

*(iii) Statutory reserve*

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

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**16 OWNERS' EQUITY (continued)***(iv) General reserve*

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

*(v) Cumulative changes in fair value*

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

*(vi) Revaluation reserve on premises and equipment*

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

*(vii) Foreign exchange reserve*

This represents the translation reserve arising as a result of consolidation of the foreign subsidiary.

*(viii) Employee defined benefit plan reserve*

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

**17 CONTINGENCIES AND COMMITMENTS**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Letters of credit	<b>23,666</b>	40,718
Guarantees	<b>40,447</b>	41,026
Foreign exchange contracts	<b>58,894</b>	98,943
Acceptances	<b>3,932</b>	6,201
Taxation	<b>1,528</b>	1,960
Others	<b>8</b>	10
	<b>128,475</b>	188,858

**18 INCOME FROM FINANCINGS**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Sales and other receivables	<b>14,127</b>	11,312
Ijarah Muntahia Bittamleek	<b>14,492</b>	8,295
Musharaka	<b>10,266</b>	13,808
	<b>38,885</b>	33,415
	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Income from jointly financed financings	<b>35,907</b>	30,785
Income from self financed financings	<b>2,978</b>	2,630
	<b>38,885</b>	33,415

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

**19 INCOME FROM INVESTMENTS**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Yield, coupon or return on investments	<b>29,966</b>	16,772
Gain on sale of investments	<b>386</b>	1,372
Dividends	<b>1,062</b>	2,477
(Loss) / gain on disposal and revaluation of investment properties	<b>(37)</b>	486
Rental Income	<b>108</b>	66
	<b>31,485</b>	21,173

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Income from jointly financed investments	<b>16,324</b>	6,210
Income from self financed investments	<b>15,161</b>	14,963
	<b>31,485</b>	21,173

**20 REVENUE FROM BANKING SERVICES**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Fees and commissions	<b>2,477</b>	3,045
Letters of credit and acceptances	<b>669</b>	961
Guarantees	<b>393</b>	276
	<b>3,539</b>	4,282

**21 OTHER INCOME**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Foreign exchange gain - net	<b>1,422</b>	1,982
Others	<b>436</b>	468
	<b>1,858</b>	2,450

**22 OTHER OPERATING EXPENSES**

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Administrative expenses	<b>2,189</b>	2,225
Premises costs	<b>2,165</b>	1,999
Business expenses	<b>6,530</b>	5,914
General expenses	<b>532</b>	468
	<b>11,416</b>	10,606

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

	<b>2022</b>	2021
	<b>BD'000</b>	BD'000
Receivables (note 4)	<b>1,203</b>	6,293
Ijara Muntahia Bittamleek and Ijara Receivables (note 5)	<b>128</b>	(321)
Musharakas (note 6)	<b>1,084</b>	407
Investments at amortized cost (note 7.1)	<b>(48)</b>	(87)
Investments at fair value through equity (note 7.2)	<b>(70)</b>	(99)
Contingencies and commitments	<b>(190)</b>	138
Others	<b>95</b>	205
	<b>2,202</b>	6,536

**24 TAXATION**

Taxation relates to subsidiary in Pakistan and comprise:

	<b>2022</b>	2021
	<b>BD'000</b>	BD'000
<b>Consolidated statement of financial position:</b>		
Advance tax - net	-	217
Tax liability	<b>5,029</b>	7,080
<b>Consolidated statement of income:</b>		
Current tax	<b>(1,183)</b>	(418)
Deferred tax	<b>(646)</b>	403
	<b>(1,829)</b>	(15)

**25 CASH AND CASH EQUIVALENTS**

For the purpose of cash flows, cash and cash equivalents represent:

	<b>2022</b>	2021
	<b>BD'000</b>	BD'000
Cash in hand	<b>8,342</b>	12,654
Balances with central banks (unrestricted accounts)	<b>5,034</b>	2,124
Balances with other banks and financial institutions	<b>15,541</b>	70,572
Receivables, commodities and wakala placements (with an original maturity of 90 days or less)	<b>16,524</b>	26,235
	<b>45,441</b>	111,585

**26 RELATED PARTY BALANCES AND TRANSACTIONS**

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

**26 RELATED PARTY BALANCES AND TRANSACTIONS (continued)**

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

	<i>Parent and Other Shareholders</i>		<i>Other Related Parties</i>		<i>Total</i>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>
<b>Assets:</b>						
Cash and balances with banks and financial institutions	1	2	17	340	18	342
Receivables	-	-	315	2,052	315	2,052
Musharaka	-	-	516	540	516	540
Investments	9,592	8,603	10,104	33,234	19,696	41,837
Other assets	2,360	3,355	-	202	2,360	3,557
	<b>11,953</b>	<b>11,960</b>	<b>10,952</b>	<b>36,368</b>	<b>22,905</b>	<b>48,328</b>
<b>Liabilities:</b>						
Current account	2,432	2,221	729	1,126	3,161	3,347
Other liabilities	1,857	2	353	665	2,210	667
	<b>4,289</b>	<b>2,223</b>	<b>1,082</b>	<b>1,791</b>	<b>5,371</b>	<b>4,014</b>
<b>Equity of investment accountholders</b>	<b>12,479</b>	<b>13,695</b>	<b>10,073</b>	<b>7,152</b>	<b>22,552</b>	<b>20,847</b>
<b>Off-balance sheet equity of investment accountholders</b>	<b>10,266</b>	<b>15,604</b>	<b>61,306</b>	<b>44,161</b>	<b>71,572</b>	<b>59,765</b>
<b>Contingencies and commitments</b>	<b>754</b>	<b>819</b>	<b>395</b>	<b>3,894</b>	<b>1,149</b>	<b>4,713</b>

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

	<i>Parent and Other Shareholders</i>		<i>Other Related Parties</i>		<i>Total</i>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>
<b>Income</b>						
Income from jointly financed sales	-	-	27	141	27	141
Income from jointly financed, other financings and investments	-	-	19	39	19	39
Group's income from self financed, other financings	617	207	144	111	762	318
Other income	123	120	12	15	135	135
investment accountholders	-	-	-	-	-	-
	<b>740</b>	<b>327</b>	<b>202</b>	<b>306</b>	<b>943</b>	<b>633</b>
<b>Expenses</b>						
Return on equity of investment accountholders before Group's share as a Mudarib	65	18	331	308	396	326
Other expenses	120	132	1,233	1,008	1,353	1,140
	<b>185</b>	<b>150</b>	<b>1,564</b>	<b>1,316</b>	<b>1,749</b>	<b>1,466</b>

Compensation of key management personnel is as follows:

	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Salaries	1,834	1,732
Other benefits	757	732
	<b>2,591</b>	<b>2,464</b>

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

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**27 RISK MANAGEMENT**

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

**a) Liquidity risk**

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

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

	<i>Up to 3 months BD'000</i>	<i>3 to 6 months BD'000</i>	<i>6 months to 1 year BD'000</i>	<i>1 to 3 years BD'000</i>	<i>3 to 5 years BD'000</i>	<i>5 to 10 years BD'000</i>	<i>10 to 20 years BD'000</i>	<i>Over 20 years BD'000</i>	<i>No fixed maturity BD'000</i>	<i>Total BD'000</i>
<b>ASSETS</b>										
Cash and balances with banks and financial institutions	28,917	-	-	-	-	-	-	-	32,322	61,239
Receivables	57,638	43,014	14,203	22,289	14,524	8,549	1,486	2,204	5,309	169,216
Ijara muntahia bittamleek and ijara receivables	2,904	2,391	5,045	22,949	21,057	42,009	82,225	30,117	3,159	211,856
Musharaka	5,725	1,353	3,710	21,992	35,428	10,760	10,707	-	595	90,270
Investments	18,663	1,024	121	155,830	163,610	70,232	-	377	13,187	423,044
Investments in real estate	-	-	-	3,331	-	-	-	-	-	3,331
Investment in Joint Venture	-	-	-	-	-	-	-	-	6,948	6,948
Premises and equipment	-	-	-	-	-	-	-	-	37,065	37,065
Goodwill	-	-	-	-	-	-	-	-	3,739	3,739
Other assets	9,442	257	3,610	-	5,832	-	-	-	567	19,708
<b>Total assets</b>	<b>123,289</b>	<b>48,039</b>	<b>26,689</b>	<b>226,391</b>	<b>240,451</b>	<b>131,550</b>	<b>94,418</b>	<b>32,698</b>	<b>102,891</b>	<b>1,026,416</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS SUBORDINATED MUDARABA AND OWNERS' EQUITY</b>										
Current accounts	91,631	-	-	-	-	-	-	-	-	91,631
Murabaha and other payables	13,880	22,724	24,414	201	71	3,477	-	-	-	64,767
Other liabilities	36,260	322	567	3,852	934	736	-	-	-	42,671
<b>Total liabilities</b>	<b>141,771</b>	<b>23,046</b>	<b>24,981</b>	<b>4,053</b>	<b>1,005</b>	<b>4,213</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>199,069</b>
Equity of investment accountholders	524,101	79,154	80,206	24,367	13,362	-	-	-	-	721,190
Subordinated mudaraba	495	-	-	2,498	-	2,888	-	-	-	5,881
Total owners' equity	-	-	-	-	-	-	-	-	100,276	100,276
<b>Total liabilities, equity of investment accountholders, subordinated mudaraba and owner's equity</b>	<b>666,367</b>	<b>102,200</b>	<b>105,187</b>	<b>30,918</b>	<b>14,367</b>	<b>7,101</b>	<b>-</b>	<b>-</b>	<b>100,276</b>	<b>1,026,416</b>
<b>Net gap</b>	<b>(543,078)</b>	<b>(54,161)</b>	<b>(78,498)</b>	<b>195,473</b>	<b>226,084</b>	<b>124,449</b>	<b>94,418</b>	<b>32,698</b>	<b>2,615</b>	<b>-</b>
<b>Cumulative net gap</b>	<b>(543,078)</b>	<b>(597,239)</b>	<b>(675,737)</b>	<b>(480,264)</b>	<b>(254,180)</b>	<b>(129,731)</b>	<b>(35,313)</b>	<b>(2,615)</b>	<b>-</b>	<b>-</b>
<b>Off-balance sheet equity of investment accountholders</b>	<b>88,446</b>	<b>83,395</b>	<b>32,918</b>	<b>40,204</b>	<b>22,975</b>	<b>45,233</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>313,171</b>



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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2022

27 RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2021 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms.

	Up to 3 months BD'000	3 to 6 months BD'000	6 months to 1 year BD'000	1 to 3 years BD'000	3 to 5 years BD'000	5 to 10 years BD'000	10 to 20 years BD'000	Over 20 years BD'000	No fixed maturity BD'000	Total BD'000
<b>ASSETS</b>										
Cash and balances with banks and financial institutions	85,350	-	-	-	-	-	-	-	32,504	117,854
Receivables	87,058	36,760	9,186	18,130	11,059	7,681	965	1,466	10,629	182,934
Ijara muntahia bittamleek and Ijara receivables	1,295	10,052	5,617	17,880	17,716	34,600	62,458	20,009	4,349	173,976
Musharakas	4,546	354	6,567	29,235	56,889	14,757	9,241	-	2,451	124,040
Investments	37,657	71	-	23,429	191,117	133,253	215	377	33,718	419,837
Investments in real estate	-	-	-	3,592	-	-	-	-	-	3,592
Investment in Joint Venture	-	-	-	-	-	-	-	-	7,050	7,050
Premises and equipment	98	98	195	780	782	1,954	-	-	17,341	21,248
Goodwill	-	-	-	-	-	-	-	-	4,796	4,796
Other assets	11,537	959	760	2,320	7,640	-	-	-	976	24,192
<b>Total assets</b>	<b>227,541</b>	<b>48,294</b>	<b>22,325</b>	<b>95,366</b>	<b>285,203</b>	<b>192,245</b>	<b>72,879</b>	<b>21,852</b>	<b>113,814</b>	<b>1,079,519</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>										
<b>SUBORDINATED MUDARABA AND OWNERS' EQUITY</b>										
Current accounts	133,241	-	-	-	-	-	-	-	-	133,241
Murabaha and other payables	18,299	38,095	13,109	19,238	92	2,877	-	-	-	91,710
Other liabilities	33,303	1,007	221	802	789	5,215	-	-	-	41,337
<b>Total liabilities</b>	<b>184,843</b>	<b>39,102</b>	<b>13,330</b>	<b>20,040</b>	<b>881</b>	<b>8,092</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>266,288</b>
Equity of investment accountholders	467,870	89,375	77,403	35,694	13,313	10,812	8,795	-	-	703,262
Subordinated mudaraba	407	12	-	3,204	-	3,706	-	-	-	7,329
<b>Total owners' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>102,640</b>	<b>102,640</b>
<b>Total liabilities, Equity of investment accountholders subordinated mudaraba and owner's equity</b>	<b>653,120</b>	<b>128,489</b>	<b>90,733</b>	<b>58,938</b>	<b>14,194</b>	<b>22,610</b>	<b>8,795</b>	<b>-</b>	<b>102,640</b>	<b>1,079,519</b>
<b>Net gap</b>	<b>(425,579)</b>	<b>(80,195)</b>	<b>(68,408)</b>	<b>36,428</b>	<b>271,009</b>	<b>169,635</b>	<b>64,084</b>	<b>21,852</b>	<b>11,174</b>	<b>-</b>
<b>Cumulative net gap</b>	<b>(425,579)</b>	<b>(505,774)</b>	<b>(574,182)</b>	<b>(537,754)</b>	<b>(266,745)</b>	<b>(97,110)</b>	<b>(33,026)</b>	<b>(11,174)</b>	<b>-</b>	<b>-</b>
Off-balance sheet equity of investment accountholders	14,330	53,224	86,914	32,968	28,665	37,700	-	-	-	253,801

**27 RISK MANAGEMENT (continued)**

**a) Liquidity risk (continued)**

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

**b) Market risk**

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

*Profit rate risk*

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

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

*Foreign exchange risk*

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

Following is the Group's exposure to different currencies in equivalent Bahraini Dinar:

	<u>2022</u>
	<i>Total</i>
	<i>equivalent</i>
	<i>BD'000</i>
Pakistani Rupees	39,840
Euro	(5,997)
Kuwaiti Dinars	21
Pound Sterling	(1,774)
Egyptian Pound	894
Algerian Dinar	2,262
Chinese Yuan	208
	<u>2021</u>
	<i>Total</i>
	<i>equivalent</i>
	<i>BD'000</i>
Pakistani Rupees	49,202
Euro	(1,194)
Kuwaiti Dinars	24
Pound Sterling	(2,596)
Egyptian Pound	1,805
Algerian Dinar	2,262
Chinese Yuan	505

**27 RISK MANAGEMENT (continued)**

**b) Market risk (continued)**

*Foreign exchange risk (continued)*

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

*Foreign currency risk sensitivity analysis*

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

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

Currency 2022	Particular	Change	Exposures in BD '000	Effect on equity/ Income Statement in BD '000
Pakistani Rupees	Net long Position	20%	39,840	7,968
Euro	Net short Position	20%	5,997	1,199
Kuwaiti Dinars	Net long Position	20%	21	4
Pound Sterling	Net short Position	20%	1,774	355
Egyptian Pound	Net long Position	20%	894	179
Algerian Dinar	Net long Position	20%	2,262	452
Chinese Yuan	Net long Position	20%	208	42

Currency 2021	Particular	Change	Exposures in BD '000	Effect on equity/ Income Statement in BD '000
Pakistani Rupees	Net long Position	20%	49,202	9,840
Euro	Net short Position	20%	1,194	239
Kuwaiti Dinars	Net long Position	20%	24	5
Pound Sterling	Net short Position	20%	2,596	519
Egyptian Pound	Net long Position	20%	1,805	361
Algerian Dinar	Net long Position	20%	2,262	452
Chinese Yuan	Net long Position	20%	505	101

*Equity price risk*

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

**27 RISK MANAGEMENT (continued)**

**b) Market risk (continued)**

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

Market indices	Change in	Effect on	Change in	Effect on equity/
	equity price	equity/ Income	equity price	Income
	2022	Statement	2021	Statement
	%	BD'000	%	BD'000
Pakistan Stock Exchange	10%	68	10%	43
Egypt Stock Exchange	10%	89	10%	181
Jordan Stock Exchange	10%	959	10%	860

**Concentration of investment portfolio**

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

31 December 2022	*GCC	Rest of the	Total
	BD'000	world	BD'000
Banking	385	13,882	14,267
Government	198,124	178,712	376,836
Investment companies	15,520	-	15,520
Manufacturing	-	1,981	1,981
Real estate	4,301	3,448	7,749
Others	3,433	3,258	6,691
	<b>221,763</b>	<b>201,281</b>	<b>423,044</b>

31 December 2021	*GCC	Rest of the	Total
	BD'000	world	BD'000
Banking	13,052	1,151	14,203
Government	199,487	160,328	359,815
Investment companies	36,082	-	36,082
Manufacturing	-	2,927	2,927
Real estate	343	3,920	4,263
Others	1,884	663	2,547
	<b>250,848</b>	<b>168,989</b>	<b>419,837</b>

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

**27 RISK MANAGEMENT (continued)**

**c) Credit risk**

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

***Type of credit risk***

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

***Sales receivable***

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

***Istisna'a receivable***

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

***Musharaka***

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

***Ijara Muntahia Bittamleek***

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

***Salam***

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

**27 RISK MANAGEMENT (continued)**

**c) Credit risk (continued)**

**Maximum exposure to credit risk**

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

	<i>Maximum exposure to credit risk</i>	
	<b>2022</b>	<b>2021</b>
	<b>BD'000</b>	<b>BD'000</b>
Receivables	<b>169,216</b>	182,934
Musharakat	<b>90,270</b>	124,040
Ijara muntahia bittamleek and ijara receivables	<b>211,856</b>	173,976
Investments	<b>401,530</b>	368,527
Balances with banks and financial institutions	<b>52,897</b>	105,200
Other assets	<b>7,668</b>	9,472
Contingencies and commitments	<b>68,045</b>	87,945
	<b>1,001,482</b>	1,052,094

**Credit quality by type of Islamic financing contracts**

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

	<b>31 December 2022</b>			
	<i>Neither past due nor non performing</i>	<i>Past due but performing</i>	<i>Non performing Islamic financing contracts</i>	<i>Total</i>
	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>
<b>Type of Islamic Financing Contract</b>				
Receivables	<b>164,097</b>	<b>5,215</b>	<b>24,405</b>	<b>193,717</b>
Musharaka	<b>89,620</b>	<b>1,211</b>	<b>3,522</b>	<b>94,353</b>
Ijara muntahia bittamleek and ijara receivables	<b>208,803</b>	<b>234</b>	<b>5,767</b>	<b>214,804</b>
	<b>462,520</b>	<b>6,660</b>	<b>33,694</b>	<b>502,874</b>
	<b>31 December 2021</b>			
	<i>Neither past due nor non performing</i>	<i>Past due but performing</i>	<i>Non performing Islamic financing contracts</i>	<i>Total</i>
	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>	<b>BD'000</b>
<b>Type of Islamic Financing Contract</b>				
Receivables	170,165	10,030	31,331	211,526
Musharakas	123,094	373	4,420	127,887
Ijara Muntahia Bittamleek and Ijara receivables	169,937	332	7,049	177,318
	463,196	10,735	42,800	516,731

**27 RISK MANAGEMENT (continued)**

**c) Credit risk (continued)**

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

	<b>31 December 2022</b>			
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
<b>Type of Islamic Financing Contracts</b>				
Receivable	4,018	1,127	70	5,215
Musharaka	1,026	47	138	1,211
Ijara Muntahia Bittamleek & Ijara income receivable	227	5	2	234
	<b>5,271</b>	<b>1,179</b>	<b>210</b>	<b>6,660</b>
<b>31 December 2021</b>				
	<i>Less than 30 days</i>	<i>31 to 60 days</i>	<i>61 to 90 days</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Type of Islamic Financing Contracts				
Receivable	6,740	2,142	1,148	10,030
Musharaka	259	64	50	373
Ijara Muntahia Bittamleek and Ijara receivable	219	113	-	332
	<b>7,218</b>	<b>2,319</b>	<b>1,198</b>	<b>10,735</b>

**Aging of non-performing facilities**

	<b>31 December 2022</b>				
	<i>3-6 months</i>	<i>6-12 months</i>	<i>1-3 years</i>	<i>3 years &amp; above</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Receivable	867	1,797	10,069	11,672	24,405
Musharaka	684	300	858	1,680	3,522
Ijara Muntahia Bittamleek and Ijara receivable	113	646	1,678	3,330	5,767
	<b>1,664</b>	<b>2,743</b>	<b>12,605</b>	<b>16,682</b>	<b>33,694</b>
<b>31 December 2021</b>					
	<i>3-6 Months</i>	<i>6-12 Months</i>	<i>1-3 Years</i>	<i>3 Years &amp; Above</i>	<i>Total</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Receivable	8,798	2,110	6,886	13,537	31,331
Musharaka	757	356	2,131	1,176	4,420
Ijara Muntahia Bittamleek and Ijara receivable	1,134	123	3,091	2,701	7,049
	<b>10,689</b>	<b>2,589</b>	<b>12,108</b>	<b>17,414</b>	<b>42,800</b>

At 31 December 2022

**27 RISK MANAGEMENT (continued)****c) Credit risk (continued)****Credit quality**

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

	<b>2022</b>				
	<b>Stage 1: 12-month ECL BD '000</b>	<b>Stage 2: Lifetime ECL not credit- impaired BD '000</b>	<b>Stage 3: Lifetime ECL credit- impaired BD '000</b>	<b>Total BD '000</b>	
Good (1-4)	374,165	13,683	-	387,848	
Satisfactory (5-7)	55,216	26,116	-	81,332	
Default (8-10)	-	-	33,694	33,694	
	<b>429,381</b>	<b>39,799</b>	<b>33,694</b>	<b>502,874</b>	
	<b>2021</b>				
	<b>Stage 1: 12-month ECL BD '000</b>	<b>Stage 2: Lifetime ECL not credit- impaired BD '000</b>	<b>Stage 3: Lifetime ECL credit- impaired BD '000</b>	<b>Total BD '000</b>	
Good (1-4)	359,650	17,406	-	377,056	
Satisfactory (5-7)	45,390	51,485	-	96,875	
Default (8-10)	-	-	42,800	42,800	
	<b>405,040</b>	<b>68,891</b>	<b>42,800</b>	<b>516,731</b>	

**Credit risk mitigation**

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



**27 RISK MANAGEMENT (continued)**

**c) Credit risk (continued)**

**Credit risk mitigation (continued)**

Collaterals listed hereunder attract capital relief from capital adequacy requirements:

- 1) Hamish Jiddiyah (HJ) (Good faith deposit): The Group takes this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honour his promise to perform, the Group has recourse to the HJ. HJ is taken by the Group at the inception of the transaction but before signing the contracts. HJ constitutes partial guarantee to the Group for the performance of the contract by the customer. The Group will still have recourse to the customers for the unsecured position in case of default.
- 2) Third party guarantee: The Group should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable, should provide the Group with signed audited financial statements.
- 3) Underlying assets of the lease contract: The underlying asset must be of monetary value and the Group must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any kind of encumbrance. In the same lease contract a customer can pledge other assets that customers own other than the underlying assets in the contract. In order for the Group to consider these assets as pledged assets, it must meet all the conditions for the underlying assets under the lease contract. It must be legally enforceable, accessible, saleable and free of any kind of encumbrance. The value of the pledged asset must be used only to offset the amount against the customers.

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

- 4) Cash deposit free from any legal encumbrance either in the form of equity of investment accountholders or off-balance sheet equity of investment accountholders.
- 5) Rated and unrated senior Sukuk issued by financial institutions or sovereigns.

**Credit quality**

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

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

**27 RISK MANAGEMENT (continued)**

**c) Credit risk (continued)**

**Credit quality (continued)**

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

**d) Operational risk**

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

**Infrastructure risks**

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

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

**Information technology risks**

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

**Personnel risk**

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

**28 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS**

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

	Assets		Liabilities and subordinated mudaraba		Equity of investment accountholders	
	2022	2021	2022	2021	2022	2021
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
<b>Geographical region</b>						
Middle East	621,906	579,098	81,541	115,386	407,831	346,453
Europe	4,081	16,472	734	780	-	-
Asia	387,385	457,270	111,033	145,398	249,040	285,399
Others	13,044	26,679	11,642	12,053	64,319	71,410
	<b>1,026,416</b>	<b>1,079,519</b>	<b>204,950</b>	<b>273,617</b>	<b>721,190</b>	<b>703,262</b>

	Assets		Liabilities and subordinated mudaraba		Equity of investment accountholders	
	2022	2021	2022	2021	2022	2021
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
<b>Industry sector</b>						
Trading and manufacturing	81,539	132,169	15,518	28,522	32,264	57,039
Banks and financial institutions	120,713	337,529	77,464	90,744	254,796	225,290
Construction	39,758	29,826	3,133	3,056	7,641	6,048
Government	396,236	242,141	537	1,155	116,011	30,133
Consumer	269,022	230,203	40,172	57,013	186,606	254,303
Agriculture fishing and forestry	31,412	2,009	3,668	7,396	945	1,600
Others	87,736	105,642	64,458	85,731	122,927	128,849
	<b>1,026,416</b>	<b>1,079,519</b>	<b>204,950</b>	<b>273,617</b>	<b>721,190</b>	<b>703,262</b>

**29 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

- (i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the statement of financial position date.
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for

## 29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

A hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable.

Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions.

These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical investments.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the investments that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

## 30 SEGMENTAL INFORMATION

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

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

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

The segmental results of the Group were as follows:

	<i>Middle East</i>		<i>Other Asian Countries</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Assets	<b>638,750</b>	614,908	<b>387,666</b>	464,611
Liabilities, equity of investment accountholders, and Subordinated Mudaraba	<b>567,689</b>	546,765	<b>358,451</b>	430,114
Total income	<b>18,367</b>	18,956	<b>18,641</b>	19,721
Total operating expenses	<b>(15,058)</b>	(14,645)	<b>(11,721)</b>	(12,733)
Net operating income	<b>3,309</b>	4,311	<b>6,920</b>	6,988
Expected Credit Losses / Provision for impairment - net and write back of written off	<b>(477)</b>	(1,876)	<b>(1,725)</b>	(4,660)
Taxation	-	-	<b>(1,829)</b>	(15)
Income for the year	<b>2,832</b>	2,435	<b>3,366</b>	2,313

## 31 SOCIAL RESPONSIBILITY

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

At 31 December 2022

**32 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY**

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

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

<i>Item</i>	<i>Unweighted Values (i.e. before applying relevant factors)</i>				<i>Total weighted value BD '000</i>
	<i>No specified maturity BD '000</i>	<i>Less than 6 months BD '000</i>	<i>More than 6 months and less than one year BD '000</i>	<i>Over one year BD '000</i>	
<b>Available Stable Funding (ASF):</b>					
<b>Capital:</b>	<b>88,058</b>	-	-	<b>1,985</b>	<b>90,043</b>
Regulatory Capital	88,058	-	-	-	88,058
Other Capital Instruments	-	-	-	1,985	1,985
<b>Retail deposits and deposits from small business customers:</b>					
<b>Stable deposits</b>	-	<b>348,348</b>	<b>11,898</b>	<b>2,058</b>	<b>326,535</b>
Stable deposits	-	5,092	-	-	4,838
Less stable deposits	-	343,256	11,898	2,058	321,697
<b>Wholesale funding:</b>					
<b>Operational deposits</b>	-	<b>414,328</b>	<b>39,573</b>	<b>4,936</b>	<b>108,638</b>
Operational deposits	-	-	-	-	-
Other wholesale funding	-	414,328	39,573	4,936	108,638
<b>Other liabilities:</b>					
<b>NSFR Shari'a-compliant hedging contract liabilities</b>	-	-	-	<b>43,193</b>	<b>43,193</b>
NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
<b>All other liabilities not included in the above categories</b>	-	-	-	<b>43,193</b>	<b>43,193</b>
All other liabilities not included in the above categories	-	-	-	43,193	43,193
<b>Total ASF</b>	<b>88,058</b>	<b>762,676</b>	<b>51,471</b>	<b>52,172</b>	<b>568,409</b>
<b>Required Stable Funding (RSF):</b>					
<b>Total NSFR high-quality liquid assets (HQLA)</b>	331,832	-	-	9,632	27,695
<b>Deposits held at other financial institutions for operational purposes</b>	-	-	-	-	-
<b>Performing financing and sukuk/securities:</b>					
<b>Performing financing to financial institutions secured by Level 1 HQLA</b>	-	-	-	-	-
Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
<b>Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions</b>	-	<b>43,831</b>	-	<b>12,761</b>	<b>19,336</b>
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	43,831	-	12,761	19,336

At 31 December 2022

**32 NSFR REQUIREMENTS AND CALCULATION METHODOLOGY (continued)**

Item	Unweighted Values (i.e. before applying relevant factors)				Total weighted value BD '000
	No specified maturity BD '000	Less than 6 months BD '000	More than 6 months and less than one year BD '000	Over one year BD '000	
	Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	82,251	21,397	
With a risk weight of less than or equal to 35% as per the CBB Capital Adequacy Ratio guidelines	-	-	-	-	-
Performing residential mortgages, of which:					
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	109,244	71,008
Securities/sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	12,988	12,988
<b>Other assets:</b>					
Physical traded commodities, including gold	-	-	-	-	-
Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs	-	-	-	-	-
NSFR Shari'a-compliant hedging assets	49,914	-	-	-	49,914
NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted	-	-	-	-	-
All other assets not included in the above categories	54,953	-	-	-	54,953
<b>OBS items</b>	59,069	-	-	-	2,953
<b>Total RSF</b>	<b>495,768</b>	<b>126,082</b>	<b>21,397</b>	<b>144,625</b>	<b>290,671</b>
<b>NSFR (%)</b>					<b>195.55%</b>

**33 COMPARATIVE FIGURES**

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