AL SALAM BANK-BAHRAIN B.S.C.

BASEL III - PILLAR III

DISCLOSURES

30 June 2020

Table of Contents

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 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.

On 30 March 2014, the Bank acquired 100% stake in BMI Bank B.S.C.(c) ("BMI"), a closed shareholding company in the Kingdom of Bahrain, through exchange of shares. During January 2015, the Shari'a Supervisory Board approved BMI Bank to be an Islamic bank effective 1 January 2015. BMI Bank's operations are in compliance with Shari'a principles effective 1 January 2015.

On 29 November 2016, the shareholders of BMI resolved to approve the transfer of the operations of BMI to the Bank. The transfer of business was approved by the CBB on 17 April 2017 which was subsequently published in the official gazette dated 20 April 2017. The Bank has transferred majority of the BMI's rights and assumed all of it's obligations at their respective carrying values.

During 2016, the Bank acquired 70% stake in Al Salam Bank Seychelles Limited ("ASBS"), (previously "BMIO") an offshore bank in Seychelles. ASBS operