Albaraka Bank Limited

Pillar III Disclosure Report

December 2022

Contents

1. BASIS OF COMPILATION

The following information is compiled in terms of Regulation 43 relating to banks, issued under Section 90 of the Banks Act, No 94 of 1990 (as amended) ("the regulations"), which incorporates the Basel Pillar III requirements on market discipline.

All disclosures are consistent with those disclosed in terms of International Financial Reporting Standards ("IFRS"), unless otherwise stated.

All amounts are disclosed in rand thousands. Where bank and consolidated figures are not materially different, only one table is disclosed.

All tables and disclosures may not be relevant and are excluded from this Pillar III report. These include:

- KM2 – Key metrics – TLAC requirements (at resolution group level)
- PV1 – Prudent valuation adjustments (PVA)
- TLAC1 – TLAC composition for G-SIBs (at resolution group level)
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- CCR1 – Analysis of counterparty credit risk (CCR) exposure by approach
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2. SCOPE OF REPORTING

The quarterly results of Albaraka Bank Limited for the period ended 31 December 2022 is reported on. Albaraka Bank Limited is a registered bank domiciled in South Africa and has as its principal objective the operation of its business according to Islamic banking precepts. The bank's parent and ultimate holding company is Al Baraka Banking Group B.S.C., a company incorporated in the Kingdom of Bahrain. The address of its registered office is PO Box 1882, Manama, Kingdom of Bahrain.

3. OVERVIEW OF RISK MANAGEMENT, KEY PRUDENTIAL METRICS AND RISK WEIGHTED ASSETS

The following section provides an overview of the key prudential regulatory metrics covering the available capital and ratios, risk weighted assets, leverage ratio, liquidity coverage ratio and net stable funding ratio of the bank's performance and trends over time on a bank solo and consolidated basis.

3.1. **KM1** – Key metrics

CONSOL						
Line No		31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021
Available Capital (Amounts) R'000						
1	Common equity Tier 1 (CET1)	820 301	804 823	793 700	784 785	777 089
1a	Fully loaded expected credit loss (ECL) accounting model	820 301	804 823	793 700	784 785	777 089
2	Tier 1	944 301	928 823	793 700	784 785	777 089
2a	Fully loaded accounting model Tier 1	944 301	928 823	793 700	784 785	777 089
3	Total capital	1 257 689	1 253 598	1 119 249	1 107 841	1 095 482
3a	Fully loaded expected credit loss (ECL) accounting model total capital	1 257 689	1 253 598	1 119 249	1 107 841	1 095 482
Risk Weighted Assets (Amounts) R'000						
4	Total risk-weighted assets (RWA)	7 003 553	6 801 509	6 712 433	6 608 837	6 424 850
Risk-Based Capital Ratios as a percentage of RWA						
5	Common equity tier 1 ratio (%)	11.72%	11.83%	11.82%	11.87%	12.10%
5a	Fully loaded ECL accounting model CET1 (%)	11.72%	11.83%	11.82%	11.87%	12.10%
6	Tier 1 ratio (%)	13.48%	13.66%	11.82%	11.87%	12.10%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	13.48%	13.66%	11.82%	11.87%	12.10%
7	Total capital ratio (%)	17.96%	18.43%	16.67%	16.76%	17.05%
7a	Fully loaded ECL accounting model total capital ratio (%)	17.96%	18.43%	16.67%	16.76%	17.05%
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	-	-	-	-	-
10	Bank D-sib additional requirements (%)	-	-	-	-	-
11	Total of bank CET1 specific buffer requirements (%) (row8 + row9 + row10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	2.96%	3.08%	3.07%	3.12%	3.85%
Basel III Leverage Ratio						

13	Total Basel III leverage ratio measure	8 751 307	8 901 835	8 927 586	8 914 045	8 995 674
14	Basel III leverage ratio (%) (row 2/row 13)	10.79%	10.43%	8.89%	8.80%	8.64%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	10.79%	10.43%	8.89%	8.80%	8.64%
Liquidity Coverage Ratio						
15	Total HQLA	571 899	555 659	510 429	483 145	465 022
16	Total net cash outflow	90 163	80 986	73 205	75 701	71 009
17	LCR ratio (%)	634%	686%	697%	638%	655%
Net Stable Funding Ratio						
18	Total available stable funding	6 884 368	6 930 180	6 924 333	6 812 622	6 914 799
19	Total required stable funding	5 886 830	6 217 749	6 258 898	5 875 528	5 275 149
20	NSFR ratio (%)	117%	111%	111%	116%	131%

BANK						
Line No		31 Dec 2022	30 Sep 2022	30 Jun 2022	31 Mar 2022	31 Dec 2021
Available Capital (Amounts) R'000						
1	Common equity Tier 1 (CET1)	807 769	793 571	844 147	771 886	765 179
1a	Fully loaded expected credit loss (ECL) accounting model	807 769	793 571	844 147	771 886	765 179
2	Tier 1	931 769	917 571	844 147	771 886	765 179
2a	Fully loaded accounting model Tier 1	931 769	917 571	844 147	771 886	765 179
3	Total capital	1 245 157	1 242 346	1 108 777	1 094 942	1 083 572
3a	Fully loaded expected credit loss (ECL) accounting model total capital	1 245 157	1 242 346	1 108 777	1 094 942	1 083 572
Risk Weighted Assets (Amounts) R'000						
4	Total risk-weighted assets (RWA)	7 063 255	6 867 602	6 783 420	6 654 944	6 476 285
Risk-Based Capital Ratios as a percentage of RWA						
5	Common equity tier 1 ratio (%)	11.44%	11.56%	11.55%	11.60%	11.82%
5a	Fully loaded ECL accounting model CET1 (%)	11.44%	11.56%	11.55%	11.60%	11.82%
6	Tier 1 ratio (%)	13.19%	13.36%	11.55%	11.60%	11.82%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	13.19%	13.36%	11.55%	11.60%	11.82%
7	Total capital ratio (%)	17.63%	18.09%	16.35%	16.45%	16.73%
7a	Fully loaded ECL accounting model total capital ratio (%)	17.63%	18.09%	16.35%	16.45%	16.73%
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	-	-	-	-	-
10	Bank D-sib additional requirements (%)	-	-	-	-	-

11	Total of bank CET1 specific buffer requirements (%) (row8 + row9 + row10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	2.69%	2.81%	2.80%	2.85%	3.57%
Basel III Leverage Ratio						
13	Total Basel III leverage ratio measure	8 765 467	8 921 589	8 951 240	8 926 422	9 014 381
14	Basel III leverage ratio (%) (row 2/row 13)	10.63%	10.28%	8.75%	8.65%	8.49%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	10.63%	10.28%	8.75%	8.65%	8.49%
Liquidity Coverage Ratio						
15	Total HQLA	571 899	555 659	510 429	483 145	465 022
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Net Stable Funding Ratio						
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19	Total required stable funding	5 886 830	6 217 749	6 258 898	5 875 528	5 275 149
20	NSFR ratio (%)	117%	111%	111%	116%	131%

Year under review: Albaraka Bank

As at 31 December 2022, the total capital ratio increased from 16.73% to 17.63%, largely affected by:

- Increase in risk weighted assets from R6.48billion to R7.06billion, due to the growth in the advances book
- Increase in Tier 1 capital from the issuance of the Tier 1 sukuk of R124m in August 2022.

The LCR decreased from 655% in December 2021 to 634% in December 2022, due to a decrease in inflows as a result of a decreases in the bank's equity finance holdings.

3.2. **OVA** – Bank risk management approach

Whilst the board is ultimately responsible for risk management and to determine the type and level of risk which the bank is willing to accept in conducting its banking activities, the effective management of risk has been delegated to six board committees, namely, the risk, capital management and compliance committee, the audit committee, the credit committee, the directors' affairs committee, the social and ethics committee and remuneration committee. In addition, the Shariah Supervisory Board has been delegated the responsibility of managing the shariah risk which the bank faces. These committees are assisted by management committees (more particularly the assets and liabilities committee (ALCO), the executive credit committee, the management risk committee) to discharge their responsibilities effectively. The composition, terms of reference and delegated powers of authority of the board and management committees are set by the board and are reviewed annually.

The board and management committees are responsible for developing and monitoring risk management policies and programs in their specified areas. These policies and programs are established to identify and analyse risks faced by the bank, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The risk management policies and programs are reviewed regularly to reflect changes in market conditions and products offered. In addition, the bank has adopted a strategy that seeks to entrench at all levels within Albaraka Bank a culture that is risk-management orientated.

The audit committee and risk, capital management and compliance committee are responsible for monitoring compliance with the risk management policies and programs and for reviewing the adequacy of the risk management framework in relation to the risks faced by the bank. The audit committee is assisted in these functions by internal audit which undertakes regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

Credit risk refers to the potential loss that the bank could sustain as a result of counter-party default and arises principally from advances to customers and other banks. The bank manages its credit risk within a governance structure supported by delegated powers of authority as approved by the board. The credit approval process is graduated, whereby increasingly higher levels of authorisation are required depending on the type and value of the transactions concerned. Applications for credit may therefore be considered progressively by line management, senior and executive management, the management credit committee, the executive credit committee, the board credit committee and the board itself.

A separate credit division, reporting to the regulatory executive and the credit committee of the board, is responsible for the oversight of the bank's credit risk, including:

- Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements;
- Establishing the authorisation structure for the approval and renewal of credit facilities;
- Reviewing and assessing credit risk;
- Limiting concentrations of exposure to counterparties and by product; and

- Developing and maintaining risk gradings in order to categorise exposures to the degree of risk of financial loss faced and to focus management on the relevant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework is described under the section dealing with portfolio measures of risk.

Credit exposures are monitored primarily on performance. Defaulting accounts receive prompt attention. Initially they are dealt with by line management and, in instances where further degeneration occurs, they are handed over to the bank's collections and legal specialists.

Depending on the type of credit exposure, account reviews, which include the re-performance of qualitative and quantitative assessments, are performed annually.

The credit risk management process needs to identify all risk factors to enable such risks to be quantified and their impact on the pricing or credit risk to be taken into account. Pricing for credit risk is therefore, a critical component of the risk management process. The main risk of default by the counterparty is mitigated by means of collateral security obtained from the debtor concerned.

For internal risk management and risk control purposes, credit risk is measured in terms of potential loss that could be suffered, taking into account the quantum of the exposures, the realisable value of the collateral security and the value, if any, that could be placed on the sureties.

Credit risk, market risk, equity risk, liquidity risk, profit rate risk, shariah risk, operational risk, reputational risk and compliance risk are the major forms of risk to which the bank is exposed. For a more detailed overview, please refer to the risk management and assessment section is the bank's annual report.

Stress testing is conducted for any material risks facing the bank (i.e. credit, liquidity, profitability, solvency risks). Stress tests of these material risks are tied to the assets in the portfolio, as well as to prevailing economic and market conditions and probe for portfolio-specific weaknesses. The frequency of stress testing is conducted at least quarterly. However, a sudden change in the economic outlook may prompt ABL to revise the parameters of some stress tests, or if ABL has become exposed to a particular risk area, it may be necessary to carry out more stress tests.

3.3. **OV1 -** Overview of Risk weighted assets

	CONSOL	RWA	Min capital requirements*	RWA	Min capital requirements*
		Dec 22 R'000		Sep 22 R'000	
1	Credit risk (excluding counterparty credit risk) (CCR)	6 351 153	730 383	6 135 059	705 532
2	Of which: standardised approach (SA)	6 351 153	730 383	6 153 059	705 532
3	Of which: foundation internal ratings-based (F-IRB) approach	-	-	-	-
4	Of which: supervisory slotting approach	-	-	-	-
5	Of which: advanced internal ratings-based (A-IRB) approach	-	-	-	-
6	Counterparty credit risk (CCR)	-	-	-	-
7	Of which: standardised approach for counterparty credit risk	-	-	-	-
8	Of which: Internal Model Method (IMM)	-	-	-	-
9	Of which: other CCR	-	-	-	-
10	Credit valuation adjustment (CVA)	-	-	-	-
11	Equity positions under the simple risk weight approach	17 437	2 005	17 123	1 969
12	Equity investments in funds – look-through approach	-	-	-	-
13	Equity investments in funds – mandate-based approach	-	-	-	-
14	Equity investments in funds – fall-back approach	-	-	-	-
15	Settlement risk	-	-	-	-
16	Securitisation exposures in the banking book	-	-	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-	-	-
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach	-	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-	-
20	Market risk	15 995	1 839	16 293	1 874
21	Of which: standardized approach (SA)	15 995	1 839	16 293	1 874
22	Of which: internal model approaches (IMA)	-	-	-	-

23	Capital charge for switch between trading book and banking book	-	-	-	-
24	Operational risk	618 968	71 181	633 034	72 799
25	Amounts below thresholds for deduction (subject to 250% risk weight)	-	-	-	-
26	Aggregate capital floor applied	-	-	-	-
27	Floor adjustment (before application of transitional cap)	-	-	-	-
28	Floor adjustment (after application of transitional cap)	-	-	-	-
29	Total (1+6+10+11+12+13+14+15+16+20+23+24+25+28)	7 003 553	805 408	6 801 509	782 174

	BANK ONLY	RWA	Min capital requirements*	RWA	Min capital requirements*
		Dec 22 R'000		Sep 22 R'000	
1	Credit risk (excluding counterparty credit risk) (CCR)	6 354 902	730 814	6 141 504	706 273
2	Of which: standardised approach (SA)	6 354 902	730 814	6 141 504	706 273
3	Of which: foundation internal ratings-based (F-IRB) approach	-	-	-	-
4	Of which: supervisory slotting approach	-	-	-	-
5	Of which: advanced internal ratings-based (A-IRB) approach	-	-	-	-
6	Counterparty credit risk (CCR)	-	-	-	-
7	Of which: standardised approach for counterparty credit risk	-	-	-	-
8	Of which: Internal Model Method (IMM)	-	-	-	-
9	Of which: other CCR	-	-	-	-
10	Credit valuation adjustment (CVA)	-	-	-	-
11	Equity positions under the simple risk weight approach	17 437	2 005	17 123	1 969
12	Equity investments in funds – look-through approach	-	-	-	-
13	Equity investments in funds – mandate-based approach	-	-	-	-
14	Equity investments in funds – fall-back approach	-	-	-	-

15	Settlement risk	-	-	-	-
16	Securitisation exposures in the banking book	-	-	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-	-	-
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach	-	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-	-
20	Market risk	15 995	1 839	16 923	1 874
21	Of which: standardized approach (SA)	15 995	1 839	16 923	1 874
22	Of which: internal model approaches (IMA)	-	-	-	-
23	Capital charge for switch between trading book and banking book	-	-	-	-
24	Operational risk	618 968	71 181	633 034	72 799
25	Amounts below thresholds for deduction (subject to 250% risk weight)	55 953	6 435	59 648	6 859
26	Aggregate capital floor applied	-	-	-	-
27	Floor adjustment (before application of transitional cap)	-	-	-	-
28	Floor adjustment (after application of transitional cap)	-	-	-	-
29	Total (1+6+10+11+12+13+14+15+16+20+23+24+25+28)	7 063 255	812 274	6 867 602	789 774

* Minimum requirements include the base minimum and idiosyncratic requirement specified by the Registrar.

Year under review – Albaraka Bank

Risk weighted assets increased from R6.14billion to R6.35billion predominantly in credit risk RWAs. Credit risk RWAs increased by R213million or 3.5% which is largely due to the growth in the advances book. Market risk decreased by R928k or 5.5% which is attributable to the decrease in the bank's foreign cash holdings. Operational risk decreased by R14.1million or 2.2%. This calculation is updated bi-annually and is based on a three-year rolling gross income before impairments average balance.

4. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

4.1. **LI1** – Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories

	a	b	c	d	e	f	g
			Carrying values of items:				
Consol	**Carrying values as reported in published financial statements**	**Carrying values under scope of regulatory reporting**	**Subject to credit risk framework**	**Subject to counterparty credit risk framework**	**Subject to the securitisation framework**	**Subject to the market risk framework**	**Not subject to capital requirements or subject to deduction from capital**
At 31 December 2022 **Assets**							
Property and equipment	89 285	92 849	23 955	-	-	-	-
Right of use asset	3 563	-	-	-	-	-	-
Investment properties	10 339	10 339	-	-	-	-	-
Intangible assets	73 390	73 390	-	-	-	-	73 390
Investment in and amount due by subsidiary company	-	-	-	-	-	-	-
Deferred tax asset	-	-	-	-	-	-	-
Investment securities	17 437	17 437	17 437	-	-	-	-
Advances and other receivables	7 659 468	7 659 255	7 690 818	-	-	-	-
South African Revenue Service	-	-	-	-	-	-	-
Regulatory balances	517 716	517 716	-	-	-	-	-
Cash and cash equivalents	124 382	124 381	44 841	-	-	15 995	-
	8 495 580	**8 495 367**	**7 777 051**	**-**	**-**	**15 995**	**73 390**

At 31 December 2022 **Liabilities**							
Deferred tax liability	1 731	1 731	-	-	-	-	-
Welfare and charitable funds	43 382	43 382	-	-	-	-	-
Sukuk holders	310 605	434 605	-	-	-	-	-

Provision for leave pay	6 290	6 290	-	-	-	-	-
Lease liabilities	4 052	4 052	-	-	-	-	-
Accounts payable	51 173	51 391	-	-	-	-	-
South African Revenue Service	2 599	2 255	-	-	-	-	-
Deposits from customers	7 061 016	7 060 929	-	-	-	-	-
	7 480 848	**7 604 635**	**-**	**-**	**-**	**-**	**-**

	a	b	C	d	e	f	g
			Carrying values of items:				
Bank only	**Carrying values as reported in published financial statements**	**Carrying values under scope of regulatory reporting**	**Subject to credit risk framework**	**Subject to counterparty credit risk framework**	**Subject to the securitisation framework**	**Subject to the market risk framework**	**Not subject to capital requirements or subject to deduction from capital**
At 31 December 2022 **Assets**							
Property and equipment	12 637	23 955	23 955	-	-	-	-
Right of use asset	11 318	-	-	-	-	-	-
Investment properties	-	-	-	-	-	-	-
Intangible assets	73 390	73 390	-	-	-	-	73 390
Investment in and amount due by subsidiary company	41 376	72 810	72 810	-	-	-	-
Deferred tax asset	22 381	22 381	22 381	-	-	-	-
Investment securities	17 437	17 437	17 437	-	-	-	-
Advances and other receivables	7 659 298	7 659 087	7 763 460	-	-	-	-
South African Revenue Service	-	-	-	-	-	-	-
Regulatory balances	517 716	517 716	-	-	-	-	-
Cash and cash equivalents	122 751	122 751	44 841	-	-	15 995	-
	8 478 304	**8 509 527**	**7 944 884**	**-**	**-**	**15 995**	**73 390**

At 31 December 2022 **Liabilities**							
Deferred tax liability	-	-	-	-	-	-	-
Welfare and charitable funds	43 382	43 382	-	-	-	-	-
Sukuk holders	307 700	431 700	-	-	-	-	-
Provision for leave pay	6 290	6 290	-	-	-	-	-
Lease liabilities	4 052	4 052	-	-	-	-	-
Accounts payable	51 868	83 279	-	-	-	-	-
South African Revenue Service	2 396	2 294	-	-	-	-	-
Deposits from customers	7 061 016	7 060 930	-	-	-	-	-
	7 476 704	**7 631 927**	**-**	**-**	**-**	**-**	**-**

4.2. **LI2** – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

	Consol December 2022	**a**	**b**	**c**	**d**	**e**
		Total	**Items subject to:**			
			Credit risk framework	**Securitisation framework**	**Counterparty credit risk framework**	**Market risk framework**
1	Asset carrying value amount under scope of regulatory consolidation (as per templateLI1)	7 793 046	**7 777 051**	-	-	15 995
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	7 793 046	7 777 051	-	-	15 995
4	Off-balance sheet amounts	1 175 091	1 175 091	-	-	-

5	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
6	Exposure amounts considered for regulatory purposes	8 968 137	8 952 142	-	-	15 995

	Bank December 2022	**a**	**b**	**c**	**d**	**e**
			Items subject to:			
		Total	**Credit risk framework**	**Securitisation framework**	**Counterparty credit risk framework**	**Market risk framework**
1	Asset carrying value amount under scope of regulatory consolidation (as per templateLI1)	7 960 879	**7 944 884**	-	-	15 995
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	7 960 879	7 944 884	-	-	15 995
4	Off-balance sheet amounts	1 175 091	1 175 091	-	-	-
5	Differences due to different netting rules, other than those already included in row 2	(35 486)	(35 486)	-	-	-
6	Exposure amounts considered for regulatory purposes	9 100 484	9 084 489	-	-	15 995

4.3. **LIA** – Explanation of differences between accounting and regulatory exposure amounts

The differences observed between accounting carrying value (as defined in LI1) and amounts considered for regulatory purposes occur on a bank solo basis. The difference arises mainly from the balance of the lease liability which has been set off against the balance on the loan account as the bank has a legally enforceable right to set off these amounts in terms of the lease contract and intends to realise the asset and settle the liability simultaneously. For regulatory purposes, the loan account and lease liability are separately disclosed and not netted off.

On a bank solo and consol basis, the difference arises from the additional Tier 1 sukuk which is disclosed under equity on the financial statements, but for regulatory purposes is disclosed under term debt instruments that qualify as capital.

5. COMPOSITION OF CAPITAL

5.1. **CC1** – Composition of regulatory capital

		31 December 2022	
		CONSOL	BANK
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	404 599	404 599
2	Retained earnings	471 691	459 159
3	Accumulated other comprehensive income (and other reserves)	2 313	2 313
4	Directly issued capital subject to phase out from CETI (only applicable to non-joint stock companies)	-	-
5	Common share capital issued by subsidiaries and held by third parties {amount allowed in group CET1)	-	-
6	Common Equity Tier 1 capital before regulatory adjustments	878 603	866 071
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	-	-
8	Goodwill (net of related tax liability)	-	-

9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(58 302)	(58 302)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
11	Cash-flow hedge reserve	-	-
12	Shortfall of provisions to expected losses	-	-
13	Securitisation gain on sale (as set out in paragraph 36 of Basel 111 securitisation framework25)	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-
15	Defined-benefit pension fund net assets	-	-
16	Investments in own shares {if not already netted of paid-in capital on reported balance sheet)	-	-
17	Reciprocal cross-holdings in common equity	-	-
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation(amount above 10% threshold)	-	-
20	Mortgage servicing rights (amount above 10% threshold)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
22	Amount exceeding the 15% threshold	-	-
23	of which: significant investments in the common stock of financials	-	-
24	of which. mortgage servicing rights	-	-
25	of which: deferred tax assets arising from temporary differences	-	-

26	National specific regulatory adjustments	-	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	-
28	Total regulatory adjustments to Common equity Tier 1	(58 302)	(58 302)
29	Common Equity Tier 1 capital (CET1)	820 301	807 769
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	124 000	124 000
31	Of which: classified as equity under applicable accounting standards	124 000	124 000
32	of which: classified as liabilities under applicable accounting standards	-	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-
35	of which: instruments issued by subsidiaries subject to phase out	-	-
36	Additional Tier 1 capital before regulatory adjustments	-	-
		-	-
	Additional Tier 1 capital: regulatory adjustments	-	-
37	Investments in own additional Tier 1 instruments	-	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-

40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-
41	National specific regulatory adjustments	-	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
43	**Total regulatory adjustments to Additional Tier 1 capital**	-	-
44	**Additional Tier 1 capital (AT1)**	-	-
45	**Tier 1 capital (T1 = CET1 1+ AT1)**	944 301	931 769
	Tier 2 capital and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-
47	Directly issued capital instruments subject to phase out from Tier 2	292 540	292 540
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	-
49	of which: instruments issued by subsidiaries subject to phase out	-	-
50	Provisions	20 848	20 848
51	**Tier 2 capital before regulatory adjustments**	313 388	313 388
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-	-
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	-	-
54	Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	-

54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)	-	-
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
56	National specific regulatory adjustments	-	-
57	Total regulatory adjustments to Tier 2 capital	-	-
58	**Tier 2 capital (T2)**	313 388	313 388
59	**Total capital (TC = T1 + T2)**	1 257 689	1 245 157
60	**Total risk weighted assets**	7 003 553	7 063 255
	Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of risk weighted assets)**	11.71%	11.44%
62	**Tier 1 (as a percentage of risk weighted assets)**	13.48%	13.19%
63	**Total capital (as a percentage of risk weighted assets)**	17.96%	17.63%
64	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirement plus higher loss absorbency requirement, expressed as a percentage of risk weighted assets)**	2.50%	2.50%
65	of which: capital conservation buffer requirement	2.50%	2.50%
66	of which: bank specific countercyclical buffer requirement	-	-
67	of which: higher loss absorbency requirement	-	-
68	Common Equity Tier 1 (as a percentage of risk weighted assets) available after meeting the bank's minimum capital requirements	2.96%	2.69%
	National Minima (if different from Basel lll)		

69	National Common Equity Tier 1 minimum ratio (if different from Basel lll minimum)	4.50%	4.50%
70	National Tier 1 minimum ratio (if different from Basel lll minimum)	6.00%	6.00%
71	National total capital minimum ratio (if different from Basel lll minimum)	8.00%	8.00%
	Amounts, below the threshold for deductions (before risk weighting)		
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities	-	-
73	Significant investments in the common stock of financial entities	-	-
74	Mortgage servicing rights (net of related tax liability)	-	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	55 953
	Applicable: caps on the on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	313 388	313 388
77	Cap on inclusion of provisions in Tier 2 under standardised approach	20 848	20 848
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	-
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022		
80	Current cap on CETI instruments subject to phase out arrangements	-	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-
82	Current cap on AT1 instruments subject to phase out arrangements	-	-

83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-
84	Current cap on T2 instruments subject to phase out arrangements	-	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

Risk weighted assets increased from R6.14billion to R6.35billion predominantly in credit risk RWAs. Credit risk RWAs increased by R213million or 3.5% which is largely due to the growth in the advances book. Tier II directly issued capital instruments decreased by R15,2m due to the haircut applied in line with regulation 38 (12).

5.2. **CC2** – Reconciliation of regulatory capital to balance sheet

The difference between the amount disclosed in the financial statements and the capital for regulatory purposes is due to the first tranche of the bank's tier 2 Sukuk, which reached the five-year period in September 2021. In line with regulation 38 (12), a haircut of R15,2m is applied and this is accordingly excluded from the qualifying amount of tier 2 capital.

	CONSOL		BANK	
	Balance sheet as in published financial statements	**Under regulatory scope of consolidation**	**Balance sheet as in published financial statements**	**Under regulatory scope of consolidation**
As at 31 December 2022				
Property and equipment	89 285	92 849	12 637	23 955
Right of use asset	3 563	-	11 318	-
Investment properties	10 339	10 339	-	-
Intangible assets	73 390	73 390	73 390	73 390
Investment in and amount due by subsidiary company	-	-	41 376	72 810
Deferred tax asset	-	-	22 381	22 381
Investment securities	17 437	17 437	17 437	17 437
Advances and other receivables	7 659 468	7 659 254	7 659 298	7 659 087
South African Revenue Service (VAT)	-	-	-	-
Regulatory balances	517 716	517 716	517 716	517 716

Cash and cash equivalents	124 382	124 382	122 751	122 751
Total Assets	**8 495 580**	**8 495 367**	**8 478 307**	**8 509 527**
Liabilities				
Deferred tax liability	1 731	1 731	-	-
Welfare and charitable funds	43 382	43 382	43 382	43 382
Sukuk holders	310 605	416 540	307 700	416 540
Tier 2 instruments phased out	-	15 160	-	15 160
Provision for leave pay	6 290	-	6 290	-
Lease liabilities	4 052	-	4 052	-
Accounts payable	51 173	61 733	51 868	93 621
South African Revenue Service	2 599	2 255	2 396	2 294
Deposits from customers	7 061 016	7 063 834	7 061 016	7 060 930
Total Liabilities	**7 480 848**	**7 604 635**	**7 476 704**	**7 631 927**
Equity				
Share capital	322 403	322 403	322 403	322 403
Share premium	82 196	82 196	82 196	82 196
Other reserves	2 313	2 313	2 313	2 313
Retained income	483 820	483 820	470 688	470 688
Additional Tier 1 Sukuk instruments	124 000		124 000	
Total equity	**1 014 732**	**890 732**	**1 001 600**	**877 600**

5.3. **CCA** – Main features of regulatory capital instruments and of other TLAC- eligible instruments

The main features of the group's regulatory capital instruments are disclosed on our website under Financial highlights, Basel disclosures.

6. LEVERAGE RATIO

In terms of Regulation 43(1)(e)(iii)(G), the Bank is required to provide a summarised comparison of the accounting assets and the regulatory leverage ratio differences, as well as the leverage ratio positions of the bank.

6.1. **LR1 -** Summarised comparison of accounting assets vs leverage ratio exposure measure

Line No	Item	31 Dec 2022
1	Total consolidated assets as per published financial statements	8 509 527
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off- balance sheet exposures)	314 242
7	Other adjustments	(58 302)
8	Leverage ratio exposure	8 765 467

Total assets decreased from R8.60billion to R8.51billion. This is largely due to the decrease in the advances to customers and banks of R205million. Advances to customers increased by R1.38billion whilst advances to banks decreased by R1.59billion. Cash resources increased by R117,84 million comprising an increase in cash holdings and balances with the SARB of R10.96 million, offset by an increase in regulatory balances with SARB of R103.07 million.

6.2. **LR2 -** Leverage ratio common disclosure template

Line no	Item	31 Dec 2022	30 Sep 2022
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs),but including collateral)	8 509 527	8 620 325
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(58 302)	(58 968)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	8 451 225	8 561 357
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	-
5	Add-on amounts for PFE associated with all derivatives transactions	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	Total derivative exposures (sum of lines 4 to 10)	-	-
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-	-
17	Off-balance sheet exposure at gross notional amount	1 175 091	1 235 043
18	(Adjustments for conversion to credit equivalent amounts)	(860 849)	(874 812)
19	Off-balance sheet items (sum of lines 17 and 18)	314 242	360 231
20	Tier 1 capital	807 769	793 571
21	Total exposures (sum of lines 3, 11, 16 and 19)	8 765 467	8 921 588
22	Basel III leverage ratio	10.63%	10.28%

Total assets decreased from R8.62billion to R8.51billion. This is largely due to the decrease in the advances to customers and banks of R96.2million. Advances to customers increased by R311.4million whilst advances to banks decreased by R407.6million. Cash resources decreased by R12.1 million comprising a decrease in cash holdings and balances with the SARB of R28.3 million, offset by an increase in regulatory balances with SARB of R4.1 million. Off balance sheet exposure decreased from R1.24million to R1.18 million with a decrease in guarantees issued.

7. LIQUIDITY

7.1. **LIQA** – Liquidity risk management

Liquidity risk relates to the potential inability to repay deposits, fund asset growth or to service debt or other expense payments when they become due.

Liquidity risk is managed mainly by ensuring that the funding of the bank is sourced from a wide range of retail deposits with an appropriate spread of short, medium and long-term maturities. Exposure to large deposits is strictly controlled. ALCO monitors and reviews the maturity profiles of the bank's assets and liabilities on a regular basis to ensure that appropriate liquidity levels are maintained to meet future commitments.

The bank also has a policy of maintaining liquidity buffers (in the form of Treasury Bills and cash surpluses held on call) comfortably in excess of regulatory requirements.

The Bank complies with Basel III principles relating to liquidity risk management, specifically the liquidity coverage ratio and the net stable funding ratio. In terms of Regulation 43(1)(e)(iii)(F) of the Regulations relating to Banks, minimum disclosure on the Liquidity Coverage Ratio of the Bank is required on a quarterly basis. This announcement meets the on-going reporting requirement for quarterly disclosure in terms of Pillar 3 of the Basel III capital accord.

7.2. **LIQ1 -** Liquidity Coverage Ratio (LCR)

The objective of the LCR is to promote the short term resilience of the liquidity risk profile of banks by ensuring that they have sufficient high quality liquid assets to survive a significant stress scenario lasting 30 calendar days. The values in the table are calculated as the simple average of the 3 month values over the period.

The structure and nature of deposits inside the 30 day window is the key driver of both the level and the volatility of the LCR. This weighted outflow is determined by the customer type of liabilities falling into the 30 day contractual bucket.

The HQLA comprises primarily South African sovereign and central bank Rand denominated securities, all of which are eligible for South African Reserve Bank (SARB) repo.

As at 31 December 2022			
Line No		**Total Unweighted Value**	**Total Weighted Value**
High Quality Liquid Assets			
1	Total HQLA	576 742	576 742
Cash Outflows			
2	Retail deposits and deposits from small business customers, of which:	4 140 618	95 466
3	Stable deposits	-	-
4	Less stable deposits	4 140 618	95 466
5	Unsecured wholesale funding, of which:	2 057 011	46 993
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	2 057 011	46 993
7	Non-operational deposits (all counterparties)	-	-
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	1 013 841	168 501
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	869 123	23 783
14	Other contractual funding obligations	144 718	144 718
15	Other contingent funding obligations	-	
16	TOTAL CASH OUTFLOWS		310 959
CASH INFLOWS			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	589 971	346 006
19	Other cash inflows	195 537	-
20	TOTAL CASH INFLOWS	785 508	346 006

			Total adjusted value
21	Total HQLA		576 742
22	Total net cash outflows		77 740
23	**Liquidity Coverage Ratio (%)**		**742%**

7.3. **LIQ2** – Net stable funding ratio (NSFR)

The objective of the Net Stable Funding Ratio (NSFR) is to promote the resilience in the banking sector by requiring banks to maintain a stable funding profile in relation to the composition of their assets and off balance sheet activities on an ongoing structural basis. By ensuring that banks do not embark on excessive maturity transformation that is not sustainable, the NSFR is intended to reduce the likelihood that disruptions to a bank's funding sources would erode its liquidity position, increasing its risk of failure and potentially lead to broader systemic risk. The minimum NSFR requirement is 100%.

The residual maturity of deposits are the key drivers of available stable funding, in particular those from either retail and small business customers or with maturity longer than a year. Capital issued is also a significant contributor. The residual maturity of deposits are the key drivers of available stable funding, in particular those from either retail and small business customers or with maturity longer than a year. The residual maturity of loans, as well as holdings in securities eligible as HQLA, are the key drivers of required stable funding. Lower weightings apply to mortgages, shorter term loans and HQLA.

As at 31 December 2022						
		Unweighted value by residual maturity				
Line No		**No Maturity**	**< 6 months**	**6 months to < 1 year**	**≥ 1 year**	**Weighted value**
	Available Stable Funding (ASF) Item					
1	Capital:	-	-	-	1 309 302	1 309 302
2	Regulatory capital	-	-	-	1 309 302	1 309 302
3	Other capital instruments					
4	Retail deposits and deposits from small business customers:	-	3 587 747	1 245 114	69 787	4 419 362
5	Stable deposits					
6	Less stable deposits	-	1 478 297	530 003	149 981	1 154 131
7	Wholesale funding:	-	-	-	-	-
8	Operational deposits	-	-	-	-	-

9	Other wholesale funding	-	-	-	-	-
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	-	136 151	3 145	-	1 573
12	NSFR derivative liabilities	-	-	-	-	-
13	All other liabilities and equity not included in the above categories	-	136 151	3 145	-	1 573
14	Total ASF	-	5 202 195	1 778 262	1 529 070	6 884 368
	Required Stable Funding (RSF) Item					
15	Total NSFR high-quality liquid assets (HQLA)	-	640 466	-	-	25 886
16	Deposits held at other financial institutions for operational purposes	-	60 309	419 928	-	219 010
17	Performing loans and securities:	-	-	-	-	-
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	-	-	-	-
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	605 426	189 371	-	397 399
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	-	-	-	-	-
22	Performing residential mortgages, of which:	-	-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk		2 025	6 709	2 233 004	1 455 820
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	-	-	-	-	-
27	Physical traded commodities, including gold	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
29	NSFR derivative assets	-	-	-	-	-
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	-	3 723	7 986	4 340 580	3 729 960
32	Off-balance sheet items	-	1 175 091	-	-	58 755

33	Total RSF	-	2 487 040	623 994	6 573 584	5 886 830
34	**Net Stable Funding Ratio (%)**					**117%**

8. CREDIT RISK

8.1. **CRA** - General qualitative information about credit risk

Albaraka Bank Limited & Albaraka Consolidation

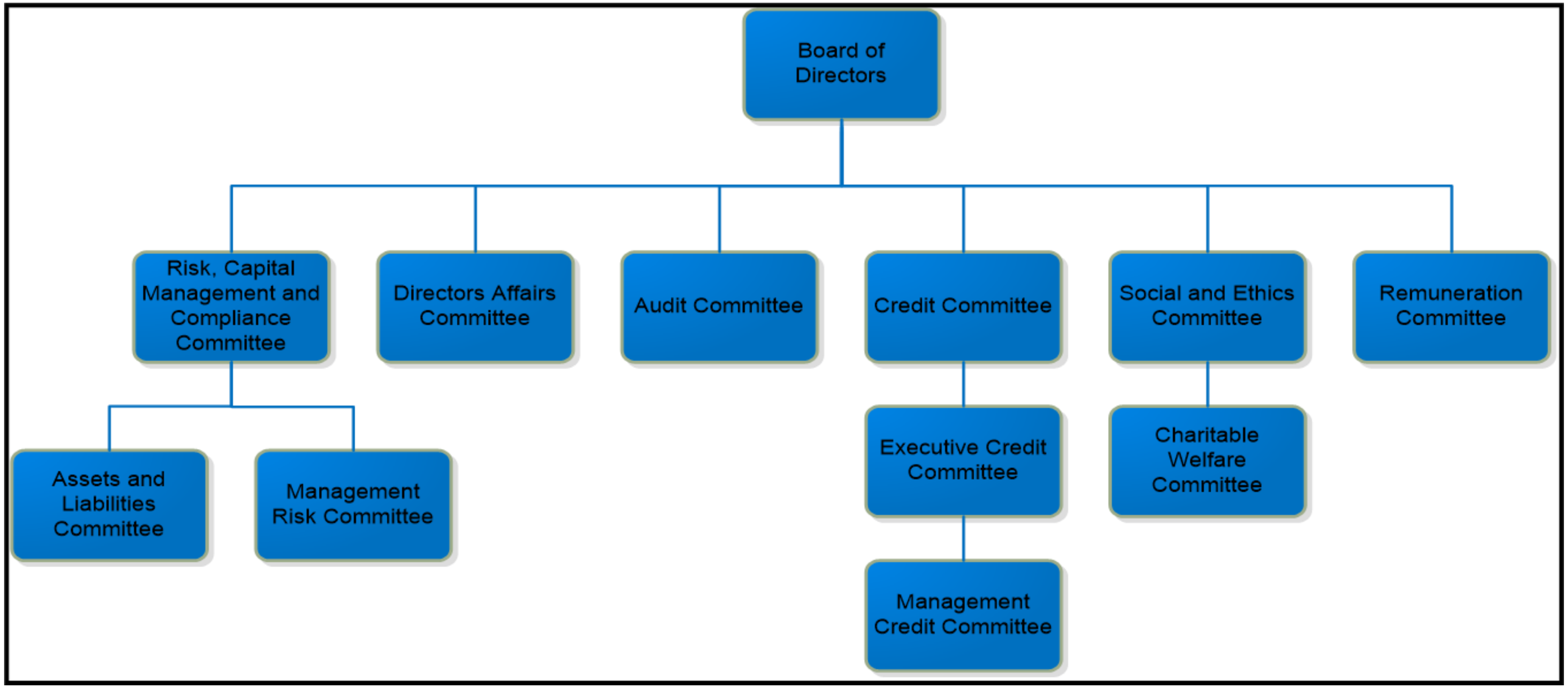
Risk Management and Assessment

Whilst the board is ultimately responsible for risk management and to determine the type and level of risk which the Bank is willing to accept in conducting its banking activities, the effective management of risk has been delegated to six board committees, namely, the risk, capital management and compliance committee, the audit committee, the credit committee, the directors' affairs committee, the social and ethics committee and remuneration committee.

In addition, the Shariah Supervisory Board has been delegated the responsibility of managing the shariah risk which the Bank faces. These committees are assisted by management committees (more particularly the assets and liabilities committee (ALCO), the executive credit committee, the management risk committee) to discharge their responsibilities effectively. The composition, terms of reference and delegated powers of authority of the board and management committees are set by the board and are reviewed annually.

The board and management committees are responsible for developing and monitoring risk management policies and programmes in their specified areas. These policies and programmes are established to identify and analyze risks faced by the Bank, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The risk management policies and programmes are reviewed regularly to reflect changes in market conditions and products offered. In addition, the Bank has adopted a strategy that seeks to entrench at all levels within Albaraka Bank a culture that is risk-management orientated.

The structure and organization of the risk management function is provided in diagrammatic form below:


Board of Directors
Risk, Capital Management and Compliance Committee
Directors Affairs Committee
Audit Committee
Credit Committee
Social and Ethics Committee
Remuneration Committee
Assets and Liabilities Committee
Management Risk Committee
Executive Credit Committee
Charitable Welfare Committee
Management Credit Committee

The audit committee and risk, capital management and compliance committee are responsible for monitoring compliance with the risk management policies and programmes and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The audit committee is assisted in these functions by internal audit which undertakes regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

Credit Risk

Credit risk refers to the potential loss that the Bank could sustain as a result of counter-party default and arises principally from advances to customers and other Banks.

The Bank manages its credit risk within a governance structure supported by delegated powers of authority as approved by the board. The credit approval process is graduated, whereby increasingly higher levels of authorization are required depending on the type and value of the transactions concerned. Applications for credit may therefore be considered progressively by line management, senior and executive management, the management credit committee, the executive credit committee, the board credit committee and the board itself.

A separate credit division, reporting to the regulatory executive and the credit committee of the board, is responsible for the oversight of the Bank's credit risk, including:

- Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities.
- Reviewing and assessing credit risk;
- Limiting concentrations of exposure to counterparties and by product; and
- Developing and maintaining risk gradings in order to categorize exposures to the degree of risk of financial loss faced and to focus management on the relevant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework is described under the section dealing with portfolio measures of risk.

Credit exposures are monitored primarily on performance. Defaulting accounts receive prompt attention. Initially they are dealt with by line management and, in instances where further degeneration occurs, they are handed over to the Bank’s collections and legal specialists.

Depending on the type of credit exposure, account reviews, which include the re-performance of qualitative and quantitative assessments, are performed annually.

The credit risk management process needs to identify all risk factors to enable such risks to be quantified and their impact on the pricing or credit risk to be taken into account. Pricing for credit risk is therefore, a critical component of the risk management process. The main risk of default by the counterparty is mitigated by means of collateral security obtained from the debtor concerned.

For internal risk management and risk control purposes, credit risk is measured in terms of potential loss that could be suffered, taking into account the quantum of the exposures, the realizable value of the collateral security and the value, if any, that could be placed on the sureties.

The executive and board credit committees constantly monitor the credit quality of counterparties and the exposure to them. Detailed risk reports are submitted to the aforementioned committees and to the management credit committee on a regular basis.

Portfolio Measures of Credit Risk

Credit exposures are now in accordance with International Financial Reporting Standard (IFRS) 9 on stage credit risk allocation basis, which are Stages 1, 2 and 3.

Exposures that are current and where full repayment of the principal and profit is expected are classified under the Standard category.

Exposures where evidence exists that the debtor is experiencing some difficulties that may threaten the Bank's position, but where ultimate loss is not expected - but could occur if adverse conditions continue are classified under the Special Mention category.

Exposures that show underlying, well-defined weaknesses that could lead to probable loss if not corrected are classified under the Sub-standard category. The risk that such exposures may become impaired is probable and the Bank relies to a large extent on available security.

Exposures that are considered to be impaired but are not yet considered total losses because of some pending factors that may strengthen the quality of such exposures are classified under the Doubtful category.

Exposures that are considered to be uncollectable and where the realization of collateral and institution of legal proceedings have been unsuccessful are classified under the Loss category. These exposures are considered to be of such little value that they should no longer be included in the net assets of the Bank.

Exposures that are classified under the Sub-standard, Doubtful and Loss categories are regarded as non-performing and Exposures that have not met their individual repayment terms are classified as past due exposures.

A default is considered to have occurred with regard to a particular obligor when either of the following events have taken place:

- The Bank considers that the obligor is unlikely to pay its credit obligations to the Bank, without recourse by the Bank to actions such as realizing security (if held); and
- The obligor is past due more than 90 days on any material credit obligation to the Bank.

8.2. **CR1** - Credit quality of assets

31st December 2022

Albaraka Bank Limited & Albaraka Consolidation

		a	b	c	d	e	f	g
		Gross carrying values of		Allowances / impairments [4]	Of which ECL accounting provisions for credit losses on SA exposures		Of which ECL accounting provisions for credit losses on IRB exposures	Net values
		Defaulted exposures [5]	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General		(a+b-c)
1	Loans [1]	151 924	7 350 524	33 545	15 748	17 798	-	7 468 903
2	Debt Securities [2]	-	525 079	864	-	864	-	524 215
3	Off-balance sheet exposures [3]	-	1 175 091	2 187	-	2 187	-	1 172 904
4	**Total**	**151 924**	**9 050 694**	**36 596**	**15 748**	**20 849**	**-**	**9 166 022**

(1) Loans represent core debtor advances which form part of Banks on balance sheet exposures (Products include: Equipment, Motor Vehicle, Property, Trade, Profit Free Loans etc.)

(2) Debt Securities relate to Murabaha Equity Placements with other Banks.

(3) Off Balance Sheet Exposures include: Letter of Guarantees (LG), Letter of Credit (LC), Unutilized Portion of Approved Asset & Trade Facilities etc.)

(4) Allowances / Impairments raised for both On & Off balance sheet exposures in with the IFRS 9 methodology i.e Portfolio and Specific credit impairments

(5) Default occurs when a material obligation of an obligor is overdue for more than 90 days

31st December 2021

		a	b	c	d	e	f	g
		Gross carrying values of		**Allowances / impairments** [4]	**Of which ECL accounting provisions for credit losses on SA exposures**		**Of which ECL accounting provisions for credit losses on IRB exposures**	**Net values**
		Defaulted exposures [5]	**Non-defaulted exposures**		**Allocated in regulatory category of Specific**	**Allocated in regulatory category of General**		**(a+b-c)**
1	Loans [1]	228 540	5 854 572	30 059	17 563	12 495	-	6 053 053
2	Debt Securities [2]	-	2 069 311	1 871	-	1 871	-	2 067 440
3	Off-balance sheet exposures [3]	-	1 410 656	2 387	-	2 387	-	1 408 269
4	**Total**	**228 540**	**9 334 539**	**34 317**	**17 563**	**16 754**	**-**	**9 528 762**

(1) Loans represent core debtor advances which form part of Banks on balance sheet exposures (Products include: Equipment, Motor Vehicle, Property, Trade, Profit Free Loans etc.)

(2) Debt Securities relate to Murabaha Equity Placements with other Banks.

(3) Off Balance Sheet Exposures include: Letter of Guarantees (LG), Letter of Credit (LC), Unutilized Portion of Approved Asset & Trade Facilities etc.)

(4) Allowances / Impairments raised for both On & Off balance sheet exposures in with the IFRS 9 methodology i.e Portfolio and Specific credit impairments

(5) Default occurs when a material obligation of an obligor is overdue for more than 90 days

8.3. **CR2 -** Changes in stock of defaulted loans and debt securities

Albaraka Bank Limited & Albaraka Consolidation

		31 Dec 22	31 Dec 21
1	**Defaulted loans and debt securities at end of the previous reporting period**	149 146	201 246
2	Loans and debt securities that have defaulted since the last reporting period	33 547	193 045
3	Returned to non-defaulted status	(29 945)	(163 203)
4	Amounts written off	(825)	(2 548)
5	Other changes	33 547	-
6	**Defaulted loans and debt securities at end of the reporting period** (1+2-3-4+5)	**151 924**	**228 540**

8.4. **CRB** - Additional disclosure related to the credit quality of assets

Albaraka Bank Limited & Albaraka Consolidation

Qualitative disclosures

Past dues relate to any exposure that are 1 day & over in arrears. These are reported for accounting and regulatory purposes. Past dues, but not impaired account for 0.64% (2.1% - 2021) of the total book. These exposures have not been impaired due to sufficient collateral held.

Impairments are only determined using the Bank's IFRS 9 model which takes into account external ratings, past dues, historical and forward-looking information.

A restructured Exposure Includes any loan, advance or facility in respect of which the Bank granted a concession to the obligor owing to a deterioration in the obligor’s financial condition, that is, owing to a financial distressed situation of the relevant obligor, which financial distressed situation results or is likely to result in the relevant obligor no longer being able to meet the terms or conditions originally agreed.

Quantitative disclosures

Breakdown of exposures by;

a) Geographical areas;

Region	31 Dec 22	31 Dec 21
Gauteng	2 617 285	3 796 193
Kwa-Zulu Natal	5 116 945	4 698 675
Western Cape	1 468 389	1 068 211
Grand Total	**9 202 619**	**9 563 079**

b) Industry;

Industry	31 Dec 22	31 Dec 21
Agriculture, hunting, forestry and fishing	1 291	1 679
Mining and quarrying	10 152	10 926
Manufacturing	618 883	659 523
Electricity, gas and water supply	-	-
Construction	74 928	50 186
Wholesale and retail trade, repair of specified items, hotels and restaurants	1 720 677	1 174 889
Transport, storage and communication	399 651	271 076
Financial intermediation and insurance	38 773	2 462 936
Real estate	3 501 675	3 116 355
Business services	18 478	-
Community, social and personal services	-	-
Private households	1 502 725	1 392 529
Other	1 315 387	433 906
Grand Total	**9 202 619**	**9 563 079**

8.5. **CRC** - Qualitative disclosure related to credit risk mitigation techniques

Collateral is an effective means of reducing risk and improving credit quality. ABL encourages extensions of credit with tangible collateral underlying the transaction.

Although collateral is always desirable to enhance credit quality, it should never be seen as the reason for granting credit and must be viewed as a secondary source of repayment or an alternative in the event the customer is unable to repay ABL from cash flows.

Additionally, collateral should not be a substitute for a comprehensive assessment of the borrower nor can it compensate for insufficient information provided.

Collateral held by ABL is divided into the following three grades:

A. Cash; Property & Irrevocable Bank Guarantee/s in favour of Albaraka Bank Limited issued by a rated registered financial institution

B. All other forms of collateral where a security value can be ascribed to the underlying collateral e.g. General or Special Notarial bonds

C. All forms of collateral where no security value is ascribed e.g. Personal Suretys

Perfection of all securities is required prior to any advancement of funds. Where there is a bond registered as a means of collateral for property finance or any other finance, a valuation of such property is required. Where the collateral is a Commercial property, this is required to be re-valued every 3 years. Residential property re-valuation is required if held as collateral for Trade or where the collateral is taken for new finances.

8.6. **CR3** - Credit risk mitigation techniques – overview

31st December 2022

Albaraka Bank Limited & Albaraka Consolidation

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	**Exposures secured by collateral**	**Exposures secured by collateral, of which: secured amount**	**Exposures secured by financial guarantees**	**Exposures secured by financial guarantees, of which: secured amount**	**Exposures secured by credit derivatives**	**Exposures secured by credit derivatives, of which: secured amount**
1	Loans [1]	42 692	8 634 847	6 014 277	-	-	-	-
2	Debt Securities [2]	-	525 079	525 079	-	-	-	-
4	**Total**	**42 692**	**9 159 926**	**6 539 356**	**-**	**-**	**-**	**-**
3	Of which defaulted	-	151 924	123 647	-	-	-	-

(1) Loans represent core debtor advances which form part of Banks on balance sheet exposures (Products include: Equipment, Motor Vehicle, Property, Trade, Profit Free Loans etc.)

(2) Debt Securities relate to Murabaha Equity Placements with other Banks.

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Albaraka Bank Limited & Albaraka Consolidation

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	**Exposures secured by collateral**	**Exposures secured by collateral, of which: secured amount**	**Exposures secured by financial guarantees**	**Exposures secured by financial guarantees, of which: secured amount**	**Exposures secured by credit derivatives**	**Exposures secured by credit derivatives, of which: secured amount**
1	Loans [1]	24 926	7 468 842	5 849 517	-	-	-	-
2	Debt Securities [2]	-	2 069 311	2 069 311	-	-	-	-
4	**Total**	**24 926**	**9 538 153**	**7 918 828**	**-**	**-**	**-**	**-**
3	Of which defaulted	-	228 540	210 440	-	-	-	-

(1) Loans represent core debtor advances which form part of Banks on balance sheet exposures (Products include: Equipment, Motor Vehicle, Property, Trade, Profit Free Loans etc.)

(2) Debt Securities relate to Murabaha Equity Placements with other Banks.

8.7. **CRD** - Qualitative disclosure on banks' use of external credit ratings under the standardized approach for credit risk

The Bank obtains credit scores from Experian credit bureau for input into its IFRS 9 model to obtain the Expected Credit Loss. External credit ratings are not used for the credit risk weight calculations.

8.8. **CR4** - Standardized approach – credit risk exposure and credit risk mitigation (CRM) effects

31st December 2022

Albaraka Bank Limited

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
Line	**Asset classes**	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
1	Sovereign (including central government and central bank)	342 639	-	342 639	-	-	0%
2	Non-central government public sector entities	-	-	-	-	-	0%
3	Multilateral development banks	-	-	-	-	-	0%
4	Banks	525 079	-	525 079	-	440 958	84%
5	Securities Firms	-	-	-	-	-	0%
6	Corporates (excluding corporate real estate as per line 9)	1 400 050	1 006 132	1 400 050	1 006 132	1 358 297	56%
7	Regulatory Retail Portfolio	318 778	33 148	318 778	33 148	331 824	94%
8	Secured by Residential Property	2 297 800	67 089	2 297 800	67 089	862 115	36%
9	Secured by Commercial Real Estate	2 991 260	68 722	2 991 260	68 722	3 057 381	100%
10	Equity	-	-	-	-	-	0%
11	Past Dues Loans	151 924	-	151 924	-	151 924	100%
12	Higher Risk Categories	-	-	-	-	-	0%
13	Other Assets	147 368	-	147 368	-	147 368	100%
14	**Total**	**8 174 896**	**1 175 091**	**8 174 896**	**1 175 091**	**6 349 868**	**68%**

31st December 2022

Albaraka Consolidation

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
Line	**Asset classes**	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
1	Sovereign (including central government and central bank)	342 639	-	342 639	-	-	0%
2	Non-central government public sector entities	-	-	-	-	-	0%
3	Multilateral development banks	-	-	-	-	-	0%
4	Banks	525 079	-	525 079	-	440 958	84%
5	Securities Firms	-	-	-	-	-	0%
6	Corporates (excluding corporate real estate as per line 9)	1 400 050	1 006 132	1 400 050	1 006 132	1 358 297	56%
7	Regulatory Retail Portfolio	318 778	33 148	318 778	33 148	331 824	94%
8	Secured by Residential Property	2 297 800	67 089	2 297 800	67 089	862 115	36%
9	Secured by Commercial Real Estate	2 991 260	68 722	2 991 260	68 722	3 057 381	100%
10	Equity	-	-	-	-	-	0%
11	Past Dues Loans	151 924	-	151 924	-	151 924	100%
12	Higher Risk Categories	-	-	-	-	-	0%
13	Other Assets	74 727	-	74 727	-	74 727	100%
14	**Total**	8 102 255	1 175 091	8 102 255	1 175 091	6 277 227	68%

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Albaraka Bank Limited

		a	b	c	d	e	f
		Exposures before CCF and CRM		**Exposures post-CCF and post-CRM**		**RWA and RWA density**	
Line	**Asset classes**	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
1	Sovereign (including central government and central bank)	522 631	-	522 631	-	-	0%
2	Non-central government public sector entities	-	-	-	-	-	0%
3	Multilateral development banks	-	-	-	-	-	0%
4	Banks	2 105 223	-	2 105 223	-	840 117	40%
5	Securities Firms	-	-	-	-	-	0%
6	Corporates (excluding corporate real estate as per line 9)	1 035 198	1 058 887	1 035 198	1 058 887	1 035 981	49%
7	Regulatory Retail Portfolio	212 203	42 062	212 203	42 062	186 610	73%
8	Secured by Residential Property	1 963 301	90 440	1 963 301	90 440	730 828	36%
9	Secured by Commercial Real Estate	2 334 498	219 266	2 334 498	219 266	2 546 116	100%
10	Equity	-	-	-	-	-	0%
11	Past Dues Loans	228 540	-	228 540	-	268 765	118%
12	Higher Risk Categories	-	-	-	-	-	0%
13	Other Assets	148 900	-	148 900	-	148 900	100%
14	**Total**	**8 550 494**	**1 410 656**	**8 550 494**	**1 410 656**	**5 757 317**	**58%**

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Albaraka Consolidation

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
Line	**Asset classes**	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
1	Sovereign (including central government and central bank)	522 636	-	522 636	-	-	0%
2	Non-central government public sector entities	-	-	-	-	-	0%
3	Multilateral development banks	-	-	-	-	-	0%
4	Banks	2 105 223	-	2 105 223	-	840 117	40%
5	Securities Firms	-	-	-	-	-	0%
6	Corporates (excluding corporate real estate as per line 9)	1 035 198	1 058 887	1 035 198	1 058 887	1 035 981	49%
7	Regulatory Retail Portfolio	212 203	42 062	212 203	42 062	186 610	73%
8	Secured by Residential Property	1 963 301	90 440	1 963 301	90 440	730 828	36%
9	Secured by Commercial Real Estate	2 334 498	219 266	2 334 498	219 266	2 546 116	100%
10	Equity	-	-	-	-	-	0%
11	Past Dues Loans	228 540	-	228 540	-	268 765	118%
12	Higher Risk Categories	-	-	-	-	-	0%
13	Other Assets	68 532	-	68 532	-	68 532	100%
14	**Total**	**8 470 131**	**1 410 656**	**8 470 131**	**1 410 656**	**5 676 949**	**57%**

8.9. **CR5** - Standardised approach – exposures by asset classes and risk weights

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Albaraka Bank Limited

		a	b	c	d	e	f	g	h	i	j
Line	**Asset classes \ Risk Weights**	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF and post-CRM)**
1	Sovereign (including central government and central bank)	342 639	-	-	-	-	-	-	-	-	342 639
2	Non-central government public sector entities	-	-	-	-	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	105 151	-	-	-	419 928	-	-	525 079
5	Securities Firms	-	-	-	-	-	-	-	-	-	-
6	Corporates (excluding corporate real estate as per line 9)	1 003 411	-	1 668	-	1 053		1 400 050	-	-	2 406 182
7	Regulatory Retail Portfolio	33 137	-	-	-	11	155 261	163 517	-	-	351 926
8	Secured by Residential Property	3 772	-	-	2 289 123	-	44 038	27 954	-	-	2 364 888
9	Secured by Commercial Real Estate	2 385	-	-	-	-	-	3 057 597	-	-	3 059 982
10	Equity	-	-	-	-	-	-	-	-	-	-
11	Past Dues Loans	-	-	-	-	7 327	125	-	144 472	-	151 924
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other assets	-	-	-	-	-	-	147 368	-	-	147 368
14	**Total**	**1 385 345**	**-**	**106 818**	**2 289 123**	**8 391**	**199 424**	**5 216 413**	**144 472**	**-**	**9 349 987**

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Albaraka Consolidation

		a	b	c	d	e	f	g	h	i	j
Line	**Asset classes \ Risk Weights**	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF and post-CRM)**
1	Sovereign (including central government and central bank)	342 639	-	-	-	-	-	-	-	-	342 639
2	Non-central government public sector entities	-	-	-	-	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	105 151	-	-	-	419 928	-	-	525 079
5	Securities Firms	-	-	-	-	-	-	-	-	-	-
6	Corporates (excluding corporate real estate as per line 9)	1 003 411	-	1 668	-	1 053		1 400 050	-	-	2 406 182
7	Regulatory Retail Portfolio	33 137	-	-	-	11	155 261	163 517	-	-	351 926
8	Secured by Residential Property	3 772	-	-	2 289 123	-	44 038	27 954	-	-	2 364 888
9	Secured by Commercial Real Estate	2 385	-	-	-	-	-	3 057 597	-	-	3 059 982
10	Equity	-	-	-	-	-	-	-	-	-	-
11	Past Dues Loans	-	-	-	-	7 327	125	-	144 472	-	151 924
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other assets	-	-	-	-	-	-	74 727	-	-	74 727
14	**Total**	1 385 345	-	106 818	2 289 123	8 391	199 424	5 143 772	144 472	-	9 277 346

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Albaraka Bank Limited

		a	b	c	d	e	f	g	h	i	j
Line	**Asset classes \ Risk Weights**	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF and post-CRM)**
1	Sovereign (including central government and central bank)	522 631	-	-	-	-	-	-	-	-	**522 631**
2	Non-central government public sector entities	-	-	-	-	-	-	-	-	-	**-**
3	Multilateral development banks	-	-	-	-	-	-	-	-	-	**-**
4	Banks	-	-	1 581 383	-	-	-	523 841	-	-	**2 105 223**
5	Securities Firms	-	-	-	-	-	-	-	-	-	**-**
6	Corporates (excluding corporate real estate as per line 9)	1 056 345	-	1 631	-	913		1 035 197	-	-	**2 094 085**
7	Regulatory Retail Portfolio	42 051	-	-	-	11	102 391	109 811	-	-	**254 265**
8	Secured by Residential Property	1 180	-	-	2 021 200	-	31 361		-	-	**2 053 741**
9	Secured by Commercial Real Estate	7 649	-	-	-	-	-	2 546 116	-	-	**2 553 765**
10	Equity	-	-	-	-	-	-	-	-	-	**-**
11	Past Dues Loans	-	-	-	-	12 877		91 808	123 854	-	**228 540**
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	**-**
13	Other assets	-	-	-	-	-	-	148 900	-	-	**148 900**
14	**Total**	**1 629 856**	**-**	**1 583 013**	**2 021 200**	**13 801**	**133 752**	**4 455 673**	**123 854**	**-**	**9 961 150**

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Albaraka Consolidation

		A	b	c	d	e	f	g	h	i	J
Line	**Asset classes \ Risk Weights**	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF and post-CRM)**
1	Sovereign (including central government and central bank)	522 636	-	-	-	-	-	-	-	-	**522 636**
2	Non-central government public sector entities	-	-	-	-	-	-	-	-	-	**-**
3	Multilateral development banks	-	-	-	-	-	-	-	-	-	**-**
4	Banks	-	-	1 581 383	-	-	-	523 841	-	-	**2 105 223**
5	Securities Firms	-	-	-	-	-	-	-	-	-	**-**
6	Corporates (excluding corporate real estate as per line 9)	1 056 345	-	1 631	-	913		1 035 197	-	-	**2 094 085**
7	Regulatory Retail Portfolio	42 051	-	-	-	11	102 391	109 811	-	-	**254 265**
8	Secured by Residential Property	1 180	-	-	2 021 200	-	31 361		-	-	**2 053 741**
9	Secured by Commercial Real Estate	7 649	-	-	-	-	-	2 546 116	-	-	**2 553 765**
10	Equity	-	-	-	-	-	-	-	-	-	**-**
11	Past Dues Loans	-	-	-	-	12 877		91 808	123 854	-	**228 540**
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	**-**
13	Other assets	-	-	-	-	-	-	134 772	-	-	**134 772**
14	**Total**	**1 629 861**	**-**	**1 583 01**	**2 021 200**	**13 801**	**133 752**	**4 441 545**	**123 854**	**-**	**9 947 027**

9. MARKET RISK

9.1. **MRA** – Qualitative disclosure requirements related to market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate resulting in losses due to movements in observable market variables such as profit rates, exchange rates and equity markets. In addition to these and other general market risk factors, the risk of price movements specific to individual issuers of securities is considered market risk. Albaraka Bank's exposure to market risk is limited in that the bank does not trade in marketable securities other than those that it is required to hold for liquid asset purposes, which are usually held to maturity and foreign currency, held in terms of its foreign exchange license.

9.2. **MR1** – Market risk under standardized approach

		Dec 22
		RWA
	General interest rate risk	-
2	Equity risk	-
3	Commodity risk	
4	Foreign exchange risk	15 995
5	Credit spread risk - non-securitisations	-
6	Credit spread risk - securitisations (non-correlation trading portfolio)	-
7	Credit spread risk - securitisations (non-correlation trading portfolio)	-
8	Default risk - non-securitisations	-
9	Default risk - securitisations (non-correlation trading portfolio)	
10	Default risk - securitisations (non-correlation trading portfolio)	
11	Residual risk add-on	
12	**Total**	**15 995**

10. REMUNERATION

PILLAR 3 REMUNERATION DISCLOSURES – 2022

10.1 **REMA** – Remuneration policy

Albaraka Bank Limited is required to make certain quantitative and qualitative remuneration disclosures on an annual basis in terms of the South African Prudential Authority's Basel Pillar III disclosure requirements.

The qualitative remuneration disclosures are provided below.

The Remuneration Committee (REMCO) and the Board of Directors are the main bodies that oversee remuneration. The Banks REMCO and Board of directors are mandated with the responsibility to review and approve the Banks remuneration structures including but not limited to annual increases, management incentives and commission structures. External consultants, Willis Towers Watson, were used to provide a remuneration increase trends report for the purposes of motivating remuneration increases for 2022. This was commissioned by REMCO and the Board.

Remuneration and benefits are one of the key principles of Al Baraka Bank's Human Resources strategy which is aligned to the Banks strategic objective of employee satisfaction and retention.

Al Baraka Bank Limited (ABL) is committed to ensuring that remuneration and benefits practices are in keeping with good corporate governance and industry best practice.

The organisations remuneration philosophy is to recruit, recognise and reward exceptional employees who resonate with the organisation's values, while ensuring the fair treatment of clients and sustainability of the organisation.

The purpose of the Remuneration policy is to serve as a set of guidelines to Management and staff regarding the implementation and review of remuneration and benefits practices at the Bank.

The scope of the policy is: -

- All Executives, Management and Employees.
- The latest amendment of the employee Remuneration policy was effective from 1 March 2020.
- The Executive Remuneration policy has been reviewed and is pending approval from the Board.

PRINCIPLES OF THE REMUNERATION POLICY

In order to ensure that remuneration is practiced through an explicit governance process, all remuneration, benefits and incentive reward schemes, including any amendments thereto are approved by the Remuneration Committee and the Board so as to ensure compatibility and fairness across the Bank.

All positions in ABL will be evaluated in terms of the job grading system adopted by the Bank and a job grade will be determined. ABL will establish salary scales in terms of these job grades.

It is the intention of ABL to remunerate all employees within the approved internal salary scales of their job grade, unless specifically approved by the Chief Executive.

Remuneration of employees will be reviewed once a year, based on their performance and the remuneration increase trends in the market, subject to the approval of the Remuneration Committee and the final approval of the Board. At the discretion of the Remuneration Committee other factors may be used to determine the review of remuneration structures.

Employee's remuneration will be established by having due regard to the organisation's profitability, budget, cash flow and regulatory requirements.

ABL seeks to reward and incentivise employees while making a concerted effort to align the best interests of its employees with that of the organisation, shareholders, and other stakeholders.

In keeping with the principle of ensuring the best interests of all stakeholders, the Bank strives to ensure that the remuneration incentives are structured in a manner that does not increase the risk or unfair treatment of the customer.

The intention is to promote the achievement of strategic business objectives while treating customers fairly and remunerating employees fairly.

To promote an ethical culture and ensure that the organisations remuneration structures do not contribute to conflicts of interests.

The Remuneration and benefits policy seeks to ensure that all employees are remunerated fairly in keeping with the peer group market related trends, while taking into account the complexity, size and nature of the business. The Bank undertakes to conduct a remuneration benchmarking survey every three to five years.

Incentive schemes are aimed at rewarding employees who perform above the required standard and are not aimed at replacing the normal remuneration of employees.

There is an expression of interest to explore a share incentive scheme. This may be further unpacked in the course of 2023 to ensure that the share option scheme aligns with the interests of both shareholders and management.

DEFINITION OF SENIOR MANAGEMENT AND MATERIAL RISK TAKERS

The Banks Executive Committee (EXCO) are regarded as senior management. The material risk takers form part of the Executive Committee.

DESIGN AND STRUCTURE OF REMUNERATION PROCESSES

The annual remuneration increases, and any management incentives are overseen independently by Remuneration committee and the Board which includes those for Risk and compliance employees.

Management commissions and incentive scheme structures are reviewed and approved by REMCO and the board prior to implementation of any such remuneration programmes at the Bank.

The Bank had adopted an inhouse pay for performance model that has been used in previous years. Each employee's performance is measured using a Performance development plan and is reviewed biannually through a formal performance appraisal process. The performance rating of each employee is moderated according to their individual and departmental performance. Should the employee achieve a below average performance rating, the employee's annual remuneration increase will be adjusted to a lower percentage as opposed to the approved annual remuneration increase amount. However, in 2022 a decision was taken to implement a consistent 5.9 % increase to all staff given the challenges of economic inflation rates.

The Bank does not have a long-term performance incentive programme.

REMUNERATION PACKAGES

1. **Cost to Company Packages:**

- Remuneration levels will be based on the cost to company “CTC” for all management employees and certain C band employees as determined by the Bank.

- For employees earning a cost to company package, all Company benefits including the Company’s contribution towards the provident fund, medical aid and 13th cheque is included in the cost to company package.

2. **Basic Salary packages:**

- For employees earning a basic salary package, the Bank will contribute the approved Company contributions towards the provident fund, medical aid, and 13th cheque.

FIXED AND VARIABLE REMUNERATION

a) 13th Cheque

The Bank undertakes to pay annually in December to all permanent employees on a basic salary package who are fully employed during the month, a 13th cheque equal to the employee's salary payable for that month, provided that those employees have completed at least one calendar year service.

A pro rata payment will be made to employees with less than one year service.

Employees who leave the service of the Bank prior to 1 December of any year will not be entitled to any bonus in respect of that year.

Employees who are in the employ of the Bank as at 1 December but have given notice for termination of service prior to or during December of any year will not be entitled to any bonus in respect of that year.

b) Medical Aid

Membership on the Company medical aid scheme as approved by the Company is compulsory for all permanent staff, unless the employee can prove that they are a dependant on their spouses or parents medical. Proof of membership on another medical aid must be provided to the HR Department.

c) Provident Fund

Membership on the Company provident fund scheme as approved by the Company is compulsory for all permanent staff.

d) Maternity Leave Benefits

Female employees are entitled to four (4) months maternity leave at 33.3% of their salary. Should an employee resign after receiving this benefit without returning to work post the maternity leave period, this amount will have to be refunded to the Bank.

e) Long Service Awards

The following long service awards are approved by REMCO and the Board:

Years of service	Long Service Awards
10 years	R5 000
15 years	R10 000
20 years	R15 000
25 years	R20 000
30 years	R25 000
35 years	R30 000

The above long service awards are discretionary and are subject to change.

The employee must be in the employ of the Bank on their anniversary date of the years of service as indicated in the table above, in order to qualify for the long service award.

f) Incentive Schemes

Incentives schemes include, commission, management incentives, employee performance or special circumstances allowances, long service awards or any other form of discretionary incentives.

Incentives will be determined with respect to performance of three levels, namely the Bank, division and individual. Different weightings may apply depending on factors such as seniority of the position.

Different incentive schemes may be established in order to accommodate the different requirements of divisions or categories of employees.

To ensure compatibility across ABL, all incentives schemes are approved by the Remuneration Committee and the Board of Directors.

All incentive schemes must be approved annually by the Remuneration Committee and the Board of Directors in advance of the financial year in which they will apply.

Details of the incentive scheme must be documented before their application and the targets communicated to the incumbents.

Incentive schemes are discretionary. It does not form part of the guaranteed remuneration package.

Incentive schemes may change or may be discontinued depending on internal and external factors such as, but not limited to Company profitability and affordability and employee performance.

10.2 **REM1** - Remuneration awarded during the financial year

			a	b
	Remuneration amount		**Senior management**	**Other material risk-takers**
1	**Fixed Remuneration**	Number of employees	18	
2		Total fixed remuneration (rows 3 + 5+ 7)	25,911,038	
3		Of which: cash-based	25,911,038	
4		Of which: deferred		
5		Of which: shares or other share-linked instruments		
6		Of which: deferred		
7		Of which: other forms		
8		Of which: deferred		
9	**Variable Remuneration**	Number of employees		
10		Total variable remuneration (rows 11 + 13+ 15)		
11		Of which: cash-based		
12		Of which: deferred		
13		Of which: shares or other share-linked instruments		
14		Of which: deferred		
15		Of which: other forms		
16		Of which: deferred		
17	**Total remuneration (rows 2 + 10)**		25,911,038	

The Bank has not awarded any guaranteed bonuses, sign on awards and severance payments during the last financial year.

The Bank does not have any deferred or retained forms of remuneration.

Discretionary management incentive bonuses, which falls under the category of variable remuneration, was not paid in 2022 due to various factors which has impacted the Bank's ability to meet profitability targets.