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

Basel III, Pillar III Disclosures

30 June 2024

For identification purposes only

pwc

Date: 27 Aug 2024

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for the period ended 30 June 2024

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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 30 June 2024, 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) are consolidated as per the requirement of the CA Module.

2 CAPITAL ADEQUACY (continued)

Table – 1. Capital structure

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

	30-Jun-24			31-Dec-23		
	CET 1	AT1	Tier 2	CET 1	AT1	Tier 2
	US $ '000	US $ '000	US $ '000	US $ '000	US $ '000	US $ '000
Common Equity Tier 1 (CET1)						
Issued and fully paid ordinary shares	151,458			151,458		
General reserves	8,687			8,687		
Statutory reserves	26,119			26,119		
Retained earnings	(11,966)			17,949		
Current cumulative net (loss) / income	(11,099)			(28,568)		
Unrealized gains and losses on available for sale financial instruments	4,712			6,882		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(65,267)			(65,851)		
Other reserves	(289)			(289)		
Total CET1 capital before minority interest	102,355			116,387		
Minority interest in banking subsidiaries	10,050			9,828		
Total CET1 capital prior to regulatory adjustments	112,405			126,215		
Less:						
Goodwill	8,068			7,967		
Intangible other than mortgage servicing rights	5,115			5,962		
Deferred tax assets	4,297			3,673		
Total CET 1 capital after the regulatory adjustments above (CET 1a)	94,925			108,613		
Other Capital (AT1 & T 2)						
Instruments issued by parent company		96,000	-		96,000	-
Instruments issued by banking subsidiaries to third parties		-	1,229		-	3,524
Assets revaluation reserve - property, plant, and equipment		-	314		-	314
Expected Credit Losses (ECL) Stages 1 & 2		-	7,575		-	7,383
Total Available AT1 & T2 Capital		96,000	9,118		96,000	11,221
Total CET 1 Capital	94,925			108,613		
Total T1 Capital		190,925			204,613	
Total Capital			200,043			215,834

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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	*30 June 2024 Capital requirements US $ '000*	*31 December 2023 Capital requirements US $ '000*
Receivables	**15,854**	14,560
Ijara Muntahia Bittamleek & Ijara receivables	**16,998**	17,944
Musharaka	**7,499**	7,839
	40,351	40,343

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:

	30-Jun-24		*31-Dec-23*	
	Self Financed US $ '000	***Financed by IAH US $ '000***	*Self Financed US $ '000*	*Financed by IAH US $ '000*
Market risk - standardised approach				
Price risk	**62**	**-**	480	-
Equities Position Risk	**56**	**-**	58	-
Foreign exchange risk	**5,771**	**-**	8,836	-
Total of market risk - standardised approach	**5,889**	**-**	9,374	-
Multiplier	**12.50**	**12.50**	12.50	12.50
	73,613	**-**	117,175	-
Eligible Portion for the purpose of the calculation	**100%**	**30%**	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	**73,613**	**-**	117,175	-
Total market RWE		**73,613**		117,175
		12.50%		12.50%
Minimum capital requirement		**9,202**		14,647

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:

	30 June 2024 US $ '000	*31 December 2023 US $ '000*
Indicators of operational risk		
Average gross income	**87,088**	87,088
Multiplier	**12.5**	12.5
	1,088,600	1,088,600
Eligible Portion for the purpose of the calculation	**15%**	15%
Total operational RWE	**163,290**	163,290
	12.50%	12.50%
Minimum capital requirement	**20,411**	20,411

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2 CAPITAL ADEQUACY (continued)

Table – 5. Capital adequacy ratios

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

	30-Jun-24			31-Dec-23		
	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	23.74%	22.66%	11.26%	24.78%	23.49%	12.47%
Minimum regulatory requirements*	12.50%	10.50%	9.00%	12.50%	10.50%	9.00%
Al Baraka Bank Pakistan Limited **	19.85%	19.07%	15.41%	19.51%	16.44%	12.70%

** 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:

	30-Jun-24			31-Dec-23		
	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	20.82%	17.86%	10.50%	19.41%	16.45%	12.70%
Minimum regulatory requirements*	11.50%	7.50%	6.00%	11.50%	7.50%	6.00%

**There are no capital conversion buffer required as per SBP requirements.*

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3 RISK MANAGEMENT

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

a) Credit risk

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

Table – 7. Credit risk exposure

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

	30-Jun-24				*31-Dec-23*			
	Self financed		*Financed by IAH*		*Self financed*		*Financed by IAH*	
	Total gross credit exposure US $ '000	**Average gross exposure over the period US $ '000*	*Total gross credit exposure US $ '000*	**Average gross credit risk exposure over the period US $ '000*	*Total gross credit exposure US $ '000*	**Average gross credit exposure over the period US $ '000*	*Total gross credit exposure US $ '000*	**Average gross credit exposure over the period US $ '000*
Funded								
Cash and balances with banks and financial institutions	167,434	217,224	91,853	37,572	218.803	240.715	24.573	1.718
Receivables	120,756	60,463	385,983	393,605	49.834	12.731	399.749	435.478
Ijara Muntahia Bittamleek and Ijara receivables	10,155	11,271	589,140	600,954	11.558	12.974	623.217	620.601
Musharakat	22,953	22,919	131,348	139,549	22.913	23.661	135.360	144.676
Investments	554,494	561,108	517,903	519,035	563.088	575.234	509.774	483.124
Investment in real estate	7,722	8,000	-	-	7.722	8.557	-	-
Premises and equipment	92,714	91,898	-	-	92.135	91.917	-	-
Other assets	48,926	50,921	4,098	702	43.286	44.090	520	7.153
Unfunded exposure								
Contingencies and commitments	131,950	145,260	-	-	150.717	161.262	-	-
	1,157,104	1,169,064	1,720,325	1,691,417	1,160,056	1,171,141	1,693,193	1,692,750

*Average balances are computed based on quarter end balances.

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3 **RISK MANAGEMENT (continued)**

a) **Credit risk (continued)**

Table – 8. Credit risk – geographic breakdown

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

	30-Jun-24				31-Dec-23			
	Self financed *geographic area		Financed by IAH *geographic area		Self financed *geographic area		Financed by IAH *geographic area	
	Middle East US $ '000	Other Asian countries US $ '000	Middle East US $ '000	Other Asian countries US $ '000	Middle East US $ '000	Other Asian countries US $ '000	Middle East US $ '000	Other Asian countries US $ '000
Cash and balances with banks	45,896	121,538	91,586	269	123,684	95,119	7,333	17,240
Receivables	120,756	-	241,745	144,238	49,835	-	266,386	133,362
Ijara Muntahia Bittamleek and Ijara receivables	10,155	-	588,831	309	11,558	-	622,927	290
Musharakat	-	22,953	-	131,347	-	22,913	-	135,360
Investments	366,459	188,035	280,031	237,872	338,322	224,766	280,654	229,120
Investment in real estate	7,722	-	-	-	7,722	-	-	-
Premises and equipment	74,200	18,513	-	-	76,002	16,133	-	-
Other assets	30,628	18,298	-	4,096	22,322	20,963	-	521
	655,816	369,337	1,202,193	518,131	629,445	379,894	1,177,300	515,893

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

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 9. Credit risk – counterparty type breakdown

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

	30-Jun-24				31-Dec-23			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Funded US $ '000	Unfunded US $ '000	Funded US $ '000	Unfunded US $ '000	Funded US $ '000	Unfunded US $ '000	Funded US $ '000	Unfunded US $ '000
Cash items	27,182	-	-	-	27,192	-	-	-
Claims on Sovereigns	647,645	-	477,434	-	665,188	-	438,811	-
Claims on Public Sector Entities	70,857	-	25,991	-	71,614	-	64,342	-
Claims on banks	90,143	6,025	94,677	-	67,590	2,899	34,861	-
Claims on corporate	23,049	125,847	438,127	-	23,003	147,740	449,559	-
Mortgage	-	-	543,149	-	-	-	572,868	-
Past dues receivables	-	78	48,977	-	-	78	33,359	-
Regulatory Retail Portfolio	-	-	65,180	-	-	-	72,298	-
Equity investment	34,807	-	439	-	36,503	-	390	-
Investment in Funds	1,000	-	-	-	1,000	-	-	-
Holding of Real Estate	90,258	-	19,438	-	88,598	-	19,878	-
Other assets	40,213	-	6,913	-	28,651	-	6,827	-
	1,025,154	131,950	1,720,325	-	1,009,339	150,717	1,693,193	-

For the purpose of rating, the Group is using External Credit Assessment Institutions (ECAIs) approved by CBB for assigning risk weight to assets.

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 10. Credit risk – related party transactions

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

	30-Jun-24		*31-Dec-23*	
	Self financed US $ '000	***Financed by US $ '000***	*Self financed US $ '000*	*Financed by IAH US $ '000*
Cash and balances with bank	**53**	**46**	50	-
Receivables	**-**	**1,456**	-	1,318
Musharakat	**-**	**1,452**	-	1,522
Investments	**50,943**	**-**	52,099	-
Other Assets	**8,842**	**-**	7,681	-
Contingencies and commitments	**2,000**	**-**	2,025	-
	61,838	**2,954**	61,855	2,840

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

	30 June 2024	*31 December 2023*
	Self financed US $ '000	*Self financed US $ '000*
Assets		
Investment in a subsidiary*	**94,201**	94,201
	94,201	94,201

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

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 11. Credit risk – concentration of risk

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

The following are the balances representing the concentration of risk to individual counterparties as of 30 June 2024:

Counterparties *	***Funded*** ***US $ '000***
Counterparty # 1	**504,809**
Counterparty # 2	**313,345**
Counterparty # 3	**136,018**
Counterparty # 4	**89,009**
Counterparty # 5	**32,186**
Counterparty # 6	**29,018**

* 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 2023:

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

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

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Past due and non-performing facilities

Past due represents installments that are not received on the contractual repayments date. The Group defines non-performing facilities as the facilities that are overdue for period of 90 days or more. These exposures are placed on a non-accrual status with income being recognised to the extent that it is actually received/distributed. It is the Group's policy, 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 ratio 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:

2024	***US $ '000***
Counterparty # 1	**8,045**
Counterparty # 2	**1,897**
Counterparty # 3	**740**
Counterparty # 4	**325**
Counterparty # 5	**112**
Counterparty # 6	**14**

2023	*US $ '000*
Counterparty # 1	8,047
Counterparty # 2	1,878
Counterparty # 3	734
Counterparty # 4	352
Counterparty # 5	162
Counterparty # 6	159
Counterparty # 7	120
Counterparty # 8	69
Counterparty # 9	38
Counterparty # 10	26
Counterparty # 11	24
Counterparty # 12	2

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown

63% of Group assets are financed by equity of IAH, while 37% are self financed. The following table summarises the residual contractual maturity breakdown of the whole credit portfolio as of 30 June 2024, broken down by major types of credit exposure:

	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*	*3 to 5 years US $ '000*	*5 to 10 years US $ '000*	*10 to 20 years US $ '000*	*Over 20 years US $ '000*	*No fixed maturity US $ '000*	*Total US $ '000*
ASSETS										
Cash and balances with banks	259,287	-	-	-	-	-	-	-	-	259,287
Receivables	277,155	53,997	32,859	68,645	48,543	16,459	4,586	4,495	-	506,739
Ijara Muntahia Bittamleekl and ijara income receivables	21,380	6,892	21,455	73,422	54,596	112,785	236,311	72,454	-	599,295
Musharakat	17,176	888	5,102	69,950	24,599	17,083	19,503	-	-	154,301
Investments	35,565	9,000	35,576	319,877	412,055	155,594	51,601	1,366	34,546	1,055,180
Investment in real estate	-	-	-	7,722	-	-	-	-	-	7,722
Investment in joint venture	-	-	-	-	-	-	-	-	17,217	17,217
Premises and equipment	6,095	-	-	-	-	-	-	-	86,619	92,714
Goodwill	-	-	-	-	-	-	-	-	8,068	8,068
Other assets	30,854	488	976	-	12,635	-	-	-	-	44,953
Total assets	647,512	71,265	95,968	539,616	552,428	301,921	312,001	78,315	146,450	2,745,476
LIABILITIES, QUASI EQUITY AND OWNERS' EQUITY										
Murabaha and other payables	261,204	111,324	42,125	-	-	-	-	-	-	414,653
Current accounts	265,692	-	-	-	-	-	-	-	-	265,692
Other liabilities	102,220	768	4,783	3,056	1,220	1,241	-	-	-	113,288
Total liabilities	629,116	112,092	46,908	3,056	1,220	1,241	-	-	-	793,633
Participatory investment accounts	1,178,059	136,274	251,094	80,918	68,177	5,804	-	-	-	1,720,326
Subordinated mudaraba	463	-	-	11,622	-	-	-	-	-	12,085
Total owners' equity	-	-	-	-	-	-	-	-	219,432	219,432
Total liabilities, quasi equity and owners' equity	1,807,638	248,366	298,002	95,596	69,397	7,045	-	-	219,432	2,745,476
Net gap	(1,160,126)	(177,101)	(202,034)	444,020	483,031	294,876	312,001	78,315	(72,982)	-
Cumulative net gap	(1,160,126)	(1,337,227)	(1,539,261)	(1,095,241)	(612,210)	(317,334)	(5,333)	72,982	-	-
Off-balance assets under management	9,050	71,660	8,130	24,714	51,093	47,934	-	-	11,772	224,353

* Investments in 1 to 3 years are easily convertible into liquid funds.
** Current Accounts are shown under up to 3 months maturity in the above table. However, most of these current accounts are stable funds which are expected to be available to the bank on continuous basis.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

71% of Group assets are financed by equity of IAH, while 29% are self financed. The following table summarises the residual contractual maturity breakdown of the total assets portfolio as of 31 December 2023, broken down by major types of exposure:

	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*	*3 to 5 years US $ '000*	*5 to 10 years US $ '000*	*10 to 20 years US $ '000*	*Over 20 years US $ '000*	*No fixed maturity US $ '000*	*Total US $ '000*
ASSETS										
Cash and balances with banks	142,450	-	-	-	-	-	-	-	100,926	243,376
Receivables	161,794	73,146	44,173	68,121	49,314	18,725	4,489	5,035	24,786	449,583
Ijara Muntahia Bittamleekl and ijara income receivables	9,825	13,731	14,708	76,476	62,789	120,362	245,963	82,920	8,001	634,775
Musharakat	367	2,319	3,747	80,387	31,007	20,250	20,196	-	-	158,273
Investments	36,894	-	21,118	414,626	356,735	189,248	362	1,000	36,193	1,056,176
Investment in real estate	-	-	-	7,722	-	-	-	-	-	7,722
Investment in Joint Venture	-	-	-	-	-	-	-	-	16,686	16,686
Premises and equipment	-	-	-	-	-	-	-	-	92,135	92,135
Goodwill	-	-	-	-	-	-	-	-	7,967	7,967
Other assets	27,704	17	111	391	2,180	12,499	11	-	893	43,806
Total assets	379,034	89,213	83,857	647,723	502,025	361,084	271,021	88,955	287,587	2,710,499
LIABILITIES, QUASI EQUITY AND OWNERS' EQUITY										
Murabaha and other payables	15,206	302,532	78,822	139	460	6,486	-	-	-	403,645
Current accounts	258,810	-	-	-	-	-	-	-	-	258,810
Other liabilities	92,447	1,375	5,605	11,825	1,018	995	-	-	-	113,265
Total liabilities	366,463	303,907	84,427	11,964	1,478	7,481	-	-	-	775,720
Participatory investment accounts	1,032,269	250,104	235,053	105,111	70,656	-	-	-	-	1,693,193
Subordinated mudaraba	499	-	-	5,448	-	6,029	-	-	-	11,976
Total owners' equity	-	-	-	-	-	-	-	-	229,610	229,610
Total liabilities, quasi equity and owners' equity	1,399,231	554,011	319,480	122,523	72,134	13,510	-	-	229,610	2,710,499
Net gap	(1,020,197)	(464,798)	(235,623)	525,200	429,891	347,574	271,021	88,955	57,977	-
Cumulative net gap	(1,020,197)	(1,484,995)	(1,720,618)	(1,195,418)	(765,527)	(417,953)	(146,932)	(57,977)	-	-
Off-balance assets under management	184,824	32,554	29,747	154,244	76,167	29,000	-	-	-	506,536

* Investments in 1 to 3 years are easily convertible into liquid funds.
** Current Accounts are shown under up to 3 months maturity in the above table. However, most of these current accounts are stable funds which are expected to be available to the bank on continuous basis.

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:

	30-Jun-24					31-Dec-23				
			Aging of non performing facilities					Aging of non performing facilities		
	Past due but performing US $ '000	Non-performing Islamic financing contracts US $ '000	90 days to 1 year US $ '000	1 year to 3 years US $ '000	Over 3 years US $ '000	Past due but performing US $ '000	Non-performing Islamic financing contracts US $ '000	90 days to 1 year US $ '000	1 year to 3 years US $ '000	Over 3 years US $ '000
Corporates	32,835	102,145	44,421	20,330	37,393	33,476	86,923	25,676	14,786	46,461
Investment Firms	-	555	-	-	555	-	555	-	-	555
Individuals	1,636	17,744	7,775	2,678	7,291	1,636	13,621	3,531	2,645	7,445
	34,471	120,444	52,196	23,008	45,239	35,112	101,099	29,207	17,431	54,461

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3 **RISK MANAGEMENT (continued)**

a) **Credit risk (continued)**

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

The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 30 June 2024:

	Specific allowances						
	Balance as at 1 January 2024 US $ '000	*Charges during the period US $ '000*	*Net transition in Stage3 during the year US $ '000*	*Write-Back during the year US $ '000*	*Write-offs during the year US $ '000*	*Exchange difference on opening balance US $ '000*	*Balance as at 30 June 2024 US $ '000*
Corporates	55,399	2,207	841	(1,122)	-	329	57,654
Individuals	7,301	4,934	471	(2,175)	-	72	10,603
Others	8,743	68	-	(50)	-	122	8,883
	71,443	7,209	1,312	(3,347)	-	523	77,140

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

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

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3 **RISK MANAGEMENT (continued)**

a) **Credit risk (continued)**

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

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

	30-Jun-24		31-Dec-23	
	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	71,344	33,003	55,929	30,357
Other Asian countries	49,100	44,137	45,170	41,086
	120,444	77,140	101,099	71,443

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:

	30 June 2024 Total US $ '000	31 December 2023 Total US $ '000
Restructured Islamic financing contracts	2,025	26,642

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

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

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3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 17. Counterparty credit risk exposure

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

	30-Jun-24		31-Dec-23	
	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	259,289	-	243,376	-
Receivables	506,739	261,987	449,583	263,696
Ijara Muntahia Bittamleek and Ijara receivables	599,296	566,747	634,775	613,155
Musharakat	154,300	154,300	158,273	158,274
Investments	1,072,397	-	1,072,862	-
Investment in real estate	7,722	-	7,722	-
Premises and equipment	92,714	-	92,135	-
Other assets	53,022	-	43,806	-
	2,745,479	983,034	2,702,532	1,035,125

* 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:

	30-Jun-24		31-Dec-23	
	Gross positive FV of US $ '000	Collateral held US $ '000	Gross positive FV of contracts US $ '000	Collateral held US $ '000
Receivables	599,296	12,855	449,583	12,146
Ijara Muntahia Bittamleek & Ijara income receivable	506,739	27,073	634,775	34,082

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

b) Market Risk

Table – 19. Market risk capital requirements

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

	30-Jun-24			31-Dec-23		
	Equity Position Risk US $ '000	Price risk US $ '000	Foreign exchange risk US $ '000	Equity Position Risk US $ '000	Price risk US $ '000	Foreign exchange risk US $ '000
RWE	704	777	72,136	719	6,003	110,453
Capital requirements (12.5%)	88	97	9,017	90	750	13,807
Maximum value of RWE	704	2,537	87,768	748	6,003	110,453
Minimum value of RWE	678	777	72,136	627	963	82,581

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 20. Equity position risk in Banking Book

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

	Total gross exposure US $ '000	***Average gross exposure over the period US $ '000***	***Publicly held US $ '000***	***Privately held US $ '000***	***Capital requirement US $ '000***
Managed funds	**1,000**	**1,000**	**-**	**1,000**	**25**
Private equity	**35,247**	**35,409**	**28,152**	**7,095**	**10,897**
Real estate related	**36,655**	**36,780**	**-**	**36,655**	**3,992**
	72,902	**73,189**	**28,152**	**44,750**	**14,914**

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 2023:

	Total gross exposure US $ '000	*Average gross exposure over the period US $ '000*	*Publicly held US $ '000*	*Privately held US $ '000*	*Capital requirement US $ '000*
Managed funds	1,000	1,000	-	1,000	25
Private equity	36,893	36,064	30,840	6,053	11,198
Real estate related	36,563	37,981	-	36,563	4,025
	74,456	75,045	30,840	43,616	15,248

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 426 (2023: USD Nil), 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:

	30-Jun-24 US $ '000	*31-Dec-23 US $ '000*
Cummulative realised gains arising from sale or liquidation	**(296)**	(990)
Total unrealised gains recognised in the balance sheet but not through P&L	**4,712**	6,879
Unrealised gross gains included in Tier One Capital	**4,712**	6,879
Assets revaluation reserve - property, plant, and equipment	**314**	314

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3 **RISK MANAGEMENT (continued)**

b) **Market Risk (continued)**

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

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

Profit rate risk

The Bank generates funds mainly through profit sharing arrangements or agency modes. The Bank continously 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:

	30-Jun-24				
	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	277,156	53,997	32,859	68,645	74,083
Ijara Muntahia Bittamleek and Ijara Income Receivables	21,380	6,892	21,455	73,422	476,146
Musharaka	17,176	888	5,102	69,950	61,185
Investments-Sukuk	15,426	9,000	35,576	281,405	233,000
Profit rate sensitive assets	**331,138**	**70,777**	**94,992**	**493,422**	**844,414**
Murabaha and other payables	261,204	111,324	42,125	-	-
Participatory investment accounts	1,178,059	136,274	251,094	80,918	73,981
Subordinated debt	462	-	-	11,622	-
Profit rate sensitive liabilities	**1,439,725**	**247,598**	**293,219**	**92,540**	**73,981**
Profit rate gap	**(1,108,587)**	**(176,821)**	**(198,227)**	**400,882**	**770,433**
Profit rate sensitivity (200bps)	**(22,172)**	**(3,536)**	**(3,965)**	**8,018**	**15,409**

	31-Dec-23				
	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	162,470	73,146	44,173	68,121	101,673
Ijara Muntahia Bittamleek and Ijara Income Receivables	17,826	13,731	14,708	76,476	512,034
Musharaka	367	2,319	3,747	80,387	71,454
Investments-Sukuk	16,316	-	21,118	414,626	546,346
Profit rate sensitive assets	196,979	89,196	83,746	639,610	1,231,507
Murabaha and other payables	-	-	-	-	-
Participatory investment accounts	1,032,269	250,104	235,053	105,111	70,657
Subordinated mudaraba	499	-	-	5,448	6,030
Profit rate sensitive liabilities	1,032,768	250,104	235,053	110,559	76,687
Profit rate gap	(835,789)	(160,908)	(151,307)	529,051	1,154,820
Profit rate sensitivity (200bps)	(16,716)	(3,218)	(3,026)	10,581	23,096

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 22. Profit rate mismatch (continued)'

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

Foreign exchange risk

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

Table – 23. Foreign currency translation risk

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

	Jun-24
	Total equivalent US $ '000
Pakistani rupees	**54,757**
Euro	**5,534**
Kuwaiti dinars	**2,875**
Pound sterling	**(131)**
Egyptian Pound	**1,563**
Algerian Dinar	**6,000**
Others	**1,111**

	Dec-23
	Total equivalent US $ '000
Pakistani rupees	101,007
Euro	661
Kuwaiti Dinars	6
Pound Sterling	(5,131)
Egyptian Pound	2,660
Algerian Dinar	6,000
Others	318

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 or 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.

3 RISK MANAGEMENT (continued)

Table – 24. Foreign currency risk sensitivity analysis

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

At 30 June 2024

Currency	**Particular**	***Change***	***Exposures in US $ '000***	***profit and loss/Equity US $ '000***
Pakistani rupees	Net long Position	**20%**	**54,757**	**10,951**
Euro	Net short Position	**20%**	**5,534**	**1,107**
Kuwaiti dinars	Net long Position	**20%**	**2,875**	**575**
Pound sterling	Net short Position	**20%**	**131**	**26**
Egyptian Pound	Net long Position	**20%**	**1,563**	**313**
Algerian Dinar	Net long Position	**20%**	**6,000**	**1,200**
Others	Net long Position	**20%**	**1,111**	**222**

At 31 December 2023

Currency	Particular	*Change*	*Exposures in US $ '000*	*Effect on profit and loss/Equity US $ '000*
Pakistani Rupees	Net long Position	20%	101,007	20,201
Euro	Net short Position	20%	661	132
Kuwaiti Dinars	Net long Position	20%	6	1
Pound Sterling	Net short Position	20%	5,131	1,026
Egyptian Pound	Net long Position	20%	2,660	532
Algerian Dinar	Net long Position	20%	6,000	1,200
Others	Net long Position	20%	318	64

3 RISK MANAGEMENT (continued)

c) Participatory Investment Accounts (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. A due diligence process is i 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). 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 tenror 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].

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.

3 RISK MANAGEMENT (continued)

c) Participatory Investment Accounts (continued)

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	***30 June 2024 US $ '000***	*31 December 2023 US $ '000*
Central Bank of Bahrain		
Delays in settlement of ATM balances*	-	40
Anomalies in standing orders, EFTS and other electronic channels	**9**	78,528
Waiver of penalties on standing orders, EFTS and other electronic channels	-	(78,541)
	9	27
State Bank of Pakistan		
Various non-compliances with domestic laws and regulations	**1**	62

Non-Shari'a complaint income

The Group has received US $ 49 thousand (2023: US $ 121 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

Table – 25. Participatory Investment Accounts

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:

	30 June 2024 US $ '000	*31 December 2023 US $ '000*
IAH - Non-banks	**1,466,862**	1,414,909
IAH - Banks	**252,743**	277,564
Profit equalisation reserve	**720**	720
	1,720,325	1,693,193

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:

	30 June 2024	*31 December 2023*
PER to IAH (%)	**Nil**	0.20%
IRR to IAH (%)	**Nil**	Nil

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3 **RISK MANAGEMENT (continued)**

c) **Participatory Investment Accounts (continued)**

Table – 27. Participatory Investment Accounts by Islamic financing product type

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

	30 June 2024	*31 December 2023*
Receivables	**22.44%**	23.61%
Musharakat	**7.64%**	7.99%
Ijara Muntahia Bittamleek & Ijara income receivable	**34.25%**	36.81%
Investments	**30.10%**	30.11%
Liquidity and others	**5.58%**	1.48%

Table – 28. Participatory Investment Accounts 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

	30 June 2024	*31 December 2023*
Banks	**14.73%**	16.44%
Investment Firms	**4.63%**	6.91%
Corporates	**20.77%**	18.82%
Retail	**52.84%**	50.74%
Others	**7.03%**	7.10%

Table – 29. Participatory Investment Accounts 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 period / year ended:

	30 June 2024	*31 December 2023*	*31 December 2022*	*31 December 2021*	*31 December 2020*
Administrative expenses charged to equity of investment accountholders	**3,564**	7,355	7,493	8,052	14,061
Share of profits earned by IAH, before transfers to/from reserves	**73,566**	143,114	122,330	82,941	87,437
Percentage share of profit earned by IAH before transfer to/from reserves	**8.70%**	8.50%	6.45%	4.64%	5.37%
Share of profit paid out to IAH after Mudarib fee and transfer to/ from reserves	**70,483**	130,713	102,033	58,567	63,761
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**8.33%**	7.70%	5.38%	3.28%	3.91%
Share of profit paid out to Bank as mudarib	**3,082**	12,401	20,297	24,374	23,676
Mudarib Fee to total Investment Profits	**8.38%**	8.70%	16.59%	29.39%	27.08%

Table – 30. Movement in profit equalisation reserve

The following table summarises the movement in profit equilisation reserve during the period / year ended:

	30 June 2024 US $ '000	*31 December 2023 US $ '000*	*31 December 2022 US $ '000*	*31 December 2021 US $ '000*	*31 December 2020 US $ '000*
Balance at 1 January	**720**	411	411	344	229
Amount apportioned from income	**-**	309	-	67	115
Balance at 30 June 2024 / 31 December 2023	**720**	720	411	411	344
Percentage of the profit earned on IAH appropriated to profit equilisation reserve	**-**	0.20%	-	0.08%	0.13%

3 RISK MANAGEMENT (continued)

c) Participatory Investment Accounts (continued)

Table – 31. Movement in investment risk reserve

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

	30 June 2024 US $ '000	*31 December 2023 US $ '000*	*31 December 2022 US $ '000*	*31 December 2021 US $ '000*	*31 December 2020 US $ '000*
Balance at 1 January	-	-	-	-	-
Amount apportioned from income	-	-	-	277	-
Amount apportioned to provision	-	-	-	(277)	-
	-	-	-	-	-
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	Nil	Nil	Nil	0.33%	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 2023: up to 70%) as per the terms of IAH agreements.

Table – 32. Participatory Investment Accounts rate of return

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

	Average 30 June 2024 Rate of return %		
	Bahrain		*Pakistan*
	BD	US $	
Saving Accounts	0.07%	0.07%	7.02%
One Month Term Deposits	2.86%	2.86%	5.45%
Three Months Term Deposits	3.59%	3.59%	5.67%
Six Months Term Deposits	3.90%	3.90%	6.54%
Nine Months Term Deposits	3.67%	3.67%	0.00%
1 Year Term Deposits	3.52%	3.52%	10.23%
2 Years Term Deposits	3.52%	3.52%	11.63%
3 Year Term Deposits	3.42%	3.42%	12.76%
4 Years Term Deposits	3.32%	3.32%	12.25%
5Years Term Deposits	3.22%	3.22%	13.17%

3 RISK MANAGEMENT (continued)

c) Participatory Investment Accounts (continued)

Table – 34. Participatory Investment Accounts 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:

	Profit earned		*Profit paid to IAH*	
	US $ '000	*%age*	*US $ '000*	*%age*
2024	**73,566**	**8.70%**	**70,483**	**3.52%**
2023	143,114	8.50%	130,713	7.70%
2022	122,330	6.45%	102,033	5.38%
2021	82,941	4.64%	58,567	3.28%
2020	87,437	5.37%	63,761	3.91%

* Annualised

Table - 35. Treatment of assets financed by Participatory Investment Accounts

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 30 June 2024:

	RWA US$ '000	*RWA for capital adequacy purposes US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	**477,434**	**143,230**	**17,904**
Claims on PSEs	**25,991**	**7,797**	**975**
Claims on Banks	**94,677**	**28,403**	**3,550**
Claims on Corporates	**438,127**	**131,438**	**16,430**
Mortgage	**543,149**	**162,945**	**20,368**
Regulatory Retail Portfolio	**65,180**	**19,554**	**2,444**
Past due facilities	**48,977**	**14,693**	**1,837**
Investment in securities	**439**	**132**	**16**
Holding of Real Estates	**19,438**	**5,831**	**729**
Other Assets	**6,913**	**2,074**	**259**
	1,720,325	**516,097**	**64,512**

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3 RISK MANAGEMENT (continued)

c) Participatory Investment Accounts (continued)

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

	RWA US$ '000	*RWA for capital adequacy purposes US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	438,811	131,643	16,455
Claims on PSEs	64,342	19,303	2,413
Claims on Banks	34,861	10,458	1,307
Claims on Corporates	449,559	134,868	16,858
Mortgage	572,868	171,860	21,483
Regulatory Retail Portfolio	72,298	21,689	2,711
Past due facilities	33,359	10,008	1,251
Investment in securities	390	117	15
Holding of Real Estates	19,878	5,963	745
Other Assets	6,827	2,048	256
	1,693,193	507,957	63,494

d) Off-balance sheet items assets under management

Off-balance sheet items assets under management is invested and managed in accordance with Shari'a requirements.

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

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

(a) Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;

(b) Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and

(c) Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

3 RISK MANAGEMENT (continued)

d) Off-balance sheet items assets under management (continued)

Table – 36. Off-balance sheet items assets under management 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

	30 June 2024	*31 December 2023*
On balance sheet jointly finanaced assets*		
Others		
Receivables	**87.47%**	*84.60%*
Investments	**12.53%**	*15.40%*

* 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 items assets under management by counterparty type

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

Counterparty type

	30 June 2024	*31 December 2023*
On balance sheet jointly finanaced assets*		
Others		
Banks	**55.79%**	38.00%
Corporate	**32.63%**	53.70%
Sovereigns	**11.58%**	8.30%

* 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 items assets under management (continued)

Table – 38. Off-balance sheet items assets under management by type of assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the period ended 30 June 2024:

	Opening actual allocation US$ '000	*Movement US$ '000*	*Closing actual allocation US$ '000*
Wakala Bi Al-Istithmar on balance sheet jointly finanaced assets	**362,061**	**120,190**	**482,251**
Receivables	**130,351**	**74,021**	**204,372**
Investments	**14,124**	**5,855**	**19,980**
	506,536	**200,066**	**706,603**

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

	Opening actual allocation US$ '000	*Movement US$ '000*	*Closing actual allocation US$ '000*
Wakala Bi Al-Istithmar on balance sheet jointly finanaced assets	640,848	(278,787)	362,061
Receivables	170,744	(40,393)	130,351
Investments	19,101	(4,976)	14,125
	830,693	(324,156)	506,537

3 **RISK MANAGEMENT (continued)**

d) Off-balance sheet items assets under management (continued)

Table – 39. Off-balance sheet items assets under management historical returns

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

	June 2024	*December 2023*	*December 2022*	*December 2021*	*December 2020*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Gross Income	**17,211**	41,601	34,555	25,593	17,153
Mudarib Fee	**(2,166)**	(11,736)	11,310	(9,945)	(3,821)

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

e) Liquidity risk

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

a. Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.

b. Establish approval processes to ensure adherence to liquidity risk management processes.

c. Require periodic calculations to determine the extent to which the segments are funding long-term assets with short-term liabilities.

d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.

e. Establish limits on the degree of concentrations that are deemed acceptable. This should:

i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the segments manage their assets and liquidity profile to mitigate the risk; and

ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the segments conduct an impact analysis on its dependency on any such concentrations.

f. Provide for periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.

3 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

g. Provide for the review of alternate funding sources including stand-by facilities and lines of credit.

h. Establish a framework for the composition of assets.

i. Assess the acceptable mismatch in combination with currency commitments. The segments undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

Table – 40. Liquidity ratios

The following table summarises the liquidity ratios as of:

	30-Jun-24	*31-Dec-23*
Liquid assets to total assets	**14.44%**	10.82%
Short term assets to short term liabilities	**34.61%**	24.29%

Table – 41. Quantitative indicators of financial performance and position

	June 2024	*December 2023*	*December 2022*	*December 2021*	*December 2020*
Return on average equity	**-7.5%**	-9.90%	6.11%	4.67%	2.84%
Return on average assets	**-0.6%**	-0.90%	0.59%	0.46%	0.30%
Cost to Income Ratio	**102.1%**	98.60%	72.36%	70.78%	67.70%

* 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 and therefore recommended to the Board and accordingly to the annual general meeting (AGM) to re-appoint the external auditors as auditor for the 2024 financial year. The AGM has approved the reappointment of the external auditor for the year 2024 on 27 March 2024 and the related regulatory approval were taken.

For the year 2024, annual audit and quarterly review services amounts to US$ 183,041 and other non-audit services amounts to US$ 149,240.