AL SALAM BANK-BAHRAIN B.S.C.

BASEL III - PILLAR III

DISCLOSURES

31 December 2016

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1 Introduction

The Central Bank of Bahrain ("CBB") requirements, which act as a common framework for the implementation of the Basel III accord in the Kingdom of Bahrain came into effect on 1 January 2015.

The Basel III accord is built on three pillars:

- **Pillar I** deals with the basis for the computation of the regulatory capital adequacy ratio. It defines the calculation of Risk Weighted Assets (RWAs) for credit risk, market risk and operational risk, as well as the derivation of the regulatory capital base. The capital adequacy ratio is then calculated as the ratio of the Bank's regulatory capital to its total RWAs.
- **Pillar II** involves the process of supervisory review of a financial institution's risk management framework and its capital adequacy.
- **Pillar III** relates to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process.

The disclosures in this document are in addition to the disclosures included in the annual condensed consolidated financial statements which are prepared in accordance with Financial Accounting Standards issued by Accounting and Auditing Organization for Islamic Financial Institutions and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2) and relevant CBB directives.

2 Financial Performance and Position

The Bank was incorporated on 19 January 2006 in the Kingdom of Bahrain. The Bank operates under Islamic Shari'a principles in accordance with the regulatory requirements for Islamic banks set by the CBB. The Bank's ordinary shares are listed in the Bahrain Bourse and Dubai Financial Market and operates under an Islamic retail banking license issued by CBB.

During 2014, the Bank made an offer to acquire 100% of the issued and paid up shares of BMI, at an exchange ratio of eleven new shares of the Bank for each share of BMI. The acquisition through share exchange was approved by the shareholders of the Bank in their Extraordinary General Assembly Meeting held on 8 October 2013. The Bank issued 643,866,927 new shares of the Bank. This resulted in proceeds of BD 72,886 thousands from the new issue, including a share premium of BD 8,499 thousands. The goodwill arising out of above acquisition amounted to BD 25,971 thousands.

During the year, the Board of Directors of BMI recommended to the Bank to approve the surrender of the banking license and commercial registration of BMI. On 29 November 2016, the shareholders of BMI resolved to approve the transfer of business of BMI to the Bank. The merger notice period will end during 2017. Subsequent to merger date, the Bank will take over all the rights and assume the obligations of BMI at their carrying values.

Further, during the year, the Bank acquired 70% stake in Al Salam Bank Seychelles Limited ("ASBS"), (previously "BMIO") an offshore bank in Seychelles through share allotment as detailed in note 3 of the consolidated financial statements for the year ended 31 December 2016. ASBS operates under an offshore banking license issued by the Central Bank of Seychelles. All legal formalities in relation to the share allotment have been completed and the process of converting ASBS into fully compliant Islamic operations is in progress. In accordance with CA-B.1.4 of the CBB Rulebook, for the purpose of disclosure of risk weighted exposures and for capital adequacy calculation, the Bank has obtained an approval from the CBB to aggregate the risk weighted exposures of ASBS and hence, the risk weighted exposures of ASBS do not form part of all disclosures in this Basel III - Pillar III Disclosure Document.

The Bank and its subsidiaries, BMI and ASBS, operate through ten branches in the Kingdom of Bahrain and Seychelles. The Bank together with its subsidiaries are referred to as the "Group".

The consolidated financial statements and capital adequacy regulatory disclosures of the Group have been prepared on a consistent basis where applicable.

Table 2.1 Key Financial Indicators **(PD 1.3.9 a,b,c)**

(BD '000s)

	Dec-2016	Dec-2015	Dec-2014	Dec-2013	Dec-2012	Dec-2011
Total operating income	63,000	58,898	46,068	26,087	23,062	12,740
Net profit	16,096	10,548	15,821	12,372	10,308	497
Total assets	1,681,293	1,656,643	1,955,297	1,088,252	942,218	923,907
Total equity	324,899	320,002	328,803	246,097	208,065	200,625
Key Ratios	**Dec-2016**	**Dec-2015**	**Dec-2014**	**Dec-2013**	**Dec-2012**	**Dec-2011**
Earnings per share (fils)	7.6	5.8	8.0	8.3	6.9	0.2
Return on average assets (%)	1.0	0.6	1.0	1.2	1.1	0.1
Return on average equity (%)	5.0	3.3	5.5	5.4	5.1	0.2
Cost to operating income (%)	41.4	44.7	57.3	43.7	49.7	91.0
Dividend payout ratio (%)	66.5	86.2	67.7	60.5	72.6	-
Dividend yield ratio (%)	4.2	5.4	3.8	3.6	9.4	-
Net profit margin on Islamic financing contracts (%)	2.7%	2.6%	2.8%	2.6%	1.4%	1.3%

2 Financial Performance and Position (continued)

Table 2.2 Financial Summary

(BD '000s)

Consolidated Financial Position	Dec-2016	Dec-2015	Dec-2014	Dec-2013	Dec-2012	Dec-2011
Cash and balances with banks and Central Bank of Bahrain	131,990	152,572	277,751	86,097	66,843	72,318
Sovereign Sukuk	358,269	350,474	145,789	102,937	117,612	125,027
Murabaha and Wakala receivables from banks	182,452	103,345	182,110	118,227	103,290	135,698
Corporate Sukuk	28,934	50,472	88,193	91,106	74,993	49,650
Murabaha financing	232,556	245,168	270,428	156,142	127,537	135,383
Mudaraba financing	238,313	239,031	189,601	114,084	99,572	57,706
Ijarah Muntahia Bittamleek	188,485	155,217	141,052	110,631	82,954	66,477
Musharaka	12,304	7,154	10,851	19,145	17,467	11,711
Assets under conversion	34,465	32,032	308,659	-	-	-
Non-trading investments	122,073	123,514	147,096	125,923	204,202	223,320
Investments in real estate	51,863	68,786	65,149	66,718	2,500	2,500
Development properties	17,781	49,021	59,262	65,891	-	-
Investment in associates	10,561	9,994	10,492	8,537	7,573	-
Other assets	25,436	43,892	32,893	22,814	36,908	43,028
Goodwill	25,971	25,971	25,971	-	-	-
Assets held-for-sale	19,840	-	-	-	-	-
Murabaha and Wakala payables to banks	132,032	120,795	121,266	106,796	90,852	104,573
Wakala payables to non-banks	723,439	842,570	1,034,052	584,365	521,929	515,147
Current accounts	279,609	224,366	226,648	70,532	83,921	66,585
Term financing	91,837	35,986	21,337	23,637	-	-
Liabilities under conversion	217	2,327	149,621	-	-	-
Other liabilities	49,043	48,246	45,418	30,979	19,175	20,721
Liabilities relating to assets classified as held-for-sale	11,421	-	-	-	-	-
Equity of Investment Accountholders (EOIA)	68,796	62,351	28,152	25,846	18,276	16,256
Capital	**Dec-2016**	**Dec-2015**	**Dec-2014**	**Dec-2013**	**Dec-2012**	**Dec-2011**
Capital adequacy (%)	21.6	20.1	18.7	21.4	20.9	24.9
Equity/total assets (%)	19.3	19.3	16.8	22.6	22.1	21.7
Total deposits/equity (times)	3.3x	3.5x	4.3x	2.8x	3.0x	3.0x
Liquidity and Other Ratios	**Dec-2016**	**Dec-2015**	**Dec-2014**	**Dec-2013**	**Dec-2012**	**Dec-2011**
Islamic financing contracts/total assets (%)	39.9	39.0	31.3	36.0	34.8	29.4
Investments/total assets (%)	14.9	18.2	22.8	34.3	31.2	30.4
Liquid assets/total assets (%)	40.0	36.6	31.7	28.2	30.5	36.0
Islamic financing contracts/customer deposits (%)	62.7	57.3	47.5	57.5	52.5	45.4
Number of employees	333	368	457	191	202	215

3 Capital Structure

The Group's total capital comprises of CET 1 and Tier 2 capital which is detailed in the following table: **(PD 1.3.11)**

The issued and paid up share capital of the Group was BD 214,093 thousands at 31 December 2016, comprising of 2,140,931 thousand shares of BD 0.100 each. (PD 1.3.11)

The Group's total capital of BD 303,454 thousands comprises CET 1, AT 1 and Tier 2 capital as detailed below: **(PD 1.3.11)**

The management believes that the current capital structure addresses the current and future activities of the Group.

Table 3.1 Breakdown of the Bank's Capital Base **(PD 1.3.12, 13, 14, 15, 16)**

(BD '000s)

	CET1	AT1	T2
Issued and fully paid up ordinary shares	214,093		
Treasury Shares	(1,646)		
Legal/statutory reserves	15,338		
Share premium	12,209		
Retained earnings	21,641		
Current interim cumulative net income / losses	16,219		
Unrealized gains and losses on available for sale financial instruments	445		
Gains and loss resulting from converting foreign currency subsidiaries to the parent currency	(2,708)		
Unrealized gains and losses arising from fair valuing equities	23,540		
Total Minority Interest in banking subsidiaries given recognition in CET1 capital	416		
Total CET1 capital prior to regulatory adjustments	**299,547**		
Less:			
Goodwill	(25,971)		
Total Common Equity Tier 1 capital after the regulatory adjustments above	**273,576**		
Instruments issued by banking subsidiaries to third parties		5	6
Asset revaluation reserve - Property, plant, and equipment			24,234
General financing loss provisions			5,633
Total Available AT1 & T2 Capital	**273,576**		**29,873**
Total Tier 1		**273,581**	
Total Capital (PD 1.3.20 a)			**303,454**

Table 3.2

(BD '000s)

	Risk Weighted Exposures		
	Credit	Operational	Market
Risk Weighted Exposures (self-financed)	1,308,433	84,840	8,053
Risk Weighted Exposures (URIA)	4,128	-	-
Aggregation of Risk Weighted Exposures	1,754	870	-
Risk Weighted Exposures after Aggregation	**1,314,315**	**85,710**	**8,053**
Total Risk Weighted Exposures			**1,408,078**
Investment Risk reserve (30% only)			**(2)**
Total Adjusted Risk Weighted Exposures			**1,408,076**

	CET 1	T1	Total Capital
% of Total Risk Weighted Exposures (CAR) (PD 1.3.20 a)	**19.43%**	**19.43%**	**21.55%**
Minimum Required by CBB Regulations under Basel III (after CCB)	**9.00%**	**10.50%**	**12.50%**

3 Capital Structure (continued)

Table 3.3 (PD 1.3.20 b)

Capital Adequacy Ratio of the Group's significant subsidiaries*:	CET 1	T1	Total
BMI Bank B.S.C. (c)	12.29%	12.29%	12.56%

* Calculated in accordance with Capital Adequacy Module of Volume 2 issued by CBB. ASBS has not been considered as a significant subsidiary as the regulatory capital is less than 5% of the Group's consolidated capital base.

4 Capital Adequacy Ratios (CAR)

No impediments on the transfer of funds or reallocation of regulatory capital exist and the Group has adequate capital to support the current and future activities of the Group. **(PD 1.3.6.c and PD 1.3.16)**

4.1 Capital Management

Internal Capital Adequacy Assessment Process (ICAAP)

The Group’s capital management aims to maintain an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always maintaining minimum regulatory ratio requirements.

The key principles driving capital management include:

- Adequate capital is maintained as buffer for unexpected losses to protect stakeholders i.e. shareholders and depositors.
- Maximize return on capital and generate sustainable return above the cost of capital.

The adequacy of the Group's capital is monitored using, primarily, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the CBB. The primary objective of the Group's capital management is to ensure that it complies with externally imposed capital requirements. The Group complied in full with all externally imposed capital requirements during the year ended 31 December 2016.

5 Profile of Risk-Weighted Assets and Capital Charge

The Group has adopted the standardized approach for credit risk and market risk and the basic indicator approach for operational risk for regulatory reporting purposes. The Group’s risk-weighted capital requirement for credit, market and operational risks are given below.

5.1 Credit Risk

A Definition of exposure classes per Standard Portfolio (PD 1.3.21 a)

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard portfolio approach mentioned under the CBB’s Basel III capital adequacy framework covering the standardized approach for credit risk.

The descriptions of the counterparty classes along with the risk weights to be used to derive the risk weighted assets are as follows:

a. Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on Bahrain and GCC sovereigns are risk weighted at 0%. Claims on all other sovereigns are given a risk weighting of 0% where such claims are denominated and funded in the relevant domestic currency of that sovereign. Claims on sovereigns, other than those mentioned above are risk weighted based on their credit ratings.

b. Claims on public sector entities (PSEs)

Bahrain PSEs are assigned 0% risk weight. Other sovereign PSE’s, in the relevant domestic currency and for which the local regulator has assigned risk weight as 0%, are assigned 0% risk weight by the CBB. PSEs other than those mentioned above are risk weighted based on their credit ratings.

c. Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims on locally incorporated banks may be assigned a risk weighting of 20% where such claims on the banks are of an original maturity of three months or less and the claims are denominated and funded in either Bahraini Dinars or US Dollars.

Preferential risk weights that are one category more favorable than the standard risk weighting are assigned to claims on foreign banks licensed in Bahrain of an original maturity of three months or less denominated and funded in the relevant domestic currency. Such preferential risk weights for short-term claims on banks licensed in other jurisdictions are allowed only if the relevant supervisor also allows this preferential risk weighting to short-term claims on its banks.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation. Significant investment in subordinated debt of banking, securities and financial entities are risk weighted at 250% and investments in excess of 15% of the Bank's CET1, then the excess amount will be deducted from the bank's capital.

d. Claims on corporate portfolio, including insurance companies

Claims on corporate portfolio including insurance companies are risk weighted based on credit ratings. Risk weightings for unrated corporate claims are assigned

e. Claims on regulatory retail portfolio

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due Islamic financing contracts), if it meets the criteria mentioned in the CBB’s rule book.

f. Mortgages

Claims secured by mortgages on residential mortgage and commercial real estate are subject to a minimum of 35%, 75% and 100% risk weight respectively.

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

g. Past due receivables (PD 1.3.22 a)
The unsecured portion of the account receivables and lease payment receivables (other than a qualifying residential mortgage financing contract) that is past due for more than 90 days, is risk-weighted as follows (net of specific provisions and including partial write-offs):

(a) 150% risk weight when specific provisions are less than 20% of the outstanding amount of the facility.
(b) 100% risk weight when specific provisions are 20% or more of the outstanding amount of the facility.

h. Investment in securities and sukuk
Investments in listed equities are risk weighted at 100% while unlisted equities are risk weighted at 150%.

i. Holding of real estate
All other holdings of real estate by banks (i.e. owned directly, subsidiaries or associate companies or other arrangements such as trusts, funds or REITs) are risk-weighted at 200%. Investment in listed real estate companies and investment in unlisted real estate companies are risk-weighted at 300% and 400% respectively. Premises occupied by the Group are weighted at 100%.

j. Underwriting of non-trading book items
Where the Group has acquired assets on its consolidated statement of financial position in the banking book which it is intending to place with third parties under a formal arrangement and is underwriting the placement, the following risk weightings apply during the underwriting period (which may not last for more than 90 days). Once the underwriting period has expired, the usual risk weights should apply.

(a) For holdings of private equity, a risk weighting of 100% applies instead of the usual 150%.
(b) For holdings of real estate, a risk weight of 100% applies instead of the usual 200% risk weight.

k. Other assets
These are risk weighted at 100%.

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

Table 5.1 Funded and Unfunded Exposures

(BD '000s)

	Gross Credit Exposure	Average Gross Credit Exposure *	Funded Exposure	Unfunded Exposure (after CCF)	Cash Collateral	Eligible Guarantees	Eligible CRM	Risk-Weighted Assets	Minimum Capital Charge
Cash	8,803	6,916	8,803	-	-	-	-	-	-
Claims on sovereigns	515,287	512,578	498,578	16,709	-	-	-	5,738	717
Claims on banks	299,654	244,071	264,501	35,153	5,861	-	9,066	68,052	8,507
Claims on corporate portfolio	241,609	254,547	189,771	51,838	14,853	-	17,716	198,287	24,786
Claims on regulatory retail portfolio	30,928	28,622	30,928	-	853	-	853	22,556	2,820
Mortgages	298,398	269,199	296,991	1,407	-	-	56,638	207,489	25,936
Past due receivables over 90 days	93,093	121,063	91,954	1,139	-	-	883	114,002	14,250
Investments in Securities and Sukuk	17,984	19,287	17,984	-	-	-	-	36,366	4,546
Holding of Real Estate	200,968	216,131	196,323	4,645	-	-	-	628,132	78,517
Other assets and Specialized financing	45,479	42,150	44,198	1,281	506	-	12,966	31,939	3,992
Total	**1,752,203**	**1,714,564**	**1,640,031**	**112,172**	**22,073**	**-**	**98,122**	**1,312,561**	**164,071**

* The Group has calculated the average gross credit exposures based on average quarterly balances.

Note a: In accordance with the Public Disclosure requirements to disclose the regulatory capital requirements for credit risk under standardised approach, have been extracted from the workings prepared based on the Form PIRI and Form PIR submitted to the CBB by the Bank and BMI respectively.

Note b: The gross credit exposure is arrived at after considering the following:
- inclusion of unfunded exposure (after CCF); and
- deduction of excess amount over maximum permitted large exposure limit.

Note c: The unfunded exposure before (CCF) as of 31 December 2016 is BD 210,418 thousands.

Following is the Gross credit exposure by Islamic financing contracts which represents the exposure on accounts receivable and lease payments receivable which are covered by eligible collateral: **(PD 1.3.17) (PD 1.3.25 b, c)**

Table 5.2 Portfolio by Islamic financing contracts (excluding equity contracts and assets under conversion)

(BD '000s)

	Gross Credit Exposure	Average Gross Credit Exposure *	Funded Exposure	Unfunded Exposure (after CCF)	Eligible Guarantees	Eligible CRM	Risk-Weighted Assets	Minimum Capital Charge
Sovereign Sukuk	363,593	340,929	363,593	-	-	-	4,961	620
Murabaha and Wakala receivables from banks	186,875	147,221	186,875	-	-	-	23,519	2,940
Corporate sukuk	29,254	41,284	29,254	-	-	-	26,088	3,261
Murabaha financing	257,956	267,547	238,007	19,949	-	33,153	186,665	23,333
Mudaraba financing	260,337	242,220	239,715	20,622	-	5,592	192,671	24,084
Ijarah Muntahia Bittamleek	187,667	167,544	187,648	19	-	57,643	109,593	13,699
Musharaka	45,942	18,479	12,362	33,580	-	-	56,395	7,049
Total	**1,331,624**	**1,225,224**	**1,257,454**	**74,170**	**-**	**96,388**	**599,892**	**74,986**

Note: The above amounts include profit accrued on these contracts.
* The Group has calculated the average gross credit exposures based on average quarterly balances.

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

Excessive risk concentration (PD 1.3.26 a)
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk concentrations and thresholds
The first level of protection against undue credit risk is through country, industry and threshold limits, together with customer and customer bank credit limits, set by the Risk Committee. Credit exposure to individual customers or customer banks is then controlled through a tiered hierarchy of delegated approval authorities.

Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of connected counterparties exceeding 15 percent of total capital.

Risk mitigation, collateral and other credit enhancements
The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly include cash, lien on property and guarantees from banks. As at 31 December 2016, the collaterals eligible for CRM (after applying regulatory haircuts) amounted to BD 98,122 thousands.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses with respect to Murabaha and Ijarah facilities. The Bank also makes use of master netting agreements with counterparties where relevant. **(PD 1.3.25 a)**

The main types of guarantors include rated banks and other financial institutions and Sovereigns which are rated by ECAI's along with personal guarantees of the Board of Directors/key management personnel of the borrower and other high net worth individuals.

The Group obtains additional collateral as and when the value of the collateral originally obtained is assessed at lower than the minimum acceptable Loan to Value (LTV) ratio of collateral. Also, where the customer is not in a position to provide additional collateral, the Group in consultation with its legal department evaluates the available legal and contractual options.

The Group ensures that at the inception of the facility, third party valuation of the tangible collaterals is obtained and performs an annual review of the facility whereby the revised collateral valuation is obtained from the third party.

In case of default, the Group will work with the counterparty to discuss how the outstanding facility can be settled. As a last resort, the counterparty's assets will be used to settle the outstanding obligation.

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

5.1.1 Geographical Distribution of Exposures

The exposures are allocated to individual geographic areas based on the country where the exposure risk specific to the facility exists. The Geographical distribution of exposures by exposure type (including financing contracts, non trading investments, investments in real estate, development property and investment in associates) and funded or unfunded by is as follows:

Table 5.3 (PD 1.3.23 b) **(BD '000s)**

Contribution by Equity and Current Accounts							
Exposure type	**GCC Countries**	**Arab World**	**Europe**	**Asia Pacific**	**North America**	**Others**	**Total**
Cash and balances with banks and Central Bank of Bahrain	109,171	25	13,255	154	9,177	208	**131,990**
Sovereign Sukuk	353,334	-	-	2,627	-	2,308	**358,269**
Murabaha and Wakala receivables from banks	179,907	-	-	-	-	2,545	**182,452**
Corporate Sukuk	25,783	-	3,151	-	-	-	**28,934**
Murabaha financing	145,688	30,799	21,007	34,120	-	942	**232,556**
Mudaraba financing	227,002	-	1	11,310	-		**238,313**
Ijarah Muntahia Bittamleek	181,684	-	6,800	-	-	1	**188,485**
Musharaka	12,304	-	-	-	-	-	**12,304**
Assets under conversion	29,131	-	3	-	-	5,331	**34,465**
Non-trading investments	110,779	-	2,196	4,210	358	4,530	**122,073**
Investments in real estate	51,863	-	-	-	-	-	**51,863**
Development properties	14,838	-	2,943	-	-	-	**17,781**
Investment in associates	-	7,531	-	-	-	3,030	**10,561**
Other assets	25,139	-	227	38	-	32	**25,436**
Goodwill	25,971	-	-	-	-	-	**25,971**
Assets held-for-sale	-	-	-	-	-	19,840	**19,840**
Total funded exposures	**1,492,594**	**38,355**	**49,583**	**52,459**	**9,535**	**38,767**	**1,681,293**
Contingent Liabilities & Commitments	188,540	13,377	427	11,602	-	-	**213,946**
Total unfunded exposures	**188,540**	**13,377**	**427**	**11,602**	**-**	**-**	**213,946**
Total exposures	**1,681,134**	**51,732**	**50,010**	**64,061**	**9,535**	**38,767**	**1,895,239**

Table 5.4 (PD 1.3.23 b) **(BD '000s)**

Contribution by Equity of investment account holders							
Exposure type	**GCC Countries**	**Arab World**	**Europe**	**Asia Pacific**	**North America**	**Others**	**Total**
Murabaha and Wakala receivables from banks	68,796	-	-	-	-	-	**68,796**
Total funded exposures	**68,796**	**-**	**-**	**-**	**-**	**-**	**68,796**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**68,796**	**-**	**-**	**-**	**-**	**-**	**68,796**

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

5.1.1 Geographical Distribution of Exposures (continued)

The Group has a certain few past due financing contracts that have not been settled as of 31 December 2016. As at 31 December 2016, a specific provision of BD 41,102 thousands (31 December 2015: BD 24,513 thousands) has been taken against past due financing contracts. During the period, additional specific provisions were made amounting to BD 23,491 thousands and recoveries were made amounting to BD 2,626 thousands. Also as of 31 December 2016, a collective impairment provision of BD 5,632 thousands (31 December 2015: BD 5,049 thousands) has been maintained against financing contracts. During the year, additional collective impairment provision was created amounting to BD 708 thousands. (PD 1.3.23 h, i)

Table 5.5 The geographical distribution of exposures including impaired assets and the related impairment provisions **(PD 1.3.23 i)**

(BD '000s)

Contribution by Equity and Current Account					
	Gross Credit Exposure	**Past Due Financing Contracts including Impaired Financing Contracts**	**Specific Provision against Financing Contracts**	**Collective Impairment Provision Financing Contracts**	**Impaired Financing Contracts**
GCC Countries	1,681,134	155,667	14,356	5,632	58,366
Arab World	51,732	-	-	-	-
Europe	50,010	7,292	8,117	-	7,292
Asia Pacific	64,061	26,296	18,372		26,297
North America	9,535	-	-	-	-
Others	38,767	66	257	-	66
Total	**1,895,239**	**189,321**	**41,102**	**5,632**	**92,021**

Table 5.6

(BD '000s)

Contribution by Equity of Investment Accountholders					
	Gross Credit Exposure	**Past Due Financing Contracts including Impaired Financing Contracts**	**Specific Provision Financing Contracts**	**Collective Impairment Provision Financing Contracts**	**Impaired Financing Contracts**
GCC Countries	68,796	-	-	-	-
Total	**68,796**	**-**	**-**	**-**	**-**

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

5.1.2 Exposure by Industry

Table 5.7 Exposure by type of credit exposure **(PD 1.3.23 c)**

(BD '000s)

Contribution by Equity and Current Account								
Exposure Type	**Trading and Manufacturing**	**Banks and Financial Institutions**	**Real Estate**	**Aviation**	**Individuals**	**Government**	**Others**	**Total**
Cash and balances with banks and Central Bank of Bahrain	-	45,819	-	698	-	80,060	5,413	**131,990**
Sovereign Sukuk	9,309	110	-	-	-	348,850	-	**358,269**
Murabaha and Wakala receivables from banks	-	182,452	-	-	-	-	-	**182,452**
Corporate Sukuk	-	15,610	7,222	-	-	6,102	-	**28,934**
Murabaha financing	57,652	47,250	38,710	-	70,971	16,085	1,888	**232,556**
Mudaraba financing	14,700	32,702	47,921	-	51,653	65,747	25,590	**238,313**
Ijarah Muntahia Bittamleek	17,507	35	85,032	7,308	56,588	1,128	20,887	**188,485**
Musharaka	53	-	6,019	-	6,232	-	-	**12,304**
Assets under conversion	-	1,871	7,574	-	11,247	-	13,773	**34,465**
Non-trading investments	-	123	92,221	2,025	-	1,537	26,167	**122,073**
Investments in real estate	-	-	51,863	-	-	-	-	**51,863**
Development properties	-	-	17,781	-	-	-	-	**17,781**
Investment in associates	-	10,561	-	-	-	-	-	**10,561**
Other assets	1,184	-	7,953	214	3,529	6,356	6,200	**25,436**
Goodwill	-	25,971	-	-	-	-	-	**25,971**
Invetments held-for-sale	-	-	19,840	-	-	-	-	**19,840**
Total funded exposures	**100,405**	**362,504**	**382,136**	**10,245**	**200,220**	**525,865**	**99,918**	**1,681,293**
Contingent Liabilities & Commitments	23,395	40,390	72,566	-	8,412	33,417	35,766	**213,946**
Total unfunded exposures	**23,395**	**40,390**	**72,566**	**-**	**8,412**	**33,417**	**35,766**	**213,946**
Total exposures	**123,800**	**402,894**	**454,702**	**10,245**	**208,632**	**559,282**	**135,684**	**1,895,239**

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1.2 Exposure by Industry (continued)

Table 5.8 Exposure by type of credit exposure **(PD 1.3.23 c)**

(BD '000s)

Contribution by Equity of Investment Accountholders								
Exposure Type	**Trading and Manufacturing**	**Banks and Financial Institutions**	**Real Estate**	**Aviation**	**Individuals**	**Government**	**Others**	**Total**
Murabaha and Wakala receivables from banks	-	68,796	-	-	-	-	-	**68,796**
Total funded exposures	**-**	**68,796**	**-**	**-**	**-**	**-**	**-**	**68,796**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-	**-**
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**-**	**68,796**	**-**	**-**	**-**	**-**	**-**	**68,796**

* Includes specialised financing hospitality sector.

Table 5.9 The exposure by industry including impaired assets and the related impairment is as follows: **(PD 1.3.23 h)**

(BD '000s)

	Contribution by Equity and Current Account		**Contribution by Equity of Investment Accountholders**	
	Past Due Financing Contracts including Impaired Financing Contracts	**Specific Provision against Financing Contracts**	**Past Due Financing Contracts including Impaired Financing Contracts**	**Specific Provision against Financing Contracts**
Trading and manufacturing	53,670	22,013	-	-
Banks and financial institutions	990	4,041	-	-
Real estate	34,907	2,222	-	-
Aviation	-	7,600	-	-
Individuals	32,567	2,559	-	-
Government	20,379	-	-	-
Others	46,808	2,667	-	-
Total	**189,321**	**41,102**	**-**	**-**

5.1 Credit Risk (continued)

5.1.3 Exposure by External Credit Rating

The Group uses public information provided by external rating agencies (accredited External Credit Assessment Institutions – ECAI). The lowest of the ratings based on information available to public is used as an input in computing rated exposures. **(PD 1.3.22 c, d, e)**

Table 5.10 **(BD '000s)**

	Gross Credit Exposure*	Rated Exposure	Unrated Exposure
Cash	8,803	-	8,803
Claims on sovereigns	515,287	-	515,287
Claims on banks	299,654	188,173	111,481
Claims on corporate portfolio	241,609	-	241,609
Regulatory retail portfolio	30,928	-	30,928
Mortgages	298,398	-	298,398
Past due receivables over 90 days	93,093	-	93,093
Investments in Securities and Sukuk	17,984	-	17,984
Holding of Real Estate	200,968	-	200,968
Other assets and Specialized financing	45,479	-	45,479
Total	**1,752,203**	**188,173**	**1,564,030**

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio through the internal risk rating system. As such, the Group uses internal risk ratings that are supported by a variety of financial analytics, combined with processed market information, to provide main inputs for measurement of counterparty credit risk. All internal ratings are tailored to various categories and are derived in accordance with the Group's credit policy and are assessed and updated on a regular basis. **(PD 1.3.22 e)**

* Gross credit exposure above have been extracted from the workings prepared based on the Form PIRI and Form PIR submitted to the CBB by the Bank and BMI respectively.

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

5.1.3 Exposure by External Credit Rating (continued)

Note a: In accordance with the Public Disclosure requirements to disclose the regulatory capital requirements for credit risk under standardised approach, the above amounts have been extracted from the workings prepared based on the Form PIRI and Form PIR submitted to the CBB by the Bank and BMI respectively.

Note b: The gross credit exposure is arrived at after considering the following:
- inclusion of unfunded exposure (after CCF);
- risk weighting of excess amount over maximum permitted large exposure limit at 800%.

5.1.4 Maturity Analysis of Exposures

Table 5.11 Residual contractual maturity of the Group's major types of funded credit exposures are as follows: (PD 1.3.23 g) (PD 1.3.24 a)

(BD '000s)

	Up to 3 months	3 month to 1 year	Total within 12 months	1 – 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total Over 12 months	Total *
Cash	8,803	-	**8,803**	-	-	-	-	**-**	**8,803**
Claims on sovereigns	89,620	41,767	**131,387**	131,230	220,840	-	15,121	**367,191**	**498,578**
Claims on banks	234,355	20,847	**255,202**	5,403	3,896	-	-	**9,299**	**264,501**
Claims on corporate portfolio	11,724	52,002	**63,726**	100,461	25,584	-	-	**126,045**	**189,771**
Regulatory retail portfolio	4,237	368	**4,605**	14,646	11,310	367	-	**26,323**	**30,928**
Mortgages	25,791	26,769	**52,560**	93,481	111,927	31,131	7,892	**244,431**	**296,991**
Past due receivables over 90 days	32,924	2,239	**35,163**	44,727	11,662	116	286	**56,791**	**91,954**
Investments in Securities and Sukuk	334	1,947	**2,281**	12,657	-	-	3,046	**15,703**	**17,984**
Holding of Real Estate	2,946	2,355	**5,301**	183,226	7,796	-	-	**191,022**	**196,323**
Other assets and Specialized financing	17,358	1,705	**19,063**	8,900	15,522	268	445	**25,135**	**44,198**
Total	**428,092**	**149,999**	**578,091**	**594,731**	**408,537**	**31,882**	**26,790**	**1,061,940**	**1,640,031**

Table 5.12 The residual contractual maturity analysis of unfunded exposures after applying CCF is as follows:

(BD '000s)

	Up to 3 months	3 month to 1 year	Total within 12 months	1 – 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total Over 12 months	Total *
Claims on Sovereigns	-	15,707	**15,707**	1,002	-	-	-	**1,002**	**16,709**
Claims on banks	35,138	15	**35,153**	-	-	-	-	**-**	**35,153**
Claims on corporate portfolio	16,967	5,106	**22,073**	17,997	11,691	69	8	**29,765**	**51,838**
Mortgages	1,259	120	**1,379**	9	19	-	-	**28**	**1,407**
Past due receivables over 90 days	70	-	**70**	1,069	-	-	-	**1,069**	**1,139**
Holding of Real Estate	155	435	**590**	4,055	-	-	-	**4,055**	**4,645**
Other assets and Specialized financing	10	262	**272**	110	899	-	-	**1,009**	**1,281**
Total	**53,599**	**21,645**	**75,244**	**24,242**	**12,609**	**69**	**8**	**36,928**	**112,172**

Unfunded exposures are divided into the following exposure types in accordance with the calculation of credit risk weighted assets in the CBB's Basel III capital adequacy framework:

Credit related contingent items: Credit related contingent items comprise undrawn contracted financing commitments and operating lease commitments as detailed below:

Undrawn amount on Islamic financing contracts, operating lease commitments and other commitments represent commitments that have not been drawn down or utilized at the reporting date and are due to be paid from the future use of the resources respectively. The nominal amount provides the calculation base to which a CCF is applied for calculating the exposure. CCF ranges between 20% and 50% for commitments with original maturity of up to one year and over one year respectively & 0% CCF is applicable for commitments which can be unconditionally cancelled at any time.

* Funded credit exposure is based on the calculation used for capital adequacy purpose.

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

5.1.4 Maturity analysis of exposures (continued)

The table below summarizes the notional principal amounts and the relative exposure before applying credit risk mitigation:

Table 5.13 **(BD '000s)**

	Notional Principal	Credit Exposure *
Contingent liabilities on behalf of customers	49,388	32,150
Irrevocable unutilised commitments	140,750	59,742
Forward foreign exchange contracts	20,280	20,280
Operating lease commitments	3,528	-
Total	**213,946**	**112,172**

* Credit exposure is after applying CCF.

Table 5.14 Expected maturity analysis by major type of credit exposure - Funded

(BD '000s)

	Up to 3 months	3 months to 1 year	Total within 12 months	1 – 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total Over 12 months	Total
Cash and balances with banks and Central Bank of	120,623	4,800	**125,423**	6,567	-	-	-	**6,567**	**131,990**
Sovereign Sukuk	3,091	23,371	**26,462**	140,624	176,327	-	14,856	**331,807**	**358,269**
Murabaha and Wakala receivables from banks	182,452	-	**182,452**	-	-	-	-	**-**	**182,452**
Corporate Sukuk	8,731	3,910	**12,641**	16,293	-	-	-	**16,293**	**28,934**
Murabaha & Mudaraba financing	100,707	120,305	**221,012**	108,870	134,077	6,015	895	**249,857**	**470,869**
Ijarah Muntahia Bittamleek	2,689	1,615	**4,304**	79,273	58,718	35,452	10,738	**184,181**	**188,485**
Mushakara	66	-	**66**	8,811	2,257	990	180	**12,238**	**12,304**
Assets under conversion	-	-	**-**	27,688	3,270	2,858	649	**34,465**	**34,465**
Non-trading investments	1,947	-	**1,947**	120,126	-	-	-	**120,126**	**122,073**
Investment in real estate	-	-	**-**	48,930	2,933	-	-	**51,863**	**51,863**
Development properties	2,943	-	**2,943**	14,838	-	-	-	**14,838**	**17,781**
Investment in associates	-	-	**-**	7,531	-	-	3,030	**10,561**	**10,561**
Other assets	13,066	1,182	**14,248**	6,267	2,953	-	1,968	**11,188**	**25,436**
Goodwill	-	-	**-**	-	25,971	-	-	**25,971**	**25,971**
Assets held-for-sale	19,840	-	**19,840**	-	-	-	-	**-**	**19,840**
Total	**456,155**	**155,183**	**611,338**	**585,818**	**406,506**	**45,315**	**32,316**	**1,069,955**	**1,681,293**

Table 5.14 (a) Contractual maturity analysis by major type of credit exposure - Unfunded

(BD '000s)

	Up to 3 months	3 months to 1 year	Total within 12 months	1 – 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total Over 12 months	Total
Unutilised commitments	21,121	46,577	**67,698**	44,729	25,216	139	17	**70,101**	**137,799**
Contingent liabilities	39,129	5,251	**44,380**	7,959	-	-	-	**7,959**	**52,339**
Forward foreign exchange contracts	20,280	-	**20,280**	-	-	-	-	**-**	**20,280**
Total	**80,530**	**51,828**	**132,358**	**52,688**	**25,216**	**139**	**17**	**78,060**	**210,418**

The above expected maturity analysis is based on consolidated statement of financial position classification.

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.1 Credit Risk (continued)

5.1.5 (a) Maturity analysis of funding

Table 5.15 Expected maturity analysis by major type of funding

(BD '000s)

	Up to 3 months	3 months to 1 year	Total within 12 months	1 – 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total Over 12 months	Total
Murabaha and Wakala payables to banks	46,058	17,206	**63,264**	68,768	-	-	-	**68,768**	**132,032**
Wakala payables to non-banks	52,871	101,250	**154,121**	569,318	-	-	-	**569,318**	**723,439**
Current accounts	279,609	-	**279,609**	-	-	-	-	**-**	**279,609**
Liabilities under conversion	217	-	**217**	-	-	-	-	**-**	**217**
Term Financing	48,889	-	**48,889**	33,744	9,204	-	-	**42,948**	**91,837**
Other liabilities	34,761	1,877	**36,638**	12,405	-	-	-	**12,405**	**49,043**
Liabilities relating to assets classified as held-for-sale	11,421	-	**11,421**	-	-	-	-	**-**	**11,421**
Equity of Investment Accountholders	40,286	8,146	**48,432**	20,364	-	-	-	**20,364**	**68,796**
Total	**514,112**	**128,479**	**642,591**	**704,599**	**9,204**	**-**	**-**	**713,803**	**1,356,394**

5 'Profile of Risk-Weighted Assets and Capital Charge (continued)

5.2 Market Risk
Market risk arises from fluctuations in global yields on financial instruments and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board of Directors has set limits on the risk that may be accepted. This is monitored on a regular basis by the Group's Asset and Liability Committee. **(PD 1.3.27 a)**

Table 5.16 The Group's capital charge in respect of market risk in accordance with the standardized methodology is as follows:

(BD '000s)

	Risk Weighted Asset	Capital Requirement	Period End Capital Charge	Capital Charge –Minimum*	Capital Charge –Maximum*
Price risk	5,118	640	409	409	1,202
Foreign exchange risk	2,934	367	235	62	235
Total market risk	**8,052**	**1,007**	**644**	**471**	**1,437**

Foreign exchange positions constitute a major component of the market risk capital charge. The Group maintains a conservative market risk exposure that is focused on the foreign exchange risk coming from the Group's banking and trading book positions. The open positions were taken in order of running the Group's day to day operations that include funding for the Group's investment portfolio. The Group monitors and manages these open positions on a daily basis. **(PD 1.3.27 a)**

* The information in these columns shows the minimum and maximum capital charge of each of the market risk categories on a quarterly basis during the year ended 31 December 2016

5.3 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes or systems, or from external events. Operational risk is inherent in all business activities and can never be eliminated entirely; however shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk. To achieve this goal, the Group has developed an operational risk framework which encompasses identification, measurement, management and monitoring of risk through risk control and mitigation. A variety of underlying processes are being deployed across the Group including risk and control self assessments, Key Risk Indicators (KRI), event management, new product review and approval processes and business contingency plans. **(PD 1.3.21 c)**

The Group's policy dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff that are independent of the individuals initiating the transactions. Each business line including Operations, Information Technology, Human Resources, Legal, Compliance and Financial Control is further responsible for employing the aforementioned framework processes and control programs to manage its operational risk within the guidelines established by the policy, and to develop internal procedures that comply with these policies. To ensure that all operational risks to which the Group is exposed to are adequately managed, support functions are also involved in the identification, measurement, management, monitoring and control/mitigation of operational risk, as appropriate. **(PD 1.3.28) (PD 1.3.29)**

Consistent with the fundamental principle of ownership, the relevant business units are accountable and responsible for managing the operational risks relevant to their respective businesses. Consequently, business and support units have documented procedures and controls in place along with departmental instruction manuals. All changes to such policies are subject to agreement by all respective business units and approval of the Board of Directors following management review. Procedures are reviewed by the respective business or support unit and approved at the management level. **(PD 1.3.28) (PD 1.3.29)**

The Group has a well established disaster recovery program, and has documented updated procedures covering all activities necessary for business continuity in case of a business disrupting event. Internal Audit also provides an independent assessment to evaluate the program's effectiveness.

In accordance with the basic indicator approach methodology of Basel III, the total minimum capital charge in respect of operational risk was BD 10,605 thousands. This capital charge was computed by categorizing the Group's activities into its specific business lines (as defined by the Basel III framework) and multiplying the business line's average gross income for the last three financial years by a predefined beta factor. **(PD 1.3.19)**

Table 5.17 (BD '000s)

	Dec 2016
Average gross income	45,248
Risk weighted exposures	84,840
Minimum capital charge	10,605

The Group uses the Temenos T24 core system developed by Globus, for obtaining the data needed for analysis of events and data related to credit, market and operational risk assessment. Following the data consolidation, the Bank uses the RiskAuthority integrated risk solution package from Moody's, at a solo level, that would allow for automated capital adequacy calculations, and exposure analysis for credit, market and operational risks. Together, the Temenos T24 and Fermat systems are considered an integral part of the Group's Risk Management Framework. This is currently being rolled out at the Group level.

Non-Shari'a compliant income for the Period ended 31 December 2016 amounted to BD 412 thousands. This has arisen primarily from conventional financing and investments, penalty charges from customers and income on current accounts balances held with correspondent banks. (PD 1.3.30 a, b)

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.4 Rate of Return Risk

(PD 1.3.21 e)

Rate of return risk arises from the possibility that changes in return rates will affect future profitability or the fair values of financial instruments. The Group is exposed to rate of return risk as a result of mismatches of return rate repricing of assets and liabilities. In addition, rate of return risk can also affect the Group through market wide rate changes that are brought on by changes in the economy. The effect of the market rates is reflected and can be seen in the Group's pricing of contracts as they carry competitive pricing that follows the market. When risks are high, the market tends to place a higher rate of return to maintain the risk/return profile. Accordingly, the market reduces the rate of return when it identifies a decrease in the market wide risk that would be reflected by banks decreasing their rate of return pricing.

This risk is minimized as the Group's rate sensitive assets and liabilities are mostly for short tenures. In addition, the Group's cautious asset liability strategy avoids funding short term lending facilities from long term borrowings. The Group has set limits for profit return risk and these are monitored on an ongoing basis by the Group's Asset and Liability Committee (ALCO).

The Group has implemented a system to automate the process of monitoring, measuring and reporting profit rate risk on a daily basis through the use of gap analysis based on repricing buckets. Any fixed rate assets and liabilities will be repriced at their maturity date. In addition, the system generates stress tests to analyse the effect of shock changes in profit rates on the Group's assets and liabilities. This monitoring process is independently run on a daily basis from within the Risk Management & Compliance. Material rate of return risks are identified and mitigated through the coordination of the Market Risk Department and ALCO.

The below tables provides the asset and liability re-pricing profile on the contractual repricing or maturity dates, whichever is earlier for the year ended 31 December 2016.

Table 5.18

ASSETS	**Total**	**Upto 1 month**	**>1 to 3 months**	**>3 to 6 months**	**>6 to 12 months**	**>1 to 2 years**	**>2 years**	**Profit insensitive**
Cash and balances with banks and the CBB	131,990	-	-	-	-	-	-	131,990
CBB Sukuk	358,269	2,000	1,912	3,244	20,128	37,110	293,875	-
Murabaha & Wakala receivables from banks	182,452	135,746	46,706	-	-	-	-	-
Corporate Sukuk	28,934	9,301	-	3,910	-	9,244	6,479	-
Murabaha financing	232,556	34,799	27,424	12,849	37,706	28,971	90,807	-
Mudaraba financing	238,313	6,338	32,792	28,419	41,790	10,785	118,189	-
Ijarah Muntahia Bittamleek	188,485	2,581	107	141	1,474	6,815	177,367	-
Musharaka financing	12,304	66	1	-	-	4,435	7,802	-
Assets under conversion	34,465	4,346	15	1,482	828	5,774	22,020	-
Non-trading investments	122,073	-	-	-	-	-	122,073	-
Investments in real estate	51,863	-	-	-	-	-	51,863	-
Development properties	17,781	-	-	-	-	-	17,781	-
Investment in associates	10,561	-	-	-	-	-	10,561	-
Other assets	25,436	9,607	1,234	846	197	5,836	7,716	-
Goodwill	25,971	-	-	-	-	-	25,971	-
Assets classified as held-for-sale	19,840	19,840	-	-	-	-	-	-
Total Assets (A)	**1,681,293**	**224,624**	**110,191**	**50,891**	**102,123**	**108,970**	**952,504**	**131,990**
LIABILITIES	**Total**	**Upto 1 month**	**>1 to 3 months**	**>3 to 6 months**	**>6 to 12 months**	**>1 to 2 years**	**>2 years**	**Profit insensitive**
Murabaha and Wakala payables to banks	132,032	72,416	52,219	7,133	264	-	-	-
Wakala payables to non-banks	723,439	149,630	163,888	123,173	205,340	36,600	44,808	-
Customers' current accounts	279,609	-	-	-	-	-	-	279,609
Liabilities under conversion	217	217	-	-	-	-	-	-
Term financing	91,837	-	48,889	-	-	33,744	9,204	-
Other liabilities	49,043	33,657	1,306	927	952	11,997	204	-
Liabilities relating to assets classified as held for sa	11,421	11,421	-	-	-	-	-	-
Equity of investment accountholders	68,796	-	-	-	-	-	-	68,796
	-	-	-	-	-	-	-	-
Total Liabilities	1,356,394	267,341	266,302	131,233	206,556	82,341	54,216	348,405
	-	-	-	-	-	-	-	-
Shareholders funds	324,899	-	-	-	-	-	-	324,899
Total Liabilities & Shareholders Funds	**1,681,293**	**267,341**	**266,302**	**131,233**	**206,556**	**82,341**	**54,216**	**673,304**
Off-Balance Sheet Liabilities	213,945	68,255	12,715	6,898	45,659	11,886	68,532	
Total liabilities with Off-Balance Sheet Items (B)	**1,895,238**	**335,596**	**279,017**	**138,131**	**252,215**	**94,227**	**122,748**	**673,304**
Gap (A - B)		(110,972)	(168,826)	(87,240)	(150,092)	14,743	829,756	(541,314)
Cumulative Gap		**(110,972)**	**(279,798)**	**(367,038)**	**(517,130)**	**(502,387)**	**327,369**	**(213,945)**

The below table provides a summary of the Group's profit rate of return sensitivity position based on the contractual repricing or maturity dates, whichever is earlier for the year ended 31 December 2016.

Table 5.18 (a) **(BD '000s)**

Profit rate risk in the Banking Book		
200bp Profit Rate Shocks		
Rate shock	**Currency**	**Effect on net profit at 31 December 2016**
Upward rate shocks:	USD	3,860
	BHD	7,600
Downward rate shocks:	USD	(3,860)
	BHD	(7,600)

5.5 Equity Position Risk

(PD 1.3.21 d) (PD 1.3.31)

Equity position risk arises from the possibility of changes in the price of equities or equity indices and the corresponding effect they will have on future profitability or the fair values of financial instruments. The Group is exposed to equity risk in the non-trading position and investment portfolio primarily in its core international and GCC markets.

Equity risk in the banking book is effectively managed by the active involvement of the Executive and Investment committees; adhering to the policies and procedures in place; involvement of competent professionals; adequate internal control environment and independent internal audit department.

Executive and Investment Committee Oversight
The Board of Director's involvement begins with the approval of the Investment Policy which essentially determines the following: aggregate portfolio parameters, asset class restrictions, approval authorities, risk tolerance, maturity considerations, exit strategy and governance issues.

The Executive Committee has delegated authority within the overall Board authority. It provides direction to the Executive Management on all business matters and assumes the role of the Board to address matters arising between Board meetings. The Committee is responsible for business matters concerning credit and market risks, strategy review and recommendations to the Board. The Investment Committee reviews and approves all transactions related to corporate and real estate investments, as well as monitoring their performance on an ongoing basis. In addition, the Committee is responsible to oversee the performance of the fund managers and recommend exit strategies to maximize return to its investors.

5 Profile of Risk-Weighted Assets and Capital Charge (continued)

5.5 Equity Position Risk (continued)

Internal Controls

With regard to internal controls, the investment activity is subject to the same rigorous checks and balances in place for the commercial banking activity. Adequacy of internal controls is ensured by the recruitment of adequate qualified professionals, proper definition and communication of departmental and personnel roles, separation of responsibilities of origination and implementation, independent reporting by the Financial Controls Department, periodic internal audit of the existence and implementation of processes and controls. All recommendations of the Investment Department are documented in the form of Investment Portfolio Reports and Investment Memorandums and are subject to independent due diligence review by Investment Middle Office. Responsibility for all deployments and receipt of redemption proceeds vests with the Investment Administration Department. The Investment Department ensures transparency in valuation by sourcing pricing from the available sources and using conservative valuation principles in accordance with international accounting standards. In addition, the Investment Middle Office operates as an independent department that is responsible for undergoing the due diligence for investments proposed by the Investments Department. This way, the Investment Department can specialize in sourcing deals and performing the initial analysis, whereas the Investment Middle Office will focus on preparing the detailed due diligence analysis at the start of an investment. Moreover, the Investment Administration Department will perform the investment management duties of monitoring the investment company and preparing performance reports along with other required documentation. This set-up helps streamline processes as each group will focus on a specific set of duties that results in time savings as well as having independence controls.

Table 5.19 Equity positions in the Banking Book

	(BD '000s)
Quoted Equities	11,723
Unquoted Equities	110,350
Profit earned for EOIA before smoothing	216
Net realized gain during the period	15,153
Net unrealized gain during the period	2,477

The Group's equity positions strategy consists of investments that are expected to bring in capital gains or for strategic reasons. The strategy has been drafted after considering the Board's risk appetite and the Board's approved liquidity, market risk and capital management policies. In line with the Board's approved policies, the investment strategy is conservative in the sense that it avoids investments with high volatility returns.

5.6 Displaced Commercial Risk

(PD 1.3.41) (PD 1.3.21 f) (PD 1.3.32 a, i)

The Group is exposed to displaced commercial risk in the event of having Equity of investment accounts (EOIA) profit rates that are lower than market rates, thus putting the Group in risk of paying EOIA account holders from shareholders funds to cover the profit volatility risk. ASBB has mitigated this risk through regular monitoring of liquidity gaps, deposit rates and concentrations in terms of the funding requirements by the Asset Liability Committee (ALCO). The ALCO reviews and monitors peer review analysis which includes average deposit rates paid by its peers in order to realign the deposit rates with the current market.

5.7 Liquidity Risk

(PD 1.3.36) (PD 1.3.37)

The Group monitors in an active manner its liquidity profile through analysis of the liquidity gap across specific timeframes in order to maintain the net asset liability position that is within the Board's risk appetite. The maintenance of the net asset liability position is done through the monitoring of the Group's liquidity indicators through which the Group's liquidity profile can be assessed. In addition, the Group further mitigates its liquidity risk by establishing multiple funding sources to decrease it's correlation to an individual funding counterparty. The multiple funding lines can be used to offset any shortage resulting from the Group's obligations and/or to settle any shortage from each of the current accounts and Equity of investment accounts.

6 Equity of Investment Accountholders

Equity of investment accounts ("EOIA") [previously known as Unrestricted Investment Accounts] are investors' funds held by the Group to be invested as appropriate without restriction as to where, how and for what purpose the funds are invested. EOIA funds are invested in short term Murabaha with banks and CBB sukuks using specific limits assigned for each institution. Savings accounts and call accounts comprise the EOIA, payable on demand and the account holder has the right to withdraw or transfer funds without penalty.

This allocation of assets has not changed since the last financial year. The funds are invested and managed in accordance with Shari'a principles. **(PD 1.3.32 b)**

Equity of investment account holders' funds are commingled with the Group's funds and invested mostly in short term highly liquid Commodity Murabahas, CBB Sukuks and/or Wakala deposits. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested after deducting a mandatory reserve. There were no movements during the year in the investment risk reserve and the ending balance amounted to BD 7 thousands. In order to avoid excessive risk concentration the Group invests the commingled funds in such a way so as to comply with the CBB's large exposures limits. All Equity of investment accounts are classified as Mudarabas where fees are deducted before profit allocation, as there is no limit against their withdrawal. It should however be noted that Mudaraba account fees are subject to being partially or totally waived in order to match investment account holder market returns. **(PD 1.3.32 c, j, k)**

Profit paid to the EOIA holders is based on the rate of return earned by the pool of profit bearing assets in which the EOIA have participated. The account holder participates in 45% of the profits earned in full after netting off the Mudarib fee as above. As a result, the share of profits earned by the EOIA holders for their Mudaraba accounts is equal to the share of profits paid to them. All equity of investment accounts are carried at cost plus accrued profits less amounts repaid. Income to Equity of investment account holders is allocated on the basis of their average daily balances in proportion to shareholders' balances. The profits paid to EOIA and the rate of return earned over the previous years are disclosed in the below table. **(PD 1.3.32 d, l)**

The Risk weighted assets of the Group include the contribution from EOIA which are subject to the 30% risk weight.

The EOIA holders and other customers can use the Group's relationship managers for any advice, mediation services, grievances and complaints. **(PD 1.3.10 j)**

6 Equity of Investment Accountholders (continued)

There is no variation between Mudarib agreed sharing and contractual agreed ratio. Profit earned and paid and rate of return comparatives for the Equity of investment account holders for the period end 31 December 2016 and years ended 31 December 2015,2014, 2013 and 2012 are as follows: **(PD 1.3.33 e, l, m, n)**

Table 6.1 (BD '000s)

	Dec 2016	Dec 2015	Dec 2014	Dec 2013	Dec 2012	Dec 2011
Shareholders	119	155	215	148	166	153
EOIA (before smoothing)	216	282	391	279	302	278
Profit earned for EOIA before smoothing	216	282	391	279	302	278
Profit paid for EOIA after smoothing	119	155	215	148	166	153
Balance of:						
PER	N/A	N/A	N/A	N/A	N/A	N/A
IRR	7	7	7	7	7	7
Annual Rate of Return Benchmark	3%	3%	3%	3%	3%	3%
Annual Rate of Return (EOIA)	0.17%	0.25%	0.76%	0.60%	0.70%	1.00%
PER Amount	-	-	-	-	-	-
PER %	-	-	-	-	-	-
IRR Amount	7	7	7	7	7	7
IRR %	-	-	-	-	-	-
Reconciliation						
Mudaraba Profit Earned	216	282	391	279	302	278
Mudarib fees	(97)	(127)	(176)	(131)	(135)	(125)
Profit credited to EOIA accounts	**119**	**155**	**215**	**148**	**167**	**153**
IRR movements	-	-	-	-	-	-
Profit on EOIA	**119**	**155**	**215**	**148**	**167**	**153**
Mudarib fee as a percentage of total investment profit	45%	45%	45%	47%	45%	
EOIA Balance	68,796	62,351	28,152	25,846	18,276	16,256
RWA as per PIRI Report	13,759	6,506	4,387	4,394	3,655	3,251

Table 6.2

Date of statement of financial position	Profit Earned and Paid to EOIA	Rate of
31 December 2016	**216 profit earned and 119 profit paid**	**0.17%**
31 December 2015	**282 profit earned and155 profit paid**	**0.25%**
31 December 2014	**391 profit earned and 215 profit paid**	**0.76%**
31 December 2013	**279 profit earned and 148 profit paid**	**0.60%**
31 December 2012	**302 profit earned and 166 profit paid**	**0.70%**
31 December 2011	**278 profit earned and 153 profit paid**	**1.00%**
Return on average EOIA assets (ROAA)	**December 2016: 0.32%**	
	December 2015:0.42%	
	December 2014: 1.28%	
	December 2013: 1.11%	
	December 2012: 1.18%	
	December 2011: 1.53%	
Return on average equity (Total Owner's Equity) (ROAE)	**December 2016: 0.07%**	
	December 2015: 0.09%	
	December 2014: 0.13%	
	December 2013: 0.13%	
	December 2012: 0.15%	
	December 2011: 0.14%	

Table 6.3 Equity of investment accountholders by Counterparty Type and Islamic Product Murabaha **(PD 1.3.33 i)**

Murabaha and Wakala receivables from banks (BD '000s)

Counterparty	Total Exposures	Funded by EOIA	Funded by Self & Call Accounts	% of EOIA to Total
Financial Institutions	68,796	68,796	-	100%
Total	**68,796**	**68,796**	**-**	

6 Equity of Investment Accountholders (continued)

Table 6.4 The changes in asset allocation ratio are as follows: **(PD 1.3.32 d)**

(BD '000s)

	Murabaha and Wakala receivables from banks		Corporate Sukuk		Murabaha and Mudaraba financing	
	EOIA	Self & Call Accounts	EOIA	Self & Call Accounts	EOIA	Self & Call Accounts
Asset Allocation as on 31 December 2016	68,796	113,656	-	-	-	-
Asset Allocation as on 31 December 2015	62,351	40,994	-	-	-	-
Asset Allocation as on 31 December 2014	24,281	157,829	3,871	135,433		460,029
Asset Allocation as on 31 December 2013	21,969	96,258	3,877	87,229	-	261,700
Asset Allocation as on 31 December 2012	18,276	85,014	-	-	-	227,109
Asset Allocation as on 31 December 2011	10,759	124,939	-	-	5,497	187,592

There are no off-balance sheet exposures arising from investment decisions attributable to the EOIA holders because EOIA are used for short term Islamic financing contracts.

7 Other

7.1 Currency Risk

The Group is exposed to foreign exchange rate risk through both its foreign exchange structural positions. Foreign exchange rate risk is managed by appropriate limits and parameters determined by ALCO and approved by its Board of Directors. The Group's consolidated structural financial positions are reviewed regularly by ALCO in accordance with the Group's strategic plans and managed on a daily basis by the Treasury as appropriate.

