

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

Basel III, Pillar III Disclosures

31 December 2021

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

Basel III, Pillar III Disclosures

for the year ended 31 December 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 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 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 Itqan Capital Company are consolidated as per the requirement of the CA Module. As a result of consolidation of Itqan Capital for regulatory purposes, the amounts in certain tables within the quantitative disclosures might not match the amounts reported in the consolidated financial statements of the Group.

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2 CAPITAL ADEQUACY (continued)

Table – 1. Capital structure

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

	31 December 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
Common Equity Tier 1 (CET1)						
Issued and fully paid ordinary shares	136,458			136,458		
General reserves	8,687			8,687		
Statutory reserves	24,840			23,831		
Accumulated losses	(20,947)			(15,844)		
Current year profit	10,093			3,462		
Unrealized gains and losses on available for sale financial instruments	3,899			1,121		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(42,985)			(36,345)		
Other reserves	(98)			(94)		
Total CET1 capital before minority interest	119,947			121,276		
Minority interest in banking subsidiaries	14,017			13,471		
Total CET1 capital prior to regulatory adjustments	133,964			134,747		
Less:						
Goodwill	29,805			31,133		
Intangible other than mortgage servicing rights	7,561			6,039		
Deferred tax assets	9,776			11,575		
Total CET 1 capital after the regulatory adjustments above (CET 1a)	86,822			86,000		
Other Capital (AT1 & T 2)						
Instruments issued by parent company		111,000	-		111,000	-
Instruments issued by banking subsidiaries to third parties		83	8,037		132	4,541
Assets revaluation reserve - property, plant, and equipment		-	-		-	-
Expected Credit Losses (ECL) Stages 1 & 2		-	7,835		-	7,303
Total Available AT1 & T2 Capital		111,083	15,872		111,132	11,844
Total CET 1 Capital	86,822			86,000		
Total T1 Capital		197,905			197,132	
Total Capital			213,777			208,976

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2 CAPITAL ADEQUACY (continued)

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

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

Type of islamic financing contracts	31 December 2021 Capital requirements US \$ '000	31 December 2020 Capital requirements US \$ '000
Receivables	14,972	16,954
Ijara Muntahia Bittamleek & Ijara receivables	12,110	8,399
Musharaka	11,790	15,421
	38,872	40,774

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 2021		31 December 2020	
	Self Financed US \$ '000	Financed by IAH US \$ '000	Self Financed US \$ '000	Financed by IAH US \$ '000
Market risk - standardised approach				
Price risk	-	-	238	-
Foreign exchange risk	11,416	-	6,337	-
Total of market risk - standardised approach	11,416	-	6,575	-
Multiplier	12.50	12.50	12.50	12.50
	142,700	-	82,188	-
Eligible Portion for the purpose of the calculation	100%	100%	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	142,700	-	82,188	-
Total market RWE		142,700		82,188
		12.50%		12.50%
Minimum capital requirement		17,838		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:

	<i>31 December 2021</i>	<i>31 December 2020</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
Indicators of operational risk		
Average gross income	86,183	83,314
Multiplier	12.5	12.5
	1,077,288	1,041,425
Eligible Portion for the purpose of the calculation	15%	15%
Total operational RWE	161,593	156,214
	12.50%	12.50%
Minimum capital requirement	20,199	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:

	31 December 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	22.96%	21.26%	9.33%	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 **	18.65%	13.89%	11.17%	17.63%	15.09%	12.19%
Itqan Capital Company	39.28%	39.28%	39.28%	24.40%	24.40%	24.40%

* Minimum required by CBB regulations under Basel III

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

Legal restrictions on capital and income mobility

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

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

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

	31 December 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	13.25%	9.36%	9.36%	12.90%	9.70%	9.70%
Minimum regulatory requirements*	11.50%	10.00%	8.50%	11.50%	10.00%	8.50%

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 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>	
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	
Funded								
Cash and balances with banks and financial institutions	122,462	96,220	191,276	139,708	192,379	116,897	104,000	
Receivables	1,112	1,182	484,125	550,070	992	1,359	552,018	
Ijara Muntahia Bittamleek and Ijara receivables	35,368	36,254	426,107	370,140	36,307	37,032	285,202	
Musharaka	52,870	55,701	276,151	331,167	33,642	32,911	316,638	
Investments	634,487	661,827	452,408	368,823	575,499	518,423	386,839	
Investment in real estate	12,343	12,061	-	-	11,562	15,542	-	
Premises and equipment	56,963	57,484	-	-	47,363	45,805	-	
Other assets	29,833	40,993	35,349	26,779	3,870	15,311	52,210	
Unfunded exposure								
Contingencies and commitments	233,276	224,977	-	-	178,150	152,637	-	
	1,178,714	1,186,699	1,865,416	1,786,687	1,079,764	935,917	1,696,907	
							1,636,151	

*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:

	31 December 2021				31 December 2020			
	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	10,275	112,187	146,109	45,167	6,390	160,177	110,435	19,377
Receivables	1,112	-	263,703	220,422	992	-	332,866	219,152
Ijara Muntahia Bittamleek and Ijara receivables	35,368	-	424,569	1,538	36,307	-	282,122	3,080
Musharaka	-	52,870	-	276,151	-	33,642	-	316,638
Investments	392,423	242,064	252,327	200,081	388,643	186,856	208,382	178,457
Investment in real estate	12,343	-	-	-	11,562	-	-	-
Premises and equipment	31,136	25,827	-	-	31,382	15,980	-	-
Other assets	-	29,833	21,826	13,523	520	29,162	14,020	12,378
	482,657	462,781	1,108,534	756,882	475,796	425,817	947,825	749,082

* 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:

	31 December 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	32,650	-	914	-	37,901	-	6,448	-
Claims on Sovereigns	548,348	-	473,599	-	478,797	11	495,288	-
Claims on Public Sector Entities	157,147	-	58,462	-	169,627	-	27,161	-
Claims on banks	58,329	29,026	199,060	-	87,662	40,571	223,829	-
Claims on corporate	24,498	204,250	492,266	-	21,229	137,562	456,117	-
Mortgage	-	-	411,272	-	-	-	284,936	-
Past dues receivables	-	-	33,833	-	992	6	46,290	-
Regulatory Retail Portfolio	-	-	144,512	-	-	-	119,479	-
Equity investment	35,445	-	340	-	34,054	-	246	-
Investment in Funds	4,767	-	-	-	4,308	-	-	-
Holding of Real Estate	58,260	-	13,858	-	55,636	-	4,341	-
Other assets	25,994	-	37,300	-	11,410	-	32,772	-
	945,438	233,276	1,865,416	-	901,616	178,150	1,696,907	-

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:

	31 December 2021		31 December 2020	
	Self financed	Financed by IAH	Self financed	Financed by IAH
	Funded US \$	Funded US \$	Funded US \$	Funded US \$
	'000	'000	'000	'000
Cash and balances with bank	6	903	-	5,110
Receivables	-	5,442	-	17,636
Musharaka	-	1,433	-	1,717
Investments	56,632	-	44,891	-
Other Assets	9,437	-	6,824	-
Contingencies and commitments	12,503	-	30,914	-
	78,578	7,778	82,629	24,463

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

	31 December	31 December
	2021	2020
	Self financed	Self financed
	US \$ '000	US \$ '000
Assets		
Investment in a subsidiary*	94,201	94,201
Equity investment in Itqan Capital	54,342	54,342
	148,543	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.

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 2021:

Counterparties *	<u><i>Funded</i></u> <i>US \$ '000</i>
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
Counterparty # 12	33,992

* 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 2020:

Counterparties *	<u><i>Funded</i></u> <i>US \$ '000</i>
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 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>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

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 # 13	55
Counterparty # 15	71
Counterparty # 16	43
Counterparty # 17	7
Counterparty # 18	4
Counterparty # 19	1

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 12. 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 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>		
			<i>90 days to 1 year</i> US \$ '000	<i>1 year to 3 years</i> US \$ '000	<i>Over 3 years</i> US \$ '000			<i>90 days to 1 year</i> US \$ '000	<i>1 year to 3 years</i> US \$ '000	<i>Over 3 years</i> US \$ '000
Corporates	27,336	107,208	33,292	30,420	43,496	19,423	93,285	12,571	46,098	34,616
Investment Firms	643	-	-	-	-	-	-	-	-	-
Individuals	494	6,326	1,928	1,696	2,702	538	13,317	2,107	5,944	5,266
Others	-	-	-	-	-	-	21,893	21,893	-	-
	28,473	113,534	35,220	32,116	46,198	19,961	128,495	36,571	52,042	39,882

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 13. 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 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>	
Corporates	44,569	16,539	2,714	(1,733)	(2,618)	5,790	277	(2,741)	62,797
Individuals	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

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>Net transit in/(out) Stage3 during the year</i>	<i>Write-Back during the year</i>	<i>Write-offs during the year</i>	<i>ack 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>	
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
	53,800	14,765	(321)	(907)	(4,692)	-	-	(1,176)	61,469

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 14. 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 2021		31 December 2020	
	Non-performing Islamic financing contracts US \$ '000	ECL for Stage 3 US \$ '000	Non-performing Islamic financing contracts US \$ '000	ECL for stage 3 US \$ '000
Middle East	44,222	26,518	65,714	17,096
Other Asian countries	69,312	53,356	62,780	44,372
	113,534	79,874	128,494	61,468

Table – 15. 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 2021 Total US \$ '000	31 December 2020 Total US \$ '000
Restructured Islamic financing contracts	34,737	8,141

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

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

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 16. Counterparty credit risk exposure

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

	31 December 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	313,738	-	296,380	-
Receivables	485,237	299,028	553,010	416,523
Ijara Muntahia Bittamleek and Ijara receivables	461,475	394,478	321,509	176,214
Musharaka	329,021	329,021	350,280	350,280
Investments	1,086,895	-	962,338	-
Investment in real estate	12,343	-	11,562	-
Premises and equipment	56,963	-	47,363	-
Other assets	65,182	-	56,080	-
	2,810,854	1,022,527	2,598,522	943,017

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

Table – 17. 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 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	485,237	16,153	553,010	38,310
Ijara Muntahia Bittamleek & Ijara income receivable	461,475	15,128	321,509	12,149

b) Market risk

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

Table – 18. Market risk capital requirements

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

	'31 December 2021	'31 December 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	-	142,699	2,973	79,213
Capital requirements (12.5%)	-	17,837	372	9,902
Maximum value of RWE	2,582	146,041	2,973	104,057
Minimum value of RWE	-	139,979	1,717	79,213

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3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 19. 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 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
Equity investments	44,707	47,284	39,832	4,875	11,782
Real estate related	30,009	24,338	-	30,009	5,491
	75,716	72,622	39,832	35,884	17,298

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 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
Equity investments	49,706	49,982	34,422	15,284	10,021
Real estate related	19,137	15,711	-	19,137	6,968
	69,843	66,769	34,422	35,421	17,014

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 1.2 million (2020: USD 3.9 million), in such portfolio, were held to generate capital gains.

Table – 20. Equity gains or losses in Banking Book

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

	<i>2021 US \$ '000</i>	<i>2020 US \$ '000</i>
Cummulative realised gains arising from sale or liquidation	3,638	15,951
Total unrealised gains recognised in the balance sheet but not through P&L	3,899	1,121
Unrealised gross gains included in Tier One Capital	3,899	1,121
Assets revaluation reserve - property, plant, and equipment	471	-

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 20. 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 – 21. 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:

	2021				
	<i>Up to 3 months</i> US \$ '000	<i>3 to 6 months</i> US \$ '000	<i>6 months to 1 year</i> US \$ '000	<i>1 to 3 years</i> US \$ '000	<i>Over 3 years</i> US \$ '000
Receivables	230,922	97,506	24,367	48,090	84,352
Ijara Muntahia Bittamleek and Ijara Income Receivables	3,436	26,662	14,899	47,427	369,051
Musharaka	12,058	938	17,419	77,546	221,060
Investments-Sukuk	99,885	189	-	62,145	815,307
Profit rate sensitive assets	346,301	125,295	56,685	235,208	1,489,770
Murabaha and other payables	48,539	101,049	34,772	51,029	7,875
Equity of investment accountholders	1,241,034	237,069	205,312	94,679	87,322
Subordinated Mudaraba	1,080	32	-	8,498	9,829
Profit rate sensitive liabilities	1,290,653	338,150	240,084	154,206	105,026
Profit rate gap	(944,352)	(212,855)	(183,399)	81,002	1,384,744
Profit rate sensitivity (200bps)	(18,887)	(4,257)	(3,668)	1,620	27,695

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 21. Profit rate mismatch (continued)

	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	273,687	120,568	38,518	38,184	86,479
Ijara Muntahia Bittamleek and Ijara Income Receivables	6,264	27,960	14,337	42,396	230,553
Musharaka	-	76,596	9,446	106,106	158,132
Investments-Sukuk	65,768	-	78,108	22,253	722,978
Profit rate sensitive assets	345,719	225,124	140,409	208,939	1,198,142
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	-	9,384
Profit rate sensitive liabilities	926,895	239,055	347,865	203,064	178,120
Profit rate gap	(581,176)	(13,931)	(207,456)	5,875	1,020,022
Profit rate sensitivity (200bps)	(11,624)	(279)	(4,149)	118	20,400

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 – 22. Foreign currency translation risk

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

	2021
	Total equivalent US \$ '000
Pakistani Rupees	130,510
Euro	(3,167)
Kuwaiti Dinars	63
Pound Sterling	(6,886)
Egyptian Pound	4,787
Algerian Dinar	6,000
Others	1,339

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3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 22. Foreign currency translation risk (continued)

	<u>2020</u>
	<i>Total</i>
	<i>equivalent</i>
	<i>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 – 23. 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 2021

Currency	Particular	Change	Exposures in US \$ '000	Effect on profit and loss/Equity US \$ '000
Pakistani rupees	Net long Position	20%	130,510	26,102
Euro	Net short Position	20%	3,167	633
Kuwaiti dinars	Net long Position	20%	63	13
Pound sterling	Net short Position	20%	6,886	1,377
Egyptian Pound	Net long Position	20%	4,787	957
Algerian Dinar	Net long Position	20%	6,000	1,200
Others	Net long Position	20%	1,339	268

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.

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].

The Bank constantly update its investment strategies to maintain progress with latest development in markets. In lieu of prevailing market conditions, the Bank focused on sovereigns and segments carrying relatively lower risk and avoided the segment deeply affected by spread of Covid 19 pandemic.

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.

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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

	31 December 2021 US \$ '000	31 December 2020 US \$ '000
<u>Central Bank of Bahrain</u>		
Anomalies in standing orders, EFTS and other electronic channels	77	35
	77	35
<u>State Bank of Pakistan</u>		
Various non-compliances with domestic laws and regulations	2	560

Non-Shari'a complaint income

The Group has received US \$ 531 thousand (2020: US \$ 596 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

Table – 24. 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:

	31 December 2021 US \$ '000	31 December 2020 US \$ '000
IAH - Non-banks	1,371,711	1,328,868
IAH - Banks	493,294	367,695
Profit equalisation reserve	411	344
	1,865,416	1,696,907

Table – 25. Ratio of reserves to total IAH

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

	31 December 2021	31 December 2020
PER to IAH (%)	0.02%	0.02%
IRR to IAH (%)	Nil	Nil

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 26. 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:

	31 December 2021	<i>31 December 2020</i>
Receivables	25.95%	32.53%
Musharaka	14.80%	18.66%
Ijara Muntahia Bittamleek & Ijara income receivable	22.84%	16.81%
Investments	24.25%	22.80%
Liquidity and others	12.15%	9.21%

Table – 27. 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 2021	<i>31 December 2020</i>
Banks	26.47%	21.69%
Investment Firms	5.50%	4.22%
Corporates	21.43%	23.79%
Residential	39.97%	42.97%
Others	6.63%	7.33%

Table – 28. 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 2021	<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	8,052	14,061	8,863	10,577	7,079
Share of profits earned by IAH, before transfers to/from reserves	82,941	87,437	84,531	69,629	71,861
Percentage share of profit earned by IAH before transfer to/from reserves	4.64%	5.37%	6.06%	4.83%	4.73%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	58,567	63,761	75,287	53,151	53,553
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	3.28%	3.91%	5.40%	3.68%	3.52%
Share of profit paid out to Bank as mudarib	24,374	23,676	9,244	16,477	18,308
Mudarib Fee to total Investment Profits	29.39%	27.08%	10.94%	23.66%	25.48%

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 account holders.

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 29. Movement in profit equalisation reserve

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

	31 December 2021 US \$ '000	<i>31 December</i> <i>2020</i> <i>US \$ '000</i>	<i>31 December</i> <i>2019</i> <i>US \$ '000</i>	<i>31 December</i> <i>2018</i> <i>US \$ '000</i>	<i>31 December</i> <i>2017</i> <i>US \$ '000</i>
Balance at 1 January	344	229	115	572	551
Amount utilized on initial implementation of FAS 30	-	-	-	(572)	-
Restated balances as on 01 January	344	229	115	-	551
Amount apportioned from income	67	115	114	115	-
Foreign exchange gain / (loss)	-	-	-	-	21
	411	344	229	115	572
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	0.08%	0.13%	0.14%	0.16%	0.16%

Table – 30. Movement in investment risk reserve

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

	31 December 2021 US \$ '000	<i>31 December</i> <i>2020</i> <i>US \$ '000</i>	<i>31 December</i> <i>2019</i> <i>US \$ '000</i>	<i>31 December</i> <i>2018</i> <i>US \$ '000</i>	<i>31 December</i> <i>2017</i> <i>US \$ '000</i>
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
Exchange difference	-	-	-	-	1
Amount apportioned from income	277	-	-	-	-
Amount apportioned to provision	(277)	-	-	-	(639)
	-	-	-	-	1,701
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	0.33%	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.

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 31. Equity of Investment Accountholders rate of return

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

	Average		
	31 December 2021 Rate of return %		
	Bahrain		Pakistan
	BD	US \$	
Saving Accounts	0.10%	0.10%	3.83%
One Month Term Deposits	0.89%	0.69%	2.53%
Three Months Term Deposits	1.56%	1.27%	2.86%
Six Months Term Deposits	1.76%	1.47%	2.85%
Nine Months Term Deposits	2.08%	1.88%	-
1 Year Term Deposits	2.33%	2.18%	5.95%
2 Years Term Deposits	2.38%	2.28%	7.19%
3 Year Term Deposits	2.43%	2.38%	7.31%
4 Years Term Deposits	2.48%	2.48%	7.30%
5Years Term Deposits	2.53%	2.53%	7.84%

	Average		
	31 December 2020 Rate of return %		
	Bahrain		Pakistan
	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 – 32. 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 2021:

	Opening		Closing
	Actual		Actual
	Allocation	Movement	Allocation
	US \$ '000	US \$ '000	US \$ '000
Cash and balances with banks	104,000	87,276	191,276
Receivables	552,018	(67,893)	484,125
Ijara Muntahia Bittamleek	285,202	140,905	426,107
Musharaka	316,638	(40,487)	276,151
Investments	386,839	65,569	452,408
Other assets	52,210	(16,861)	35,349
	1,696,907	168,509	1,865,416

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:

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3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 32. Equity of Investment Accountholders by type of assets (continued)

	<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	552,018
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	37,479	52,210
	<u>1,436,847</u>	<u>260,059</u>	<u>1,696,907</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 30 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	190,055	1,221	191,276
Receivables	557,632	(73,507)	484,125
Ijara Muntahia Bittamleek	349,288	76,819	426,107
Musharaka	356,094	(79,943)	276,151
Investments	336,663	115,745	452,408
Other assets	32,618	2,731	35,349
	<u>1,822,350</u>	<u>43,066</u>	<u>1,865,416</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 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	314,664	(210,664)	104,000
Receivables	491,451	60,567	552,018
Ijara Muntahia Bittamleek	251,477	33,725	285,202
Musharaka	274,763	41,875	316,638
Investments	232,878	153,961	386,839
Other assets	45,871	6,339	52,210
	<u>1,611,104</u>	<u>85,803</u>	<u>1,696,907</u>

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for the year ended 31 December 2021

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 33. 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	82,941	4.64%	58,567	3.28%
2020	87,437	5.37%	63,761	3.91%
2019	84,531	6.06%	75,287	5.40%
2018	69,629	4.83%	53,151	3.68%
2017	71,861	4.73%	53,553	3.52%
2016	61,137	4.53%	44,558	3.30%

Table - 34. 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 2021:

	<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>
Type of Claims			
Claims on Sovereign	127	38	5
Claims on PSEs	1,651	495	62
Claims on Banks	78,191	23,457	2,932
Claims on Corporates	435,252	130,576	16,322
Mortgage	223,529	67,059	8,382
Regulatory Retail Portfolio	107,855	32,357	4,045
Past due facilities	35,643	10,693	1,337
Investment in securities	823	247	31
Holding of Real Estates	50,008	15,002	1,875
Other Assets	37,300	11,190	1,399
	970,379	291,114	36,390

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:

	<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>
Type of Claims			
Claims on Sovereign	1,745	524	66
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	168,718	50,615	6,327
Regulatory Retail Portfolio	89,337	26,801	3,350
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
	874,669	262,401	32,800

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3 RISK MANAGEMENT (continued)

d) Off-balance sheet equity of Investment Accountholders

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

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

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

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

Table – 35. Off-balance sheet equity of Investment Accountholders by Islamic product type

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

Islamic products

	31 December 2021	<i>31 December 2020</i>
<i>On balance sheet jointly financed assets*</i>		
Others		
Receivables	73.89%	<i>85.73%</i>
Investments	26.11%	<i>14.27%</i>

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

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

Counterparty type

	31 December 2021	<i>31 December 2020</i>
<i>On balance sheet jointly financed assets*</i>		
Others		
Banks	21.49%	<i>22.86%</i>
Corporate	57.53%	<i>62.87%</i>
Sovereigns	20.98%	<i>14.27%</i>

* 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 – 37. 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 2021:

	<i>Opening actual allocation US\$ '000</i>	<i>Movement US\$ '000</i>	<i>Closing actual allocation US\$ '000</i>
<i>On balance sheet jointly financed assets</i>	364,144	150,541	514,685
	364,144	150,541	514,685
Others			
Receivables	136,357	(19,220)	117,137
Investments	22,706	18,684	41,390
	159,063	(536)	158,527
	523,207	150,005	673,212

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>
<i>Wakala Bi Al-Istithmar</i>			
Pool			
Receivables	156,650	(156,650)	-
Investments	4,655	(4,655)	-
	161,305	(161,305)	-
<i>On balance sheet jointly financed assets</i>	177,397	186,747	364,144
	177,397	186,747	364,144
Others			
Receivables	142,262	(5,904)	136,357
Investments	161,509	(138,803)	22,706
	303,771	(144,707)	159,063
	642,473	(119,265)	523,207

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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 historical returns

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

	<i>December 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	25,593	17,153	23,830	1,175	1,491	1,810
Mudarib/ agency fee	(9,945)	(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

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3 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

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

Table – 39. Liquidity ratios

The following table summarises the liquidity ratios as of:

	31 December 2021	<i>31 December 2020</i>
Liquid assets to total assets	13.35%	17.19%
Short term assets to short term liabilities	34.18%	48.00%

Table – 40. Quantitative indicators of financial performance and position

	<i>December 2021*</i>	<i>December 2020</i>	<i>December 2019</i>	<i>December 2018</i>	<i>December 2017</i>	<i>December 2016</i>
Return on average equity	4.7%	2.8%	2.0%	-8.2%	-2.7%	1.2%
Return on average assets	0.5%	0.3%	0.2%	-0.8%	-0.2%	0.1%
Cost to Income Ratio	70.8%	67.7%	75.6%	82.8%	103.1%	82.5%

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

4 OTHERS

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

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

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

External Auditors

The Board Audit Committee has continued to review the work carried out by the external auditors during the year, in particular timeliness of reporting, quality of work and related fees. Overall the Audit Committee believes that the work of the external auditors has been of a sufficiently high standard and that the fees are reasonable. However, in lieu of best established corporate governance practices, the Bank has decided to change existing external auditor's M/S Ernst & Young and appointed Price Waterhouse Coopers as their new auditors for the year 2022 during the AGM held on 28 March 2022.

For the year 2021, annual audit and quarterly review services amounted to US\$ 176,658 and other non-audit services amounted to US\$ 54,775.