

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

**Basel III, Pillar III Disclosures**

**30 June 2021**

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

## Basel III, Pillar III Disclosures

For the period ended 30 June 2021

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### 1 INTRODUCTION

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Commercial Registration of the Bank was renewed on 7 January 2008 to change the status from exempt closed joint stock company to closed joint stock company. The Bank operates under a Retail Bank's license number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has five commercial branches in the Kingdom of Bahrain. The Bank is 92% (2020: 92%) owned by Al Baraka Banking Group B.S.C. (the "Parent").

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

For details on the Group's subsidiary as of 30 June 2021, refer note 2 of the consolidated financial statements of the Group.

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

### 2 CAPITAL ADEQUACY

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the standardised approach for its credit risk, basic indicator approach for its operational risk and standardised measurement approach for its market risk. The CBB capital adequacy requirement is minimum accepted level for capital adequacy. The credit committee of the Group identify and approve assets suitable for funding by equity of Investment Accountholders ("IAH").

For the purpose of computing the Capital Adequacy Ratio ("CAR") and preparation of the PIRI form, the Group's financial subsidiary (Al Baraka Bank (Pakistan) Limited) and significant investment in Itqan Capital Company are consolidated as per the requirement of the CA Module. As a result of consolidation of Itqan Capital for regulatory purposes, the amounts in certain tables within the quantitative disclosures will not match the amounts reported in the consolidated financial statements of the Group.

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

## Basel III, Pillar III Disclosures

For the period ended 30 June 2021

### 2 CAPITAL ADEQUACY (continued)

#### Table – 1. Capital structure

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

	30 June 2021			31 December 2020		
	CET 1 US \$ '000	AT1 US \$ '000	Tier 2 US \$ '000	CET 1 US \$ '000	AT1 US \$ '000	Tier 2 US \$ '000
<b>Common Equity Tier 1 (CET1)</b>						
Issued and fully paid ordinary shares	136,458			136,458		
General reserves	8,687			8,687		
Statutory reserves	23,831			23,831		
Retained earnings	(16,088)			(15,844)		
Current cumulative net income/ (losses)	4,564			3,462		
Unrealized gains and losses on available for sale financial instruments	3,502			1,121		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(35,557)			(36,342)		
Other reserves	(95)			(93)		
<b>Total CET1 capital before minority interest</b>	<b>125,302</b>			<b>121,280</b>		
Minority interest in banking subsidiaries	16,320			13,471		
<b>Total CET1 capital prior to regulatory adjustments</b>	<b>141,622</b>			<b>134,751</b>		
Less:						
Goodwill	31,337			31,133		
Intangible other than mortgage servicing rights	2,505			6,039		
Deferred tax assets	9,543			11,575		
<b>Total CET 1 capital after the regulatory adjustments above (CET 1a)</b>	<b>98,237</b>			<b>86,004</b>		
<b>Other Capital (AT1 &amp; T 2)</b>						
Instruments issued by parent company		111,000	-		111,000	-
Instruments issued by banking subsidiaries to third parties		123	2,631		132	4,541
Expected Credit Losses (ECL) Stages 1 & 2		-	8,341		-	7,303
<b>Total Available AT1 &amp; T2 Capital</b>		<b>111,123</b>	<b>10,972</b>		<b>111,132</b>	<b>11,844</b>
<b>Total CET 1 Capital</b>	<b>98,237</b>			<b>86,004</b>		
<b>Total T1 Capital</b>		<b>209,360</b>			<b>197,136</b>	
<b>Total Capital</b>			<b>220,332</b>			<b>208,980</b>

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

## Basel III, Pillar III Disclosures

For the period ended 30 June 2021

### 2 CAPITAL ADEQUACY (continued)

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

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

Type of islamic financing contracts	<b>30 June 2021 Capital requirements US \$ '000</b>	<i>31 December 2020 Capital requirements US \$ '000</i>
Receivables	18,070	16,954
Ijara Muntahia Bittamleek & Ijara receivables	9,946	8,399
Musharaka	20,073	15,421
	<b>48,089</b>	<i>40,774</i>

#### Table – 3. Capital requirement for market risk

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

	<b>30 June 2021</b>		<i>31 December 2020</i>	
	<i>Self Financed US \$ '000</i>	<i>Financed by IAH US \$ '000</i>	<i>Self Financed US \$ '000</i>	<i>Financed by IAH US \$ '000</i>
Market risk - standardised approach				
Price risk	200	-	238	-
Foreign exchange risk	11,306	-	6,337	-
<b>Total of market risk - standardised approach</b>	<b>11,506</b>	<b>-</b>	<i>6,575</i>	<i>-</i>
<b>Multiplier</b>	<b>12.50</b>	<b>12.50</b>	12.50	12.50
	<b>143,825</b>	<b>-</b>	82,188	-
Eligible Portion for the purpose of the calculation	<b>100%</b>	<b>30%</b>	100%	100%
<b>Risk Weighted Exposures ("RWE") for CAR Calculation</b>	<b>143,825</b>	<b>-</b>	82,188	-
<b>Total market RWE</b>		<b>143,825</b>		82,188
		<b>12.50%</b>		12.50%
<b>Minimum capital requirement</b>		<b>17,978</b>		10,273

**2 CAPITAL ADEQUACY (continued)**

**Table – 4. Capital Requirements for operational risk**

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

	<b>30 June 2021</b>	<i>31 December 2020</i>
	<b>US \$ '000</b>	<i>US \$ '000</i>
<b>Indicators of operational risk</b>		
Average gross income	<b>83,314</b>	83,314
<b>Multiplier</b>	<b>12.5</b>	12.5
	<b>1,041,425</b>	1,041,425
Eligible Portion for the purpose of the calculation	<b>15%</b>	15%
<b>Total operational RWE</b>	<b>156,214</b>	156,214
	<b>12.50%</b>	12.50%
<b>Minimum capital requirement</b>	<b>19,527</b>	19,527

**2 CAPITAL ADEQUACY (continued)**

**Table – 5. Capital adequacy ratios**

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

	30 June 2021			31 December 2020		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Group's Capital adequacy ratio	22.78%	21.65%	10.16%	25.41%	23.97%	10.46%
Minimum regulatory requirements*	12.50%	10.50%	9.00%	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	15.13%	14.22%	11.86%	17.63%	15.09%	12.19%
Itqan Capital Company**	26.27%	26.27%	26.27%	24.40%	24.40%	24.40%

\* Minimum required by CBB regulations under Basel III

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

**Legal restrictions on capital and income mobility**

Distributing profits by subsidiaries to the Bank is subject to compliance with applicable laws and regulations in the countries in which the subsidiaries operates. Such distribution has to go through the legal and regulatory approvals applicable in relevant jurisdiction. Mobilisation of capital, reserves and equivalent funds out of the subsidiaries to the Bank is subject to the local rules and regulations. The Bank is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, approval has to be obtained from the CBB for increasing investment in any subsidiary.

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

The following is the Group's Banking subsidiary capital adequacy ratio prepared on the basis of requirements of State Bank of Pakistan ("SBP"), which may differ from the CBB requirements:

	30 June 2021			31 December 2020		
	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio	Total capital ratio	Tier 1 capital ratio	CET 1 capital ratio
Capital adequacy ratio	12.42%	9.43%	9.43%	12.90%	9.70%	9.70%
Minimum regulatory requirements*	11.50%	7.50%	6.00%	11.50%	7.50%	6.00%

### 3 RISK MANAGEMENT

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

#### a) Credit risk

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

**Table – 7. Credit risk exposure**

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

	30 June 2021				31 December 2020			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	<i>*Average gross exposure over the period</i>	<i>*Average gross credit exposure over the period</i>	<i>*Average gross credit exposure over the period</i>	<i>*Average gross credit exposure over the period</i>	<i>*Average gross exposure over the period</i>	<i>*Average gross credit exposure over the period</i>	<i>*Average gross credit exposure over the period</i>	<i>*Average gross credit exposure over the period</i>
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
<b>Funded</b>								
Cash and balances with banks and financial institutions	71,223	73,409	190,055	146,573	192,379	116,897	104,000	272,691
Receivables	1,934	1,666	557,632	590,465	992	1,359	552,018	492,310
Ijara Muntahia Bittamleek and Ijara receivables	36,257	36,661	349,288	334,123	36,307	37,032	285,202	268,347
Musharaka	60,283	55,939	356,094	357,152	33,642	32,911	316,638	249,832
Investments	675,591	688,897	336,663	321,679	575,499	518,423	386,839	300,054
Investment in real estate	12,030	12,037	-	-	11,562	15,542	-	-
Premises and equipment	58,030	58,917	-	-	47,363	45,805	-	-
Other assets	45,107	41,887	32,618	28,123	3,870	15,311	52,210	52,917
<b>Unfunded exposure</b>								
Contingencies and commitments	220,181	204,554	-	-	178,150	152,637	-	-
	<b>1,180,636</b>	<b>1,173,967</b>	<b>1,822,350</b>	<b>1,778,115</b>	<b>1,079,764</b>	<b>935,917</b>	<b>1,696,907</b>	<b>1,636,151</b>

\*Average balances are computed based on quarter end balances.



**3 RISK MANAGEMENT (continued)**

**a) Credit risk (continued)**

**Table – 8. Credit risk – geographic breakdown**

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

	30 June 2021				31 December 2020			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	*geographic area		*geographic area		*geographic area		*geographic area	
	Middle East US \$ '000	Other Asian countries US \$ '000	Middle East US \$ '000	Other Asian countries US \$ '000	Middle East US \$ '000	Other Asian countries US \$ '000	Middle East US \$ '000	Other Asian countries US \$ '000
Cash and balances with banks	-	72,244	112,627	76,407	6,390	160,177	110,435	19,377
Receivables	1,934	-	297,832	259,800	992	-	332,866	219,152
Ijara Muntahia Bittamleek and Ijara receivables	36,257	-	347,036	2,252	36,307	-	282,122	3,080
Musharaka	-	60,283	-	356,094	-	33,642	-	316,638
Investments	391,184	284,407	216,545	120,118	388,643	186,856	208,382	178,457
Investment in real estate	12,030	-	-	-	11,562	-	-	-
Premises and equipment	30,775	27,255	-	-	31,382	15,980	-	-
Other assets	5,257	38,829	21,767	11,872	520	29,162	14,020	12,378
	<b>477,437</b>	<b>483,018</b>	<b>995,807</b>	<b>826,543</b>	<b>475,796</b>	<b>425,817</b>	<b>947,825</b>	<b>749,082</b>

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

**3 RISK MANAGEMENT (continued)**

**a) Credit risk (continued)**

**Table – 9. Credit risk – counterparty type breakdown**

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

	30 June 2021				31 December 2020			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Funded US \$ '000	Unfunded US \$ '000	Funded US \$ '000	Unfunded US \$ '000	Funded US \$ '000	Unfunded US \$ '000	Funded US \$ '000	Unfunded US \$ '000
Cash items	23,824	-	17,456	-	37,901	-	6,448	-
Claims on Sovereigns	528,666	-	496,919	-	478,797	11	495,288	-
Claims on Public Sector Entities	197,079	-	46,405	-	169,627	-	27,161	-
Claims on banks	57,216	26,169	166,710	-	87,662	40,571	223,829	-
Claims on corporate	22,285	194,012	518,459	-	21,229	137,562	456,117	-
Mortgage	-	-	332,583	-	-	-	284,936	-
Past dues receivables	-	-	49,160	-	992	6	46,290	-
Regulatory Retail Portfolio	-	-	143,270	-	-	-	119,479	-
Equity investment	37,366	-	93	-	34,054	-	246	-
Investment in Funds	4,668	-	-	-	4,308	-	-	-
Holding of Real Estate	67,244	-	7,477	-	55,636	-	4,342	-
Other assets	22,107	-	43,818	-	11,410	-	32,772	-
	<b>960,455</b>	<b>220,181</b>	<b>1,822,350</b>	<b>-</b>	<b>901,616</b>	<b>178,150</b>	<b>1,696,908</b>	<b>-</b>

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

**3 RISK MANAGEMENT (continued)**

**a) Credit risk (continued)**

**Table – 10. Credit risk – related party transactions**

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

	<b>30 June 2021</b>		<b>31 December 2020</b>	
	<i>Self financed</i>	<i>Financed by IAH</i>	<i>Self financed</i>	<i>Financed by IAH</i>
	<i>Funded US \$</i>	<i>Funded US \$</i>	<i>Funded US \$</i>	<i>Funded US \$</i>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Cash and balances with bank	-	236	-	5,110
Receivables	-	19,184	-	16,736
Musharaka	-	1,756	-	1,717
Investments	47,240	-	44,891	-
Other Assets	9,157	-	6,824	-
Contingencies and commitments	2,181	-	30,914	-
	<b>58,578</b>	<b>21,176</b>	<b>82,629</b>	<b>23,563</b>

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

	<b>30 June</b>	<b>31 December</b>
	<b>2021</b>	<b>2020</b>
	<i>Self financed</i>	<i>Self financed</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
<b>Assets</b>		
Investment in a financial subsidiary*	94,201	94,201
Equity investment in Itqan Capital	54,342	54,342
	<b>148,543</b>	<b>148,543</b>

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

**3 RISK MANAGEMENT (continued)**

**a) Credit risk (continued)**

**Table – 11. Credit risk – concentration of risk**

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

The following are the balances representing the concentration of risk to individual counterparties as of 30 June 2021:

<b>Counterparties *</b>	<b><i>Funded</i></b>
	<b><i>US \$ '000</i></b>
Counterparty # 1	429,119
Counterparty # 2	239,778
Counterparty # 3	133,680
Counterparty # 4	100,000
Counterparty # 5	72,592
Counterparty # 6	70,876
Counterparty # 7	68,402
Counterparty # 8	64,676
Counterparty # 9	62,775
Counterparty # 10	46,563
Counterparty # 11	39,952
Counterparty # 12	38,696
Counterparty # 13	33,362

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

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2020:

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

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

**3 RISK MANAGEMENT (continued)**

**a) Credit risk (continued)**

**Past due and non-performing facilities**

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

**Highly leveraged counter parties**

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

<u>2021</u>	<i>US \$ '000</i>
Counterparty # 1	8,554
Counterparty # 2	8,044
Counterparty # 3	3,187
Counterparty # 4	2,133
Counterparty # 5	1,506
Counterparty # 6	1,219
Counterparty # 7	1,125
Counterparty # 8	700
Counterparty # 9	828
Counterparty # 10	628
Counterparty # 11	510
Counterparty # 12	468
Counterparty # 13	385
Counterparty # 14	351
Counterparty # 15	296
Counterparty # 16	255
Counterparty # 17	226
Counterparty # 18	225
Counterparty # 19	180
Counterparty # 20	163
Counterparty # 21	125
Counterparty # 22	19
Counterparty # 23	15

**3 RISK MANAGEMENT (continued)**

**a) Credit risk (continued)**

**Highly leveraged counter parties (continued)**

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

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

## Basel II, Pillar III Disclosures

For the period ended 30 June 2021

### 3 RISK MANAGEMENT (continued)

#### a) Credit risk (continued)

**Table – 12. Credit Risk – Residual Contractual Maturity Breakdown**

64% of Group assets are financed by equity of IAH, while 36% are self financed. The following table summarises the residual contractual maturity breakdown of the whole credit portfolio as of 30 June 2021, broken down by major types of credit exposure:

	<i>Up to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 3 years</i>	<i>3 to 5 years</i>	<i>5 to 10 years</i>	<i>10 to 20 years</i>	<i>Over 20 years</i>	<i>No fixed maturity</i>	<i>Total</i>
	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>
<b>ASSETS</b>										
Cash and balances with banks	177,310	-	-	-	-	-	-	-	83,456	260,766
Receivables	311,949	111,857	35,111	41,688	21,682	13,907	1,451	1,899	23,522	563,066
Ijara Muntahia Bittamleek	4,233	29,599	12,290	43,364	42,052	78,247	128,442	34,790	12,528	385,545
Musharaka	88,936	2,714	4,393	111,428	149,296	37,951	16,392	-	5,267	416,377
Investments*	84,174	51,428	22,165	52,705	418,173	321,400	640	1,000	87,444	1,039,129
Investment in real estate	-	-	-	9,613	-	-	-	-	-	9,613
Investment in joint venture	-	-	-	-	-	-	-	-	14,541	14,541
Premises and equipment	-	-	-	-	-	-	-	-	57,345	57,345
Goodwill	-	-	-	-	-	-	-	-	14,255	14,255
Other assets	40,118	2,910	1,875	6,893	22,461	-	-	-	2,567	76,824
<b>Total assets</b>	<b>706,720</b>	<b>198,508</b>	<b>75,834</b>	<b>265,691</b>	<b>653,664</b>	<b>451,505</b>	<b>146,925</b>	<b>37,689</b>	<b>300,925</b>	<b>2,837,461</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>										
Murabaha and other payables	45,396	40,813	87,764	62,369	131	1,332	-	-	-	237,805
Current accounts**	373,049	-	-	-	-	-	-	-	-	373,049
Other liabilities	103,337	2,673	988	2,421	2,341	5,849	-	-	-	117,609
<b>Total liabilities</b>	<b>521,782</b>	<b>43,486</b>	<b>88,752</b>	<b>64,790</b>	<b>2,472</b>	<b>7,181</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>728,463</b>
Equity of investment accountholders	870,631	161,739	417,999	185,310	87,380	74,468	24,823	-	-	1,822,350
Subordinated Debt	-	1,209	507	-	9,521	-	-	-	-	11,237
Total owners' equity	-	-	-	-	-	-	-	-	275,411	275,411
<b>Total liabilities, Equity of investment accountholders and owner's equity</b>	<b>1,392,413</b>	<b>206,434</b>	<b>507,258</b>	<b>250,100</b>	<b>99,373</b>	<b>81,649</b>	<b>24,823</b>	<b>-</b>	<b>275,411</b>	<b>2,837,461</b>
<b>Net gap</b>	<b>(685,693)</b>	<b>(7,926)</b>	<b>(431,424)</b>	<b>15,591</b>	<b>554,291</b>	<b>369,856</b>	<b>122,102</b>	<b>37,689</b>	<b>25,514</b>	<b>-</b>
<b>Cumulative net gap</b>	<b>(685,693)</b>	<b>(693,619)</b>	<b>(1,125,043)</b>	<b>(1,109,452)</b>	<b>(555,161)</b>	<b>(185,305)</b>	<b>(63,203)</b>	<b>(25,514)</b>	<b>-</b>	<b>-</b>
<b>Off-balance sheet equity of investment</b>	<b>198,995</b>	<b>47,569</b>	<b>137,037</b>	<b>11,838</b>	<b>15,811</b>	<b>100,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>511,250</b>

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

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

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## Basel II, Pillar III Disclosures

For the period ended 30 June 2021

### 3 RISK MANAGEMENT (continued)

#### a) Credit risk (continued)

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

66% of Group assets are financed by equity of IAH, while 34% are self financed. The following table summarises the residual contractual maturity breakdown of the whole credit portfolio as of 31 December 2020, broken down by major types of credit exposure:

	<i>Up to 3 months</i>	<i>3 to 6 months</i>	<i>6 months to 1 year</i>	<i>1 to 3 years</i>	<i>3 to 5 years</i>	<i>5 to 10 years</i>	<i>10 to 20 years</i>	<i>Over 20 years</i>	<i>No fixed maturity</i>	<i>Total</i>
	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>	<i>US \$</i>
<b>ASSETS</b>										
Cash and balances with banks	221,852	-	-	-	-	-	-	-	73,025	294,877
Receivables	273,687	120,568	38,518	38,184	16,919	6,693	429	702	61,736	557,436
Ijara Muntahia Bittamleek	6,264	27,960	14,337	42,396	35,889	56,260	97,706	22,548	18,150	321,510
Musharaka	-	76,596	9,446	106,106	103,520	34,323	13,188	-	7,101	350,280
Investments*	71,779	-	78,108	22,253	415,633	310,104	630	1,000	88,584	988,091
Investment in real estate	-	-	-	9,813	-	-	-	-	-	9,813
Investment in Joint Venture	-	-	-	-	-	-	-	-	14,631	14,631
Premises and equipment	-	-	-	-	-	-	-	-	46,338	46,338
Goodwill	-	-	-	-	-	-	-	-	14,050	14,050
Other assets	17,379	2,782	1,952	7,245	20,881	21	-	-	4,689	54,949
<b>Total assets</b>	<b>590,961</b>	<b>227,906</b>	<b>142,361</b>	<b>225,997</b>	<b>592,842</b>	<b>407,401</b>	<b>111,953</b>	<b>24,250</b>	<b>328,304</b>	<b>2,651,975</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>										
Murabaha and other payables	28,380	87,097	28,332	41,400	-	-	-	-	-	185,209
Current accounts**	384,137	-	-	-	-	-	-	-	-	384,137
Other liabilities	101,820	2,377	374	840	-	-	-	-	-	105,411
<b>Total liabilities</b>	<b>514,337</b>	<b>89,474</b>	<b>28,706</b>	<b>42,240</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>674,757</b>
Equity of investment accountholders	895,910	151,958	318,639	161,664	82,500	64,677	21,559	-	-	1,696,907
Subordinated debts	2,605	-	894	-	9,384	-	-	-	-	12,883
<b>Total owners' equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>267,428</b>	<b>267,428</b>
<b>Total liabilities, Equity of investment accountholders and owner's equity</b>	<b>1,412,852</b>	<b>241,432</b>	<b>348,239</b>	<b>203,904</b>	<b>91,884</b>	<b>64,677</b>	<b>21,559</b>	<b>-</b>	<b>267,428</b>	<b>2,651,975</b>
<b>Net gap</b>	<b>(821,891)</b>	<b>(13,526)</b>	<b>(205,878)</b>	<b>22,093</b>	<b>500,958</b>	<b>342,724</b>	<b>90,394</b>	<b>24,250</b>	<b>60,876</b>	<b>-</b>
<b>Cumulative net gap</b>	<b>(821,891)</b>	<b>(835,417)</b>	<b>(1,041,295)</b>	<b>(1,019,202)</b>	<b>(518,244)</b>	<b>(175,520)</b>	<b>(85,126)</b>	<b>(60,876)</b>	<b>-</b>	<b>-</b>
<b>Off-balance sheet equity of investm</b>	<b>293,903</b>	<b>58,819</b>	<b>40,992</b>	<b>13,682</b>	<b>15,811</b>	<b>100,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>523,207</b>

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

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



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Basel III, Pillar III Disclosures

For the period ended 30 June 2021

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

The following table summarises the aging of past due facilities disclosed by counterparty type as of:

	30 June 2021					31 December 2020				
	<i>Past due but performing</i> US \$ '000	<i>Non-performing Islamic financing contracts</i> US \$ '000	<i>Aging of non performing facilities</i>			<i>Past due but performing</i> US \$ '000	<i>Non-performing Islamic financing contracts</i> US \$ '000	<i>Aging of non performing facilities</i>		
		90 days to 1 year US \$ '000	1 year to 3 years US \$ '000	Over 3 years US \$ '000			90 days to 1 year US \$ '000	1 year to 3 years US \$ '000	Over 3 years US \$ '000	
Corporates	13,944	24,608	26,833	46,741	19,423	93,285	12,571	46,098	34,616	
Investment Firms	237	-	-	-	-	-	-	-	-	
Individuals	526	1,904	5,531	2,922	538	13,317	2,107	5,944	5,266	
Others	106	-	393	-	-	21,893	21,893	-	-	
	<b>14,813</b>	<b>26,512</b>	<b>32,757</b>	<b>49,663</b>	<b>19,961</b>	<b>128,495</b>	<b>36,571</b>	<b>52,042</b>	<b>39,882</b>	

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Basel III, Pillar III Disclosures

For the period ended 30 June 2021

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 30 June 2021:

	<i>Specific allowances</i>						<i>Balance at the end of the year</i>
	<i>Opening Balance</i>	<i>Charges during the year</i>	<i>Transitions in Stage3 -net during the year</i>	<i>Write-Back during the year</i>	<i>Write-offs during the year</i>	<i>Exchange difference on opening balance</i>	
	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>
Corporates	44,569	5,121	(1,353)	(899)	(2,964)	422	44,896
Individuals	6,755	1,063	(558)	(196)	(305)	76	6,835
Others	10,145	487	-	(448)	-	147	10,331
	<b>61,469</b>	<b>6,671</b>	<b>(1,911)</b>	<b>(1,543)</b>	<b>(3,269)</b>	<b>645</b>	<b>62,062</b>

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

	<i>Specific allowances</i>						<i>Balance at the end of the year</i>
	<i>Opening Balance</i>	<i>Charges during the year</i>	<i>Transitions in Stage3 -net during the year</i>	<i>Write-Back during the year</i>	<i>Write-offs during the year</i>	<i>Exchange difference on opening balance</i>	
	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>
Corporates	41,883	8,606	(286)	(103)	(4,690)	(841)	44,569
Individual	3,799	3,432	(35)	(355)	(2)	(84)	6,755
Others	8,118	2,727	-	(449)	-	(251)	10,145
	<b>53,800</b>	<b>14,765</b>	<b>(321)</b>	<b>(907)</b>	<b>(4,692)</b>	<b>(1,176)</b>	<b>61,469</b>

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## Basel III, Pillar III Disclosures

For the period ended 30 June 2021

### 3 RISK MANAGEMENT (continued)

#### a) Credit risk (continued)

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

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

	30 June 2021			31 December 2020		
	<i>Non-performing Islamic financing contracts</i> US \$ '000	<i>ECL for Stage 3</i> US \$ '000	<i>ECL for Stage 1 and 2</i> US \$ '000	<i>Non-performing Islamic financing contracts</i> US \$ '000	<i>ECL for stage 3</i> US \$ '000	<i>ECL for Stage 1 and 2</i> US \$ '000
Middle East	35,112	12,656	16,316	65,714	17,096	16,249
Other Asian countries	73,819	49,404	6,877	62,780	44,372	5,485
	<b>108,931</b>	<b>62,060</b>	<b>23,193</b>	128,494	61,468	21,734

#### Table – 16. Credit risk – restructured Islamic financing contracts

The following table summarises the total outstanding Islamic financing contracts that were restructured during the period:

	<b>30 June 2021</b> <b>Total</b> US \$ '000	31 December 2019 <b>Total</b> US \$ '000
Restructured Islamic financing contracts	<b>26,082</b>	8,141

The amount represents total facilities restructured during the period. Further, there is no significant impact of the renegotiated Islamic financing contracts on the provisions as well as present and future earnings of the Group.

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## Basel III, Pillar III Disclosures

For the period ended 30 June 2021

### 3 RISK MANAGEMENT (continued)

#### a) Credit risk (continued)

**Table – 17. Counterparty credit risk exposure**

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

	30 June 2021		31 December 2020	
	Gross positive FV of contracts US \$ '000	* Collateral held US \$ '000	Gross positive FV of contracts US \$ '000	* Collateral held US \$ '000
Cash and balances with banks and financial institutions	261,278	-	296,380	-
Receivables	559,566	338,081	553,010	416,523
Ijara Muntahia Bittamleek	385,545	327,760	321,509	176,214
Musharaka	416,377	416,377	350,280	350,280
Investments	1,012,255	-	962,338	-
Investment in real estate	12,030	-	11,562	-
Premises and equipment	58,030	-	47,363	-
Other assets	77,722	-	56,080	-
	<b>2,782,803</b>	<b>1,082,218</b>	<b>2,598,522</b>	<b>943,017</b>

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

**Table – 18. Counterparty credit risk exposure**

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

	30 June 2021		31 December 2020	
	Gross positive FV of contracts US \$ '000	Collateral held US \$ '000	Gross positive FV of contracts US \$ '000	Collateral held US \$ '000
Receivables	559,566	16,491	553,010	51,093
Ijara Muntahia Bittamleek & Ijara income receivable	385,545	15,199	321,509	12,149

#### b) Market risk

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

**Table – 19. Market risk capital requirements**

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

	30 June 2021	30 June 2021	31 December 2020	31 December 2020
	Price risk US \$ '000	Foreign exchange risk US \$ '000	Price risk US \$ '000	Foreign exchange risk US \$ '000
RWE	2,503	141,321	2,973	79,213
Capital requirements (12.5%)	313	17,665	372	9,902
Maximum value of RWE	2,582	146,041	2,973	104,057
Minimum value of RWE	2,503	141,321	1,717	79,213

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## Basel III, Pillar III Disclosures

For the period ended 30 June 2021

### 3 RISK MANAGEMENT (continued)

#### b) Market Risk (continued)

**Table – 20. Equity position risk in Banking Book**

The following table summarises the total and average gross exposure of equity based investments as of 30 June 2021:

	<i>Total gross exposure US \$ '000</i>	<i>Average gross exposure over the period US \$ '000</i>	<i>Publicly held US \$ '000</i>	<i>Privately held US \$ '000</i>	<i>Capital requirement US \$ '000</i>
Managed funds	1,000	1,000	-	1,000	25
Private equity	50,377	49,669	41,766	8,611	11,536
Real estate related	22,182	20,227	-	22,182	5,828
	<b>73,559</b>	<b>70,896</b>	<b>41,766</b>	<b>31,793</b>	<b>17,389</b>

The following table summarises the total and average gross exposure of equity based investments as of 31 December 2020:

	<i>Total gross exposure US \$ '000</i>	<i>Average gross exposure over the period US \$ '000</i>	<i>Publicly held US \$ '000</i>	<i>Privately held US \$ '000</i>	<i>Capital requirement US \$ '000</i>
Managed funds	1,000	1,076	-	1,000	25
Private equity	49,706	49,982	34,422	15,284	10,021
Real estate related	19,137	15,711	-	19,137	6,968
	<b>69,843</b>	<b>66,769</b>	<b>34,422</b>	<b>35,421</b>	<b>17,014</b>

The Bank carries a diversified portfolio of equity investments containing the securities held for trading or short-term capital gains and stakes in a few entities to secure strategic objectives like entrance in certain market or business segment. More specifically, the securities amounted to USD 27.8 million (2020: USD 3.4 million), in such portfolio, were held to generate capital gains.

**Table – 21. Equity gains or losses in Banking Book**

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

	<i>30 June 2021 US \$ '000</i>	<i>31 December 2020 US \$ '000</i>
Cummulative realised gains arising from sale or liquidation	<b>3,690</b>	15,951
Total unrealised gains recognised in the balance sheet but not through statement of income	<b>3,502</b>	1,121
Unrealised gross gains included in Tier One Capital	<b>3,502</b>	1,121

**3 RISK MANAGEMENT (continued)**

**b) Market Risk (continued)**

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

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

*Profit rate risk*

The Bank generates funds mainly through profit sharing arrangements or agency modes. The Bank continuously monitor the profit rates prevailing in the domestic/ regional markets (issued by competitors). Further, the following factors also affects the determination of profit rates:

- Availability of profitable opportunities in the market
- Key economic fundamentals and liquidity levels
- Policy interest rates promulgated by domestic and leading global monetary agencies.

**Table – 22. Profit rate mismatch**

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

	<i>30 June 2021</i>				
	<i>Up to 3 months US \$ '000</i>	<i>3 to 6 months US \$ '000</i>	<i>6 months to 1 year US \$ '000</i>	<i>1 to 3 years US \$ '000</i>	<i>Over 3 years US \$ '000</i>
Receivables	311,949	111,857	35,111	41,688	62,461
Ijara Muntahia Bittamleek and Ijara Income Receivables	4,233	29,599	12,290	55,891	283,532
Musharaka	88,936	2,714	4,393	111,428	208,906
Investments-Sukuk	71,987	81,372	22,165	52,733	710,439
<b>Profit rate sensitive assets</b>	<b>477,105</b>	<b>225,542</b>	<b>73,959</b>	<b>261,740</b>	<b>1,265,338</b>
Murabaha and other payables	45,396	40,813	87,764	62,369	1,463
Equity of investment accountholders	870,631	161,739	417,999	185,310	186,671
Subordinated debt	-	1,209	507	-	9,521
<b>Profit rate sensitive liabilities</b>	<b>916,027</b>	<b>203,761</b>	<b>506,270</b>	<b>247,679</b>	<b>197,655</b>
<b>Profit rate gap</b>	<b>(438,922)</b>	<b>21,781</b>	<b>(432,311)</b>	<b>14,061</b>	<b>1,067,683</b>
<b>Profit rate sensitivity (200bps)</b>	<b>(8,778)</b>	<b>436</b>	<b>(8,646)</b>	<b>281</b>	<b>21,354</b>

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

## Basel III, Pillar III Disclosures

For the period ended 30 June 2021

### 3 RISK MANAGEMENT (continued)

#### b) Market Risk (continued)

**Table – 22. Profit rate mismatch (continued)**

	31 December 2020				
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Receivables	296,339	120,568	38,518	38,184	63,827
Ijara Muntahia Bittamleek and Ijara Income Receivables	24,414	27,960	14,337	42,396	212,403
Musharaka	1,333	77,542	9,446	106,106	155,853
Investments-Sukuk	33,548	35,609	78,108	22,252	722,978
<b>Profit rate sensitive assets</b>	<b>355,634</b>	<b>261,679</b>	<b>140,409</b>	<b>208,938</b>	<b>1,155,061</b>
Murabaha and other payables	28,380	87,097	28,332	41,400	-
Equity of investment accountholders	895,910	151,958	318,639	161,664	168,736
Subordinated debt	2,605	-	894	-	9,385
<b>Profit rate sensitive liabilities</b>	<b>926,895</b>	<b>239,055</b>	<b>347,865</b>	<b>203,064</b>	<b>178,121</b>
<b>Profit rate gap</b>	<b>(571,261)</b>	<b>22,624</b>	<b>(207,456)</b>	<b>5,874</b>	<b>976,940</b>
<b>Profit rate sensitivity (200bps)</b>	<b>(11,425)</b>	<b>452</b>	<b>(4,149)</b>	<b>117</b>	<b>19,539</b>

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

#### Foreign exchange risk

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

**Table – 23. Foreign currency translation risk**

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

	<b>30 June 2021</b>
	<b>Total equivalent US \$ '000</b>
Pakistani rupees	130,133
Euro	(2,066)
Kuwaiti dinars	53
Pound sterling	(5,000)
Egyptian Pound	4,470
Algerian Dinar	6,000
Others	666

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## Basel III, Pillar III Disclosures

For the period ended 30 June 2021

### 3 RISK MANAGEMENT (continued)

#### b) Market Risk (continued)

**Table – 23. Foreign currency translation risk (continued)**

	<u>31 December 2020</u>
	<i>Total equivalent US \$ '000</i>
Pakistani rupees	68,607
Euro	(2,706)
Kuwaiti dinars	53
Pound sterling	(3,832)
Egyptian Pound	4,063
Algerian Dinar	6,000
Others	490

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

#### *Foreign currency risk sensitivity analysis*

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

**Table – 24. Foreign currency risk sensitivity analysis**

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

#### At 30 June 2021

Currency	Particular	Change	Exposures in US \$ '000	Effect on profit and loss/Equity US \$ '000
Pakistani rupees	Net long Position	20%	130,133	26,027
Euro	Net short Position	20%	(2,066)	(413)
Kuwaiti dinars	Net long Position	20%	53	11
Pound sterling	Net short Position	20%	(5,000)	(1,000)
Egyptian Pound	Net long Position	20%	4,470	893.91
Algerian Dinar	Net long Position	20%	6,000	1,200
Others	Net long Position	20%	666	133

#### At 31 December 2020

Currency	Particular	Change	Exposures in US \$ '000	Effect on profit and loss/Equity US \$ '000
Pakistani Rupees	Net long Position	20%	68,607	13,721
Euro	Net short Position	20%	(2,706)	(541)
Kuwaiti Dinars	Net long Position	20%	53	11
Pound Sterling	Net short Position	20%	(3,832)	(766)
Egyptian Pound	Net long Position	20%	4,063	813
Algerian Dinar	Net long Position	20%	6,000	1,200
Others	Net long Position	20%	490	98



**3 RISK MANAGEMENT (continued)**

**c) Equity of Investment Accountholders (IAH)**

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

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

- a) Investment in Shari' a compliant opportunities;
- b) Targeted returns;
- c) Compliance with credit and Investment policy and overall business plan; and
- d) Diversified portfolio.

Funds are invested in Shari' a compliant commercial or consumer financing as well as short, medium, and long term investments excluding strategic investments. A due diligence process is in place which is consistent with business and risk policy guidelines of the Group after deduction of mandatory reserves and making allowance for short-term liquidity requirements.

Under all the aforesaid arrangement the Group can commingle the IAH funds with funds generated from various sources (Self-Financed). In this regards, the Bank at inception designate each asset separately as "Self" and "Jointly" financed, except liquid assets which are managed collectively. Further, the jointly financed assets are segregated proportionately based on amounts of funds contributed by each category of investors.

The Group's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These funds are invested in Islamic modes of financing and investments including murabaha, salam, istisna, wakala, musharaka, mudaraba and ijara. The Group is offering these accounts for saving and term accounts ranging from 1 months to 5 years. There are no separate designations for portfolio managers, investment advisors and trustee. IAH accounts are managed at Head Office and subsidiary levels by relevant departments.

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income. In some cases, equity of IAH withdrawn before maturity and without completing agreed period are entitled to income available for tenor completed by the Investor and after deducting some charges as per terms of contracts.

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

**3 RISK MANAGEMENT (continued)**

**c) Equity of Investment Accountholders (continued)**

**Investment risk reserve**

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

**Profit equalisation reserve**

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

**Displaced commercial risk**

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

**Complaint procedure / awareness programs**

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

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

**Penalty charges**

	<b>30 June</b>	<b>31 December</b>
	<b>2021</b>	<b>2020</b>
	<b>US \$ '000</b>	<b>US \$ '000</b>
<b><u>Central Bank of Bahrain</u></b>		
Anomalies in standing orders, EFTS and other electronic channels	14	35
	<u>14</u>	<u>35</u>
<b><u>State Bank of Pakistan</u></b>		
Various non-compliances with domestic laws and regulations	1	560
	<u>1</u>	<u>560</u>

**3 RISK MANAGEMENT (continued)**

**c) Equity of Investment Accountholders (continued)**

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

\*There was a penalty amounted to USD 1 thousand related to certain discrepancies in Corporate Governance paid subsequent to year 2018.

**Non-Shari'a complaint income**

The Group has received US \$ 392 thousand (2020: US \$ 596 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

**Table – 25. Equity of Investment Accountholders**

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

	<b>30 June</b>	<i>31 December</i>
	<b>2021</b>	<i>2020</i>
	<b>US \$ '000</b>	<i>US \$ '000</i>
IAH - Non-banks	<b>360,619</b>	367,719
IAH - Banks	<b>1,461,062</b>	1,328,844
Profit equalisation reserve	<b>392</b>	344
Investment risk reserve	<b>277</b>	-
	<b>1,822,350</b>	1,696,907

**Table – 26. Ratio of reserves to total IAH**

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

	<b>30 June</b>	<i>31 December</i>
	<b>2021</b>	<i>2020</i>
PER to IAH (%)	<b>0.02%</b>	0.02%
IRR to IAH (%)	<b>0.02%</b>	-

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

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

	<b>30 June</b>	<i>31 December</i>
	<b>2021</b>	<i>2020</i>
Receivables	<b>30.60%</b>	32.53%
Musharaka	<b>19.54%</b>	18.66%
Ijara Muntahia Bittamleek & Ijara income receivable	<b>19.17%</b>	16.81%
Investments	<b>18.47%</b>	22.80%
Other assets	<b>12.22%</b>	9.21%

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

## Basel III, Pillar III Disclosures

For the period ended 30 June 2021

### 3 RISK MANAGEMENT (continued)

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

**Table – 28. Equity of Investment Accountholders by Counterparty Type**

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

#### Counterparty type

	<b>30 June 2021</b>	<i>31 December 2020</i>
Banks	<b>19.83%</b>	21.69%
Investment Firms	<b>5.29%</b>	4.22%
Corporates	<b>25.21%</b>	23.79%
Residentials	<b>41.15%</b>	42.97%
Others	<b>8.52%</b>	7.33%

**Table – 29. Investment Accountholders share of profit**

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

	<b>30 June 2021</b>	<i>31 December 2020</i>	<i>31 December 2019</i>	<i>31 December 2018</i>	<i>31 December 2017</i>
Administrative expenses charged to equity of investment accountholders	<b>5,056</b>	14,061	8,863	10,577	7,079
Share of profits earned by IAH, before transfers to/from reserves	<b>41,116</b>	87,437	84,531	69,629	71,861
Percentage share of profit earned by IAH before transfer to/from reserves	<b>4.62%</b>	5.37%	6.06%	4.83%	4.73%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	<b>28,207</b>	63,761	75,287	53,151	53,553
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	<b>3.17%</b>	3.91%	5.40%	3.68%	3.52%
Share of profit paid out to Bank as mudarib	<b>12,909</b>	23,676	9,244	16,477	18,308
Mudarib Fee to total Investment Profits	<b>31.40%</b>	27.08%	10.94%	23.66%	25.48%

**Table – 30. Movement in profit equalisation reserve**

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

	<b>30 June 2021 US \$ '000</b>	<i>31 December 2020 US \$ '000</i>	<i>31 December 2019 US \$ '000</i>	<i>31 December 2018 US \$ '000</i>	<i>31 December 2017 US \$ '000</i>
Balance at 1 January	<b>344</b>	229	115	572	551
Amount utilized on initial implementation of FAS 30	-	-	-	(572)	-
Restated balances as on 01 January	<b>344</b>	229	115	-	551
Amount apportioned from income	<b>48</b>	115	114	115	-
Foreign exchange gain / (loss)	-	-	-	-	21
	<b>392</b>	344	229	115	572
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	<b>0.12%</b>	0.13%	0.13%	0.17%	-

**3 RISK MANAGEMENT (continued)**

**c) Equity of Investment Accountholders (continued)**

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

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

	<b>30 June 2021 US \$ '000</b>	<b>31 December 2020 US \$ '000</b>	<b>31 December 2019 US \$ '000</b>	<b>31 December 2018 US \$ '000</b>	<b>31 December 2017 US \$ '000</b>
Balance at 1 January	-	-	-	1,701	2,339
Amount utilized on initial implementation of FAS 30	-	-	-	(1,701)	-
Restated balances as on 01 January	-	-	-	-	2,339
Amount apportioned from income	<b>277</b>	-	-	-	-
Exchange difference	-	-	-	-	1
Amount apportioned to provision	-	-	-	-	(639)
	<b>277</b>	-	-	-	1,701
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	<b>0.67%</b>	Nil	Nil	Nil	Nil

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

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

The Group's share, as Mudarib, in the profits of IAH is up to a maximum of 70% (31 December 2020: up to 70%) as per the terms of IAH agreements.

**Table – 32. Equity of Investment Accountholders rate of return**

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

	<b>Average</b>		
	<b>30 June 2021 Rate of return %</b>		
	<b>Bahrain</b>		<b>Pakistan</b>
	<b>BD</b>	<b>US \$</b>	
Saving Accounts	<b>0.10%</b>	<b>0.10%</b>	<b>3.60%</b>
One Month Term Deposits	<b>0.89%</b>	<b>0.69%</b>	<b>2.24%</b>
Three Months Term Deposits	<b>1.56%</b>	<b>1.27%</b>	<b>2.38%</b>
Six Months Term Deposits	<b>1.76%</b>	<b>1.47%</b>	<b>2.46%</b>
Nine Months Term Deposits	<b>2.08%</b>	<b>1.88%</b>	-
1 Year Term Deposits	<b>2.33%</b>	<b>2.18%</b>	<b>5.07%</b>
2 Years Term Deposits	<b>2.38%</b>	<b>2.28%</b>	<b>5.61%</b>
3 Year Term Deposits	<b>2.43%</b>	<b>2.38%</b>	<b>5.73%</b>
4 Years Term Deposits	<b>2.48%</b>	<b>2.48%</b>	<b>5.58%</b>
5Years Term Deposits	<b>2.53%</b>	<b>2.53%</b>	<b>6.11%</b>

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For the period ended 30 June 2021

### 3 RISK MANAGEMENT (continued)

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

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

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

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 30 June 2021:

	<i>Opening Actual Allocation US \$ '000</i>	<i>Movement US \$ '000</i>	<i>Closing Actual Allocation US \$ '000</i>
Cash and balances with banks	129,812	60,244	190,055
Receivables	552,018	5,615	557,632
Ijara Muntahia Bittamleek	285,202	64,086	349,288
Musharaka	316,638	39,456	356,094
Investments	386,839	(50,175)	336,663
Other assets	26,398	6,220	32,618
	<b>1,696,907</b>	<b>125,446</b>	<b>1,822,350</b>

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2020:

	<i>Opening actual allocation US \$ '000</i>	<i>Movement US \$ '000</i>	<i>Closing actual allocation US \$ '000</i>
Cash and balances with banks	281,217	(177,217)	104,000
Receivables	444,055	107,962	552,017
Ijara Muntahia Bittamleek	245,047	40,155	285,202
Musharaka	197,561	119,077	316,638
Investments	254,236	132,603	386,839
Other assets	14,731	37,480	52,211
	<b>1,436,847</b>	<b>260,060</b>	<b>1,696,907</b>