7.2 Related Party Transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's Senior Management. For further details refer Note 11 titled related party transactions in the consolidated financial statements for the period ended 31 December 2016. (PD 1.3.10 e) (PD 1.3.23 d)

7.3 Restructured Facilities

As at 31 December 2016, the balance of most of the renegotiated financing facilities to individuals and corporate was BD 17,803 thousands. Most of the renegotiated facilities are performing and are fully secured. In general, facilities are renegotiated to optimize a facility's credit profile with respect to its recoverability. This can involve changing any of the profit rate, tenure or security package. There were no impact of restructured facilities on provisions and present and future earnings. (PD 1.3.23 j)

7.4 Assets Sold Under Recourse Agreements

The Group has not entered into any recourse agreement during the period ended 31 December 2016. (PD 1.3.23 k)

7.5 Legal Risk and Claims

As at 31 December 2016, legal suits amounting to BD 4,925 thousands were pending against the Group. Based on the opinion of the Group's legal counsel, the total liability arising from these cases is not considered to be material to the Group's consolidated financial statements as the Group has also filed counter cases against these parties. (PD 1.3.30 c)

AlSalam Bank, Bahrain
For the year ended 31 December 2016

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE

Appendix PD-2: Reconciliation requirements

Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation

There are no differences between the regulatory and accounting consolidation, with both following line by line consolidation approach using consistent account policies without excluding any entities. As mandated by the Central Bank of Bahrain ("CBB"), financing facilities and investments have been grossed up with collective impairment provision, as presented below:

	BHD '000
Balance sheet as per published financial statements	**1,681,293**
Collective provision impairment	5,633
Balance sheet as in Regulatory Return	**1,686,926**

Step 2: Reconcilation of published financial balance sheet to regulatory reporting As at 31 December 2016

Assets	Balance sheet as in published financial statements	Consolidated PIRI data	Reference
Cash and balances with banks and Central Bank	**131,990**	**131,990**	
Placements with banks and similar financial institutions	**182,452**	**182,452**	
of which Self financed	-	113,656	
of which financed by URIA	-	68,796	
Held-to-maturity investments	**387,203**	**387,203**	
of which Sovereign Sukuk	358,269	-	
of which Corporate Sukuk	28,934	-	
Financing Contracts	**706,083**	**711,716**	
of which Murabaha financing	237,689	-	
of which Mudaraba financing	238,313	-	
of which Ijarah Muntahia Bittamleek	188,985	-	
of which Musharaka	12,304	-	
Less: General loan loss provision	(5,633)	-	
Assets under conversion - Loans and Advances	34,425	-	
Available-for-sale investments	**6,670**	**6,670**	
Investment properties	**89,484**	**89,484**	
of which Investments in real estate	51,863	-	
of which Development properties	17,781	-	
of which Assets held-for-sale	19,840	-	
Investment in unconsolidated subsidiaries and associates	**10,561**	**10,561**	
of which Property, plant, and equipment (PPE)	**2,067**	**2,067**	
Other Assets	**164,783**	**164,783**	
Assets under conversion - Non-trading investments	40	-	
Non Trading investment	115,403	-	
Other Assets	23,369	-	
Goodwill	25,971	-	**G**
Total Assets	**1,681,293**	**1,686,926**	
Liabilities			
Current accounts for non-banks	**279,609**	**279,609**	
Balances of banks and similar institutions	**132,032**	**132,032**	
Funding Liabilities (eg. reverse commodity murabaha, etc.)	**826,697**	**826,697**	
of which Wakala payables to non-banks	723,439	-	
of whichTerm financing	91,837	-	
of which Liabilities relating to assets classified as held-for-sale	11,421	-	
Accruals, deferred income, other liabilities, current and deferred tax liabilities (DTLs)	**45,272**	**45,272**	
of which Other liabilities	45,055	-	
of which Liabilities under conversion	217	-	
Dividends payable	**3,988**	**3,988**	
Unrestricted Investment Accounts	**68,796**	**68,796**	
Total Liabilities	**1,356,394**	**1,356,394**	

Owners' Equity			
Total share capital	**212,447**	**212,447**	
Share capital	214,093	214,093	
Treasury stock	(1,646)	(1,646)	
of which amount eligible for CET1	-	**212,447**	**A**
Reserves and retained earnings	**110,918**	**110,918**	
of which amount eligible for CET1			
Share premium	12,209	12,209	**C-1**
Statutory reserve	15,338	15,338	**C-2**
Retained earnings/(losses) brought forward	45,181	45,181	**B-1**
Net profit / (loss) for the current period	16,219	16,219	**B-2**
Fx translation adjustment	(2,708)	(2,708)	**C-3**
Changes in fair value - amount eligible for CET1	445	445	**C-4**
of which amount eligible for T2			
Real estate fair value reserve - amount eligible for T2	24,234	24,234	**D**
Minority interest in subsidiaries' share capital	**1,534**	**1,534**	
of which amount not eligible for regulatory capital	-	1,107	
of which amount eligible for CET1	-	416	**E-1**
of which amount eligible for AT1	-	5	**E-2**
of which amount eligible for T2	-	6	**E-3**
General loan loss provision which qualify as T2 capital	-	**5,633**	**F**
Total Owners' Equity	**324,899**	**330,532**	
Total Liabilities + Owners' Equity	**1,681,293**	**1,686,926**	

* Appendix PD 1 to be used post 1 January 2019

Appendix PD-2 & PD-4: Reconciliation requirements & Template during the transitional period
Step 3: Composition of Capital Common Template (transition) as at 31 December 2016

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Reference numbers of balance sheet under the regulatory scope of consolidation from step 2	Amount subject to pre-2015 treatment
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	212,447	A	
2	Retained earnings	61,400	B1+B2	
3	Accumulated other comprehensive income (and other reserves)	25,284	C1+C2+C3+C4	
4	Not Applicable	-		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	416	E1	361
6	Common Equity Tier 1 capital before regulatory adjustments	299,547		
	Common Equity Tier 1 capital: regulatory adjustments			
7	Prudential valuation adjustments	-		
8	Goodwill (net of related tax liability)	25,971	G	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-		
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 562 of Basel II framework)	-		
14	Not applicable.	-		
15	Defined-benefit pension fund net assets	-		
16	Investments in own shares (if not already netted off 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, net of eligible short positions, 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, net of eligible short positions (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	-		
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
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	25,971		
29	**Common Equity Tier 1 capital (CET1)**	**273,576**		
	Additional Tier 1 capital: instruments			
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-		
31	of which: classified as equity under applicable accounting standards	-		
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)	5	E-2	-7
35	of which: instruments issued by subsidiaries subject to phase out	-		
36	Additional Tier 1 capital before regulatory adjustments	**5**		
	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, net of eligible short positions, 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 (net of eligible short positions)	-		
41	National specific regulatory adjustments			
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
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)**	**5**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**273,581**		
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	24,234	D	
47	Directly issued capital instruments subject to phase out from Tier 2	-		
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)	6	E-3	-10
49	of which: instruments issued by subsidiaries subject to phase out	-		
50	Provisions	5,633	F	
51	**Tier 2 capital before regulatory adjustments**	**29,873**		

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Reference numbers of balance sheet under the regulatory scope of consolidation from step 2	Amount subject to pre-2015 treatment
	Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-		
53	Reciprocal cross-holdings in Tier 2 instruments	-		
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-		
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			
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
57	Total regulatory adjustments to Tier 2 capital	-		
58	**Tier 2 capital (T2)**	**29,873**		
59	**Total capital (TC = T1 + T2)**	**303,454**		
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT			
60	**Total risk weighted assets**	**1,408,076**		
	Capital ratios			
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	**19.43%**		
62	Tier 1 (as a percentage of risk weighted assets)	**19.43%**		
63	Total capital (as a percentage of risk weighted assets)	**21.55%**		
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	**9.00%**		
65	of which: capital conservation buffer requirement	**2.50%**		
66	of which: bank specific countercyclical buffer requirement (N/A)	**0.00%**		
67	of which: D-SIB buffer requirement (N/A)	**0.00%**		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	**19.43%**		
	National minima including CCB (if different from Basel 3)			
69	CBB Common Equity Tier 1 minimum ratio	**9.00%**		
70	CBB Tier 1 minimum ratio	**10.50%**		
71	CBB total capital minimum ratio	**12.50%**		
	Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital of other financials	-		
73	Significant investments in the common stock of financials	-		
74	Mortgage servicing rights (net of related tax liability)	-		
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-		
	Applicable caps 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)	5,633		
77	Cap on inclusion of provisions in Tier 2 under standardised approach (1.25% of risk weighted assets)	16,429		
78	N/A			
79	N/A			
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)	-		
80	Current cap on CET1 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)	-		

Appendix PD-3: Main features template

For the period ended 31 December 2016

1	Issuer	Al Salam Bank, Bahrain
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	SALAM
3	Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common Equity shares
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	2,141 Million
9	Par value of instrument	BD 0.100
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	13-Apr-06
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Dividend as decided by the Shareholders
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	Not applicable
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non cumulative
23	Convertible or non-convertible	Non convertible
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable