

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

Basel III, Pillar III Disclosures

31 December 2022

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

Basel III, Pillar III Disclosures

for the year ended 31 December 2022

	Content	Page
1	INTRODUCTION	3
2	CAPITAL ADEQUACY	3
3	RISK MANAGEMENT	
	a) Credit risk	8
	b) Market risk	17
	c) Equity of Investment Accountholders	22
	d) Off-balance sheet equity of Investment Accountholders	29
	e) Liquidity risk	32
4	OTHERS	33

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

Basel III, Pillar III Disclosures

for the year ended 31 December 2022

1 INTRODUCTION

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

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

For details on the Group's subsidiary as of 31 December 2022, 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 and the Group's financial subsidiary (Al Baraka Bank

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

Basel III, Pillar III Disclosures for the year ended 31 December 2022

2 CAPITAL ADEQUACY (continued)

Table – 1. Capital structure

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

	31 December 2022			31 December 2021		
	CET 1 US \$ '000	AT1 US \$ '000	Tier 2 US \$ '000	1 US \$ '000	AT1 US \$ '000	Tier 2 US \$ '000
Common Equity Tier 1 (CET1)						
Issued and fully paid ordinary shares	151,458			136,458		
General reserves	8,687			8,687		
Statutory reserves	26,119			24,840		
Retained earnings/ (Accumulated losses)	7,976			(20,947)		
Current year profit	12,791			10,093		
Unrealized gains and losses on available for sale financial instruments	3,961			3,899		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(56,440)			(42,985)		
Other reserves	(140)			(98)		
Total CET1 capital before minority interest	154,413			119,947		
Minority interest in banking subsidiaries	10,573			14,017		
Total CET1 capital prior to regulatory adjustments	164,985			133,964		
Less:						
Goodwill	9,917			29,805		
Intangible other than mortgage servicing rights	6,081			7,561		
Deferred tax assets	1,411			9,776		
Total CET 1 capital after the regulatory adjustments above (CET 1a)	147,576			86,822		
Other Capital (AT1 & T 2)						
Instruments issued to parent company		96,000	-		111,000	-
Instruments issued by banking subsidiaries to third parties		-	4,923		83	8,037
Assets revaluation reserve - property, plant, and equipment		-	343		-	-
Expected Credit Losses (ECL) Stages 1 & 2		-	7,316		-	7,835
Total Available AT1 & T2 Capital		96,000	12,582		111,083	15,872
Total CET 1 Capital	147,576			86,822		
Total T1 Capital		243,576			197,905	
Total Capital			256,158			213,777

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

Basel III, Pillar III Disclosures
for the year ended 31 December 2022

2 CAPITAL ADEQUACY (continued)

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

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

Type of islamic financing contracts	31 December 2022	<i>31 December 2021</i>
	Capital requirements US \$ '000	<i>Capital requirements US \$ '000</i>
Receivables	13,702	14,972
Ijara Muntahia Bittamleek & Ijara receivables	15,535	12,110
Musharaka	8,673	11,790
	37,910	38,872

Table – 3. Capital requirement for market risk

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

	31 December 2022		<i>31 December 2021</i>	
	Self Financed US \$ '000	Financed by IAH US \$ '000	<i>Self Financed US \$ '000</i>	<i>Financed by IAH US \$ '000</i>
Market risk - standardised approach				
Price risk	235	-	-	-
Equities Position Risk	87	-	-	-
Foreign exchange risk	9,199	-	11,416	-
Total of market risk - standardised approach	9,521	-	11,416	-
Multiplier	12.50	12.50	12.50	12.50
	119,014	-	142,700	-
Eligible Portion for the purpose of the calculation	100%	100%	100%	100%
Risk Weighted Exposures ("RWE") for CAR Calculation	119,014	-	142,700	-
Total market RWE		119,014		142,700
		12.50%		12.50%
Minimum capital requirement		14,877		17,838

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

Basel III, Pillar III Disclosures for the year ended 31 December 2022

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:

	<i>31 December 2022</i>	<i>31 December 2021</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
Indicators of operational risk		
Average gross income	91,300	86,183
Multiplier	12.5	12.5
	1,141,255	1,077,288
Eligible Portion for the purpose of the calculation	15%	15%
Total operational RWE	171,188	161,593
	12.50%	12.50%
Minimum capital requirement	21,399	20,199

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

Basel III, Pillar III Disclosures

for the year ended 31 December 2022

2 CAPITAL ADEQUACY (continued)

Table – 5. Capital adequacy ratios

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

	31 December 2022			31 December 2021		
	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	29.26%	27.83%	16.86%	22.96%	21.26%	9.33%
Minimum regulatory requirements*	12.50%	10.50%	9.00%	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	19.72%	15.77%	12.30%	18.65%	13.89%	11.17%
Itqan Capital Company***	-	-	-	39.28%	39.28%	39.28%

* Minimum required by CBB regulations under Basel III

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

* Investment in Itqan Capital Company is disposed off during the year ending 31 December 2022.

Legal restrictions on capital and income mobility

Distributing profits by subsidiary to the parent is subject to compliance with applicable laws and regulations in Pakistan. Such distribution should go through the legal and regulatory channels applicable in relevant jurisdiction (i.e. Pakistan). Mobilisation of capital, reserves and equivalent funds out of the subsidiary to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, as a procedure and approval has to be obtained from the CBB for increasing investment in subsidiary.

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

The following is the Group's financial subsidiary capital adequacy ratio prepared on the basis of SBP requirements, which may differ from the CBB requirements,

	31 December 2022			31 December 2021		
	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	15.79%	13.34%	11.83%	13.25%	9.36%	9.36%
Minimum regulatory requirements*	11.50%	7.50%	6.00%	11.50%	10.00%	8.50%

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

Basel III, Pillar III Disclosures

for the year ended 31 December 2022

3 RISK MANAGEMENT

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

a) Credit risk

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

Table – 7. Credit risk exposure

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

	31 December 2022				31 December 2021			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	<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 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 credit exposure over the period</i>	
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	
Funded								
Cash and balances with banks and financial institutions	-	31,551	162,440	158,418	122,462	96,220	139,708	
Receivables	462	738	448,384	509,050	1,112	1,182	550,070	
Ijara Muntahia Bittamleek and Ijara receivables	14,321	24,973	547,635	502,049	35,368	36,254	370,140	
Musharaka	32,019	39,848	207,426	239,399	52,870	55,701	331,167	
Investments	655,178	643,616	485,391	454,092	634,487	661,827	368,823	
Investment in real estate	8,836	10,285	-	-	12,343	12,061	-	
Premises and equipment and other assets	88,901	91,625	61,693	43,405	86,796	98,477	26,779	
Unfunded exposure								
Contingencies and commitments	180,490	200,474	-	-	233,276	224,977	-	
	980,206	1,043,109	1,912,968	1,906,413	1,178,714	1,186,699	1,865,416	
							1,786,687	

*Average balances are computed based on quarter end balances.

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

Basel III, Pillar III Disclosures
for the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 8. Credit risk – geographic breakdown

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

	31 December 2022				31 December 2021			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	*geographic area		*geographic area		*geographic area		*geographic area	
	Middle East	Other Asian countries	Middle East	Other Asian countries	Middle East	Other Asian countries	Middle East	Other Asian countries
US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	
Cash and balances with banks	-	-	117,708	44,732	10,275	112,187	146,109	45,167
Receivables	462	0	300,892	147,492	1,112	-	263,703	220,422
Ijara Muntahia Bittamleek and Ijara receivables	14,321	-	547,156	478	35,368	-	424,569	1,538
Musharaka	-	32,019	-	207,426	-	52,870	-	276,151
Investments	388,901	266,277	252,319	233,072	392,423	242,064	252,327	200,081
Investment in real estate	8,836	-	-	-	12,343	-	-	-
Premises and equipment and others	26,220	62,681	37,488	24,205	31,136	55,660	21,826	13,523
	438,740	360,976	1,255,563	657,406	482,657	462,781	1,108,534	756,882

* 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.

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

Basel III, Pillar III Disclosures
for the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 9. Credit risk – counterparty type breakdown

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

	31 December 2022				31 December 2021			
	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	21,438	-	689	-	32,650	-	914	-
Claims on Sovereigns	508,061	-	595,347	-	548,348	-	473,599	-
Claims on Public Sector Entities	100,309	-	70,142	-	157,147	-	58,462	-
Claims on banks	7,146	10,143	58,157	-	58,329	29,026	199,060	-
Claims on corporate	22,799	170,347	464,024	-	24,498	204,250	492,266	-
Mortgages	-	-	529,705	-	-	-	411,272	-
Past dues receivables	463	-	21,886	-	-	-	33,833	-
Regulatory Retail Portfolio	-	-	112,021	-	-	-	144,512	-
Equity investment	35,089	-	426	-	35,445	-	340	-
Investment in Funds	1,000	-	-	-	4,767	-	-	-
Holding of Real Estate	92,590	-	23,105	-	58,260	-	13,858	-
Other assets	10,822	-	37,468	-	25,994	-	37,300	-
	799,716	180,490	1,912,969	-	945,438	233,276	1,865,416	-

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.

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

Basel III, Pillar III Disclosures

for the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 10. Credit risk – related party transactions

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

	31 December 2022		31 December 2021	
	Self financed	Financed by IAH	Self financed	Financed by IAH
	Funded US \$ '000	Funded US \$ '000	Funded US \$ '000	Funded US \$ '000
Cash and balances with bank	3	46	6	903
Receivables	-	836	-	5,442
Musharaka	-	1,370	-	1,433
Investments	52,244	-	56,632	-
Other Assets	6,261	-	9,437	-
Contingencies and commitments	2,000	-	12,503	-
	60,508	2,253	78,578	7,778

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

	31 December	31 December
	2022	2021
	Self financed US \$ '000	Self financed US \$ '000
Assets		
Investment in a subsidiary*	94,201	94,201
Equity investment in Itqan Capital**	-	54,342
	94,201	148,543

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

**The Bank has disposed off its strategic sharhoding in Itqan Capital Company during the year ending 31 December 2022.

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

Basel III, Pillar III Disclosures

for the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 11. Credit risk – concentration of risk

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

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2022:

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

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

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2021:

	<i>Funded</i>
	<u>US \$ '000</u>
Counterparties *	
Counterparty # 1	503,149
Counterparty # 2	300,031
Counterparty # 3	114,078
Counterparty # 4	91,200
Counterparty # 5	89,034
Counterparty # 6	72,295
Counterparty # 7	52,870
Counterparty # 8	52,808
Counterparty # 9	30,340
Counterparty # 10	37,391
Counterparty # 11	34,562

* 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.

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

Basel III, Pillar III Disclosures

for the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Past due and non-performing facilities

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

Highly leveraged counter parties

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

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

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

Basel III, Pillar III Disclosures
for the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Highly leveraged counter parties (continued)

<u>2021</u>	<i>US \$ '000</i>
Counterparty # 1	305
Counterparty # 2	145
Counterparty # 3	548
Counterparty # 4	28
Counterparty # 5	234
Counterparty # 6	220
Counterparty # 7	402
Counterparty # 8	1,202
Counterparty # 9	882
Counterparty # 10	203
Counterparty # 11	238
Counterparty # 12	461
Counterparty # 13	2,112

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

Basel III, Pillar III Disclosures

for the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

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

	31 December 2022					31 December 2021				
	<i>Past due but performing</i> <i>US \$ '000</i>	<i>Non-performing Islamic financing contracts</i> <i>US \$ '000</i>	<i>Aging of non performing facilities</i>			<i>Past due but performing</i> <i>US \$ '000</i>	<i>Non-performing Islamic financing contracts</i> <i>US \$ '000</i>	<i>Aging of non performing facilities</i>		
		<i>90 days to 1 year</i> <i>US \$ '000</i>	<i>1 year to 3 years</i> <i>US \$ '000</i>	<i>Over 3 years</i> <i>US \$ '000</i>			<i>90 days to 1 year</i> <i>US \$ '000</i>	<i>1 year to 3 years</i> <i>US \$ '000</i>	<i>Over 3 years</i> <i>US \$ '000</i>	
Corporates	17,114	79,564	7,083	31,917	40,563	27,336	106,613	33,292	30,420	42,901
Investment Firms	-	595	-	-	595	643	595	-	-	595
Individuals	551	9,216	4,605	1,515	3,095	494	6,326	1,928	1,696	2,702
	17,665	89,374	11,689	33,433	44,253	28,473	113,534	35,220	32,116	46,198

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

Basel III, Pillar III Disclosures

for the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

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

	<i>Specific allowances</i>								<i>Balance at the end of the year</i>
	<i>Opening Balance</i>	<i>Charges during the year</i>	<i>Net Transit in / (out) Stage3 during the year</i>	<i>Write-Back during the year</i>	<i>Write-offs during the year</i>	<i>Write-back of written off during the year</i>	<i>Allocation from Investment Risk Reserve</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>	<i>US \$ '000</i>	<i>US \$ '000</i>
Corporates	62,797	7,303	(102)	(3,764)	(4,779)	-	-	(8,108)	53,345
Individuals	4,230	827	(0)	-	(88)	-	-	(839)	4,133
Others	12,847	687	-	-	(31)	-	-	(2,804)	10,697
	79,874	8,816	(102)	(3,764)	(4,899)	-	-	(11,751)	68,176

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 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>Net transit in/ (out) Stage3 during the year</i>	<i>Write-Back during the year</i>	<i>Write-offs during the year</i>	<i>Write-back of written off during the year</i>	<i>Allocation from Investment Risk Reserve</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>	<i>US \$ '000</i>	<i>US \$ '000</i>
Corporates	44,569	16,539	2,714	(1,733)	(2,618)	5,790	277	(2,741)	62,797
Individual	6,755	1,325	(622)	(2,324)	(410)	-	-	(494)	4,230
Others	10,145	4,542	-	(766)	(116)	-	-	(958)	12,847
	61,469	22,406	2,092	(4,823)	(3,144)	5,790	277	(4,193)	79,874

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

Basel III, Pillar III Disclosures

for the year ended 31 December 2022

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

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

	31 December 2022		31 December 2021	
	<i>Non-performing Islamic financing contracts</i> US \$ '000	<i>ECL for Stage 3</i> US \$ '000	<i>Non-performing Islamic financing contracts</i> US \$ '000	<i>ECL for stage 3</i> US \$ '000
Middle East	37,501	23,851	44,222	26,518
Other Asian countries	51,873	44,325	69,312	53,356
	89,374	68,176	113,534	79,874

Table – 16. Credit risk – restructured Islamic financing contracts

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

	31 December 2022 Total US \$ '000	31 December 2021 Total US \$ '000
Restructured Islamic financing contracts	6,541	34,737

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

The Bank provides support to its customer facing financial difficulties in the form of waiver of profits, extension of repayment dates and even in certain cases discount upon settlement of the financing facilities.

3.00 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 17. Counterparty credit risk exposure

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

	31 December 2022		31 December 2021	
	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	162440.00	0.00	313738.00	0.00
Receivables	448846.70	286803.97	485237.00	299028.00
Ijara Muntahia Bittamleek and Ijara receivables	561955.14	495426.44	461475.00	394478.00
Musharaka	239444.44	239444.44	329021.00	329021.00
Investments	1140569.41	0.00	1086895.00	0.00
Investment in real estate	8835.72	0.00	12343.00	0.00
Premises and equipment	98319.36	0.00	56963.00	0.00
Other assets	52272.57	0.00	65182.00	0.00
	2712683.34	1021674.85	2810854.00	1022527.00

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

Table – 18. Counterparty credit risk exposure

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

	31 December 2022		31 December 2021	
	Gross positive FV of contracts US \$ '000	Collateral held US \$ '000	Gross positive FV of contracts US \$ '000	Collateral held US \$ '000
Receivables	448846.70	15988.56	485237.00	16153.00
Ijara Muntahia Bittamleek & Ijara income receivable	561955.14	11726.83	461475.00	15128.00

b) Market risk

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

Table – 19. Market risk capital requirements

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

	'31 December 2022	'31 December 2022	'31 December 2021	'31 December 2021
	Price risk US \$ '000	Foreign exchange risk US \$ '000	Price risk US \$ '000	Foreign exchange risk US \$ '000
RWE	1091.68	114985.09	0.00	142699.00
Capital requirements (12.5%)	136.46	14373.14	0.00	17837.38
Maximum value of RWE	1360.56	128405.44	2582.00	146041.00
Minimum value of RWE	1062.82	108886.25	0.00	139979.00

3.00 RISK MANAGEMENT (continued)**b) Market Risk (continued)****Table – 20. Equity position risk in Banking Book**

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

	<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	1000.00	1000.00	0.00	1000.00	25.00
Equity investments	35515.09	41585.79	29612.64	5902.45	10318.84
Real estate related	38985.37	35127.86	0.00	38985.37	1203.35
	75500.46	77713.65	29612.64	45887.82	11547.19

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2021:

	<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	1000.00	1000.00	0.00	1000.00	25.00
Equity investments	44707.00	47284.00	39832.00	4875.00	11782.00
Real estate related	30009.00	24338.00	0.00	30009.00	5491.00
	75716.00	72622.00	39832.00	35884.00	17298.00

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

Table – 21. Equity gains or losses in Banking Book

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

	<i>2022 US \$ '000</i>	<i>2021 US \$ '000</i>
Cummulative realised gains arising from sale or liquidation	1023.22	3638.00
Total unrealised gains recognised in the balance sheet but not through P&L	3960.83	3899.00
Unrealised gross gains included in Tier One Capital	3960.83	3899.00
Assets revaluation reserve - property, plant, and equipment	342.88	471.00

3.00 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>2022</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	152886.00	114095.00	37675.00	59122.00	85068.00
Ijara Muntahia Bittamleek and Ijara Income Receivables	7703.00	6343.00	13381.00	60872.00	473656.00
Musharaka	15187.00	3590.00	9840.00	58335.00	152492.00
Investments-Sukuk	28082.90	3022.53	320.76	413342.84	620299.92
Profit rate sensitive assets	203858.90	127050.53	61216.76	591671.84	1331515.92
Murabaha and other payables	36818.00	60276.00	64759.00	532.00	9411.00
Equity of investment accountholders	1390187.00	209957.00	212748.00	64635.00	35442.00
Subordinated Mudaraba	1314.00	0.00	0.00	6625.00	7661.00
Profit rate sensitive liabilities	1428319.00	270233.00	277507.00	71792.00	52514.00
Profit rate gap	-1224460.10	-143182.47	-216290.24	519879.84	1279001.92
Profit rate sensitivity (200bps)	-24489.20	-2863.65	-4325.80	10397.60	25580.04

3.00 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 22. Profit rate mismatch (continued)

	2021				
	Up to 3 months US \$ '000	3 to 6 months US \$ '000	6 months to 1 year US \$ '000	1 to 3 years US \$ '000	Over 3 years US \$ '000
	Receivables	230922.00	97506.00	24367.00	48090.00
Ijara Muntahia Bittamleek and Ijara Income Receivables	3436.00	26662.00	14899.00	47427.00	369051.00
Musharaka	12058.00	938.00	17419.00	77546.00	221060.00
Investments-Sukuk	99885.00	189.00	0.00	62145.00	815307.00
	<u>346301.00</u>	<u>125295.00</u>	<u>56685.00</u>	<u>235208.00</u>	<u>1489770.00</u>
Profit rate sensitive assets					
	48539.00	101049.00	34772.00	51029.00	7875.00
Murabaha and other payables					
Equity of investment accountholders	1241034.00	237069.00	205312.00	94679.00	87322.00
Subordinated debt	1080.00	32.00	0.00	8498.00	9829.00
	<u>1290653.00</u>	<u>338150.00</u>	<u>240084.00</u>	<u>154206.00</u>	<u>105026.00</u>
Profit rate sensitive liabilities	-944352.00	-212855.00	-183399.00	81002.00	1384744.00
Profit rate gap					
	-18887.04	-4257.10	-3667.98	1620.04	27694.88
Profit rate sensitivity (200bps)					

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

	2022 Total equivalent US \$ '000
Pakistani Rupees	105676.76
Euro	-15908.42
Kuwaiti Dinars	55.87
Pound Sterling	-4704.68
Egyptian Pound	2371.62
Algerian Dinar	6000.00
Others	553.05

3.00 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 23. Foreign currency translation risk (continued)

	<u>2021</u>
	<i>Total</i>
	<i>equivalent</i>
	<i>US \$ '000</i>
Pakistani rupees	130510.00
Euro	-3167.00
Kuwaiti dinars	63.00
Pound sterling	-6886.00
Egyptian Pound	4787.00
Algerian Dinar	6000.00
Others	1339.00

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 31 December 2022

Currency	Particular	Change	Exposures in US \$ '000	Effect on profit and loss/Equity US \$ '000
Pakistani rupees	Net long Position	0.20	105676.76	21135.35
Euro	Net short Position	0.20	15908.42	3181.68
Kuwaiti dinars	Net long Position	0.20	55.87	11.17
Pound sterling	Net short Position	0.20	4704.68	940.94
Egyptian Pound	Net long Position	0.20	2371.62	474.32
Algerian Dinar	Net long Position	0.20	6000.00	1200.00
Others	Net long Position	0.20	553.05	110.61

At 31 December 2021

Currency	Particular	Change	Exposures in US \$ '000	Effect on profit and loss/Equity US \$ '000
Pakistani Rupees	Net long Position	0.20	130510.00	26102.00
Euro	Net short Position	0.20	3167.00	633.40
Kuwaiti Dinars	Net long Position	0.20	63.00	12.60
Pound Sterling	Net short Position	0.20	6886.00	1377.20
Egyptian Pound	Net long Position	0.20	4787.00	957.40
Algerian Dinar	Net long Position	0.20	6000.00	1200.00
Others	Net long Position	0.20	1339.00	267.80

3.00 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (IAH)

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

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

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

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

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

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

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

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

3.00 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Investment risk reserve

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

Profit equalisation reserve

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

Displaced commercial risk

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

Complaint procedure / awareness programs

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

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

Penalty charges

Central Bank of Bahrain

Anomalies in standing orders, EFTS and other electronic channels

<i>31 December</i>	<i>31 December</i>
<i>2022.00</i>	<i>2021.00</i>
<i>US \$ '000</i>	<i>US \$ '000</i>

119.48	76.84
119.48	76.84

State Bank of Pakistan

Various non-compliances with domestic laws and regulations

273.01	2.20
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3.00 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Non-Shari'a complaint income

The Group has received US \$ 89 thousand (2021: US \$ 531 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

Table – 25. Equity of Investment Accountholders

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

	<i>31 December</i>	<i>31 December</i>
	<i>2022.00</i>	<i>2021.00</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
IAH - Non-banks	1370738.51	1371711.00
IAH - Banks	541819.59	493294.00
Profit equalisation reserve	411.02	411.00
	<u>1912969.11</u>	<u>1865416.00</u>

Table – 26. Ratio of reserves to total IAH

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

	<i>31 December</i>	<i>31 December</i>
	<i>2022.00</i>	<i>2021.00</i>
PER to IAH (%)	0.00	0.00
IRR to IAH (%)	Nil	Nil

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

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

	<i>31 December</i>	<i>31 December</i>
	<i>2022.00</i>	<i>2021.00</i>
Receivables	0.23	0.26
Musharaka	0.11	0.15
Ijara Muntahia Bittamleek & Ijara income receivable	0.29	0.23
Investments	0.25	0.24
Liquidity and others	0.12	0.12

3.00 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 28. Equity of Investment Accountholders by Counterparty Type

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

Counterparty type	31 December 2022.00	31 December 2021.00
Banks	0.28	0.26
Investment Firms	0.06	0.06
Corporates	0.17	0.21
Residentials	0.43	0.40
Others	0.06	0.07

Table – 29. Investment Accountholders share of profit

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

	31 December 2022	31 December 2021	31 December 2020	31 December 2019	31 December 2018
Administrative expenses charged to equity of investment accountholders	7492.62	8052.00	14061.00	8863.00	10577.00
Share of profits earned by IAH, before transfers to/from reserves	122329.89	82941.00	87437.00	84531.00	69629.00
Percentage share of profit earned by IAH before transfer to/from reserves	0.06	0.05	0.05	0.06	0.05
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	102033.38	58567.00	63761.00	75287.00	53151.00
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	0.05	0.03	0.04	0.05	0.04
Share of profit paid out to Bank as mudarib	20296.51	24374.00	23676.00	9244.00	16477.00
Mudarib Fee to total Investment Profits	0.17	0.29	0.27	0.11	0.24

The Bank included the service charges/ fees from credit card operations on a proportionate basis in accordance with instructions and approvals Sharia department for distribution to equity of investment

Table – 30. Movement in profit equalisation reserve

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

	31 December 2022 US \$ '000	31 December 2021 US \$ '000	31 December 2020.00 US \$ '000	31 December 2019.00 US \$ '000	31 December 2018.00 US \$ '000
Balance at 1 January	411.02	344.00	229.00	115.00	572.00
Amount utilized on initial implementation of FAS 30	0.00	0.00	0.00	0.00	-572.00
Restated balances as on 01 January	411.02	344.00	229.00	115.00	0.00
Amount apportioned from income	0.00	67.00	115.00	114.00	115.00
Foreign exchange gain / (loss)	0.00	0.00	0.00	0.00	0.00
	411.02	411.00	344.00	229.00	115.00
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	0.00	0.00	0.00	0.00	0.00

3.00 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:

	<i>31 December 2022 US \$ '000</i>	<i>31 December 2021.00 US \$ '000</i>	<i>31 December 2020.00 US \$ '000</i>	<i>31 December 2019.00 US \$ '000</i>	<i>31 December 2018.00 US \$ '000</i>
Balance at 1 January	0.00	0.00	0.00	0.00	1701.00
Amount utilized on initial implementation of FAS 30	0.00	0.00	0.00	0.00	-1701.00
Restated balances as on 01 January	0.00	0.00	0.00	0.00	0.00
Exchange difference	0.00	0.00	0.00	0.00	0.00
Amount apportioned from income	0.00	277.00	0.00	0.00	0.00
Amount apportioned to provision	0.00	-277.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	Nil	0.00	Nil	Nil	Nil

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

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

The Group's share, as Mudarib, in the profits of IAH is up to a maximum of 70% (31 December 2021: up to 70%) as per the terms of IAH agreements.

Table – 32. Equity of Investment Accountholders rate of return

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

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

3.00 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

	Average		
	31 December 2021 Rate of return %		
	<i>Bahrain</i>		<i>Pakistan</i>
	BD	US \$	
Saving Accounts	0.00	0.00	0.04
One Month Term Deposits	0.01	0.01	0.03
Three Months Term Deposits	0.02	0.01	0.03
Six Months Term Deposits	0.02	0.01	0.03
Nine Months Term Deposits	0.02	0.02	0.00
1 Year Term Deposits	0.02	0.02	0.06
2 Years Term Deposits	0.02	0.02	0.07
3 Year Term Deposits	0.02	0.02	0.07
4 Years Term Deposits	0.02	0.02	0.07
5Years Term Deposits	0.03	0.03	0.08

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

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

	<i>Opening</i>		<i>Closing</i>
	<i>Actual</i>		<i>Actual</i>
	<i>Allocation</i>	<i>Movement</i>	<i>Allocation</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>
Cash and balances with banks	191275.67	-18536.93	172738.74
Receivables	484124.24	-35740.08	448384.15
Ijara Muntahia Bittamleek	426107.03	121527.59	547634.63
Musharaka	276151.73	-68725.89	207425.84
Investments	452408.13	32982.99	485391.11
Other assets	35348.93	16045.73	51394.65
	1865415.72	47553.41	1912969.13

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 2021:

	<i>Opening</i>		<i>Closing</i>
	<i>actual</i>		<i>actual</i>
	<i>allocation</i>	<i>Movement</i>	<i>allocation</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>
Cash and balances with banks	104000.00	87276.00	191276.00
Receivables	552018.00	-67893.00	484125.00
Ijara Muntahia Bittamleek	285202.00	140905.00	426107.00
Musharaka	316638.00	-40487.00	276151.00
Investments	386839.00	65569.00	452408.00
Other assets	52210.00	-16861.00	35349.00
	1696907.00	168509.00	1865416.00

3.00 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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

	<i>Opening Actual Allocation US \$ '000</i>	<i>Movement US \$ '000</i>	<i>Closing Actual Allocation US \$ '000</i>
Cash and balances with banks	197274.00	-24535.26	172738.74
Receivables	431127.00	17257.15	448384.15
Ijara Muntahia Bittamleek	491275.00	56359.63	547634.63
Musharaka	239299.00	-31873.16	207425.84
Investments	487655.00	-2263.89	485391.11
Other assets	26984.00	24410.65	51394.65
	<u>1873614.00</u>	<u>39355.13</u>	<u>1912969.13</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 six months period ended 31 December 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	190055.00	1221.00	191276.00
Receivables	557632.00	-73507.00	484125.00
Ijara Muntahia Bittamleek	349288.00	76819.00	426107.00
Musharaka	356094.00	-79943.00	276151.00
Investments	336663.00	115745.00	452408.00
Other assets	32618.00	2731.00	35349.00
	<u>1822350.00</u>	<u>43066.00</u>	<u>1865416.00</u>

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>
#####	122329.89	0.06	102033.38	0.05
#####	82941.00	0.05	58567.00	0.03
#####	87437.00	0.05	63761.00	0.04
#####	84531.00	0.06	75287.00	0.05
#####	69629.00	0.05	53151.00	0.04
#####	71861.00	0.05	53553.00	0.04

3.00 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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

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

Type of Claims	RWA US\$ '000	RWA for capital adequacy purposes US\$ '000	Capital charges US\$ '000
Claims on Sovereign	396.84	119.05	14.88
Claims on PSEs	654.32	196.30	24.54
Claims on Banks	26322.93	7896.88	987.11
Claims on Corporates	412309.22	123692.77	15461.60
Mortgage	285848.97	85754.69	3150.24
Regulatory Retail Portfolio	84006.36	25201.91	10719.34
Past due facilities	21561.19	6468.36	808.55
Investment in securities	1021.81	306.54	38.32
Holding of Real Estates	86993.62	26098.09	3262.26
Other Assets	37466.62	11239.99	1405.00
	956581.88	286974.56	35871.82

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2021:

Type of Claims	RWA US\$ '000	RWA for capital adequacy purposes US\$ '000	Capital charges US\$ '000
Claims on Sovereign	127.00	38.00	5.00
Claims on PSEs	1651.00	495.00	62.00
Claims on Banks	78191.00	23457.00	2932.00
Claims on Corporates	435252.00	130576.00	16322.00
Mortgage	223529.00	67059.00	8382.00
Regulatory Retail Portfolio	107855.00	32357.00	4045.00
Past due facilities	35643.00	10693.00	1337.00
Investment in securities	823.00	247.00	31.00
Holding of Real Estates	50008.00	15002.00	1875.00
Other Assets	37300.00	11190.00	1399.00
	970379.00	291114.00	36390.00

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.

3.00 RISK MANAGEMENT (continued)

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

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

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

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

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

Islamic products

	<i>31 December 2022.00</i>	<i>31 December 2021</i>
On balance sheet jointly financed assets*		
Others		
Receivables	0.86	0.74
Investments	0.14	0.26

* 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

	<i>31 December 2022.00</i>	<i>31 December 2021</i>
On balance sheet jointly financed assets*		
Others		
Banks	0.49	0.21
Corporate	0.41	0.58
Sovereigns	0.10	0.21

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

3.00 RISK MANAGEMENT (continued)

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

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

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

	<i>Opening actual allocation US\$ '000</i>	<i>Movement US\$ '000</i>	<i>Closing actual allocation US\$ '000</i>
Wakala Bi Al-Istithmar			
<i>On balance sheet jointly</i>			
<i>financed assets</i>	514684.48	126163.03	640847.50
	<u>514684.48</u>	<u>126163.03</u>	<u>640847.50</u>
Others			
Receivables	117137.00	45475.97	162612.97
Investments	41390.00	-14158.79	27231.21
	158527.00	31317.18	189844.18
	<u>673211.48</u>	<u>157480.21</u>	<u>830691.69</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 2021:

	<i>Opening actual allocation US\$ '000</i>	<i>Movement US\$ '000</i>	<i>Closing actual allocation US\$ '000</i>
Wakala Bi Al-Istithmar			
<i>On balance sheet jointly</i>			
<i>financed assets</i>	364144.00	150541.00	514685.00
	<u>364144.00</u>	<u>150541.00</u>	<u>514685.00</u>
Others			
Receivables	136357.00	-19220.00	117137.00
Investments	22706.00	18684.00	41390.00
	159063.00	-536.00	158527.00
	<u>523207.00</u>	<u>150005.00</u>	<u>673212.00</u>

3.00 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>December</i> 2022.00	<i>December</i> 2021.00	<i>December</i> 2020.00	<i>December</i> 2019.00	<i>December</i> 2018.00	<i>December</i> 2017.00
	<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	34555.45	25593.00	17153.00	23830.00	1175.00	1491.00
Mudarib/ agency fee	-11310.06	-9945.00	-3821.00	-11563.00	91.00	105.00

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

3.00 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

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

Table – 40. Liquidity ratios

The following table summarises the liquidity ratios as of:

	<i>31 December 2022</i>	<i>31 December 2021</i>
Liquid assets to total assets	0.08	0.13
Short term assets to short term liabilities	0.23	0.34

Table – 41. Quantitative indicators of financial performance and position

	<i>December 2022*</i>	<i>December 2021.00</i>	<i>December 2020.00</i>	<i>December 2019.00</i>	<i>December 2018.00</i>	<i>December 2017.00</i>
Return on average equity	0.06	0.05	0.03	0.02	-0.08	-0.03
Return on average assets	0.01	0.00	0.00	0.00	-0.01	0.00
Cost to Income Ratio	0.72	0.71	0.68	0.76	0.83	1.03

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

4.00 OTHERS

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

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

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

External Auditors

The Board Audit Committee has continued to review the work carried out by the external auditors during the year, in particular timeliness of reporting, quality of work and related fees. Overall the Audit Committee believes that the work of the external auditors has been of a sufficiently high standard and that the fees are reasonable and therefore recommended to the Board and accordingly to the annual general meeting (AGM) to re-appoint the external auditors as auditor for the 2023 financial year. The AGM has approved the reappointment of the external auditor for the year 2023 on 21 March 2023 and the related regulatory approval were taken.

For the year 2022, annual audit and quarterly review services amounted to US\$ 176,658 and other non-audit services amounted to US\$ 54,775.