**3 RISK MANAGEMENT (continued)**

**c) Equity of Investment Accountholders (continued)**

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

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

	<i>Profit earned</i>		<i>Profit paid to IAH</i>	
	<i>US \$ '000</i>	<i>%age</i>	<i>US \$ '000</i>	<i>%age</i>
2021	41,116	4.62%	28,207	3.17%
2020	87,437	5.37%	63,761	3.91%
2019	84,531	6.06%	75,287	5.40%
2018	69,629	4.83%	53,151	3.68%
2017	71,861	4.73%	53,552	3.52%

\* Annualised

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

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 30 June 2021:

	<i>RWA US\$ '000</i>	<i>RWA for capital adequacy purposes US\$ '000</i>	<i>Capital charges US\$ '000</i>
<b>Type of Claims</b>			
Claims on PSEs	2,456	737	92
Claims on Banks	114,239	34,272	4,284
Claims on Corporates	463,581	139,074	17,384
Mortgage	185,454	55,636	6,955
Regulatory Retail Portfolio	107,213	32,164	4,021
Past due facilities	55,229	16,569	2,071
Investment in securities	107	32	4
Holding of Real Estates	29,907	8,972	1,122
Other Assets	39,493	11,848	1,481
	<b>997,679</b>	<b>299,304</b>	<b>37,414</b>

**3 RISK MANAGEMENT (continued)**

**c) Equity of Investment Accountholders (continued)**

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2020:

Type of Claims	<i>RWA</i> <i>US\$ '000</i>	<i>RWA for capital adequacy purposes</i> <i>US\$ '000</i>	<i>Capital charges</i> <i>US\$ '000</i>
Claims on Sovereign	1,745	524	65
Claims on PSEs	2,276	683	85
Claims on Banks	122,123	36,637	4,580
Claims on Corporates	399,323	119,797	14,975
Mortgage	89,337	26,801	3,350
Regulatory Retail Portfolio	168,718	50,615	6,327
Past due facilities	44,969	13,491	1,686
Investment in securities	464	139	17
Holding of Real Estates	17,368	5,210	651
Other Assets	28,346	8,504	1,063
	<b>874,669</b>	<b>262,401</b>	<b>32,799</b>

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

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

The Group is not engaged in investment management activities or in managing funds. Therefore, the investments policies or risk parameters related to funds management are not relevant amid with specific nature of such business. The exposures given above are raised predominantly under agency arrangements/ syndications with specified institutional customers . In this respect, the respective nature, associated risks and returns measures are duly disclosed.

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

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



**3 RISK MANAGEMENT (continued)**

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

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

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

**Islamic products**

	<b>30 June 2021</b>	<i>31 December 2020</i>
<i>On balance sheet jointly financed assets*</i>		
<b>Others</b>		
Receivables	<b>84.16%</b>	85.73%
Investments	<b>15.84%</b>	14.27%

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

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

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

**Counterparty type**

	<b>30 June 2021</b>	<i>31 December 2020</i>
<i>On balance sheet jointly financed assets*</i>		
<b>Others</b>		
Banks	<b>22.30%</b>	22.86%
Corporate	<b>61.86%</b>	62.87%
Sovereigns	<b>15.84%</b>	14.27%

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

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### 3 RISK MANAGEMENT (continued)

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

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

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the period ended 30 June 2021:

	<i>Opening actual allocation US\$ '000</i>	<i>Movement US\$ '000</i>	<i>Closing actual allocation US\$ '000</i>
<b>Wakala Bi Al-Istithmar</b>			
<b>On balance sheet jointly financed assets</b>	364,143	(12,209)	351,934
	<u>364,143</u>	<u>(12,209)</u>	<u>351,934</u>
<b>Others</b>			
Receivables	136,357	(7,649)	128,709
Investments	22,705	1,523	24,229
	<u>159,062</u>	<u>(6,126)</u>	<u>152,938</u>
	<u><u>523,205</u></u>	<u><u>(18,335)</u></u>	<u><u>504,872</u></u>

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2020:

	<i>Opening actual allocation US\$ '000</i>	<i>Movement US\$ '000</i>	<i>Closing actual allocation US\$ '000</i>
<b>Wakala Bi Al-Istithmar Pool</b>			
Receivables	156,650	(156,650)	-
Investments	4,655	(4,655)	-
	161,304	(161,304)	-
<b>On balance sheet jointly financed assets</b>	177,397	186,747	364,143
	<u>177,397</u>	<u>186,747</u>	<u>364,143</u>
<b>Others</b>			
Receivables	142,262	(5,904)	136,357
Investments	161,509	(138,803)	22,705
	<u>303,770</u>	<u>(144,707)</u>	<u>159,063</u>
	<u><u>642,471</u></u>	<u><u>(119,265)</u></u>	<u><u>523,206</u></u>

**3 RISK MANAGEMENT (continued)**

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

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

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

	<i>June 2021</i>	<i>December 2020</i>	<i>December 2019</i>	<i>December 2018</i>	<i>December 2017</i>	<i>December 2016</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Gross Income	<b>10,967</b>	17,155	23,830	1,175	1,491	1,810
Mudarib Fee	<b>2,310</b>	3,821	11,563	91	105	118

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

**e) Liquidity risk**

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

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

**3 RISK MANAGEMENT (continued)**

**e) Liquidity risk (continued)**

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

**Table – 41. Liquidity ratios**

The following table summarises the liquidity ratios as of:

	<b>30 June 2021</b>	<i>31 December 2020</i>
Liquid assets to total assets	<b>14.12%</b>	14.43%
Short term assets to short term liabilities	<b>46.58%</b>	50.30%

**Table – 42. Quantitative indicators of financial performance and position**

	<b>June 2020</b>	<i>December 2020</i>	<i>December 2019</i>	<i>December 2018</i>	<i>December 2017</i>
Return on average equity	<b>3.6%</b>	2.8%	2.0%	-8.2%	-2.7%
Return on average assets	<b>0.4%</b>	0.3%	0.2%	-0.8%	-0.2%
Cost to Income Ratio	<b>68.1%</b>	67.7%	75.6%	82.8%	103.1%

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

**4 OTHERS**

The responsibility for payment of Zakat is on individual shareholders and investment accountholders. However, in Pakistan, Zakah is deducted at source from the Equity of Investment accountholders as required by local laws. Further, the Bank commenced payment of Zakat on behalf of shareholders effectively from financial year 2021.

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

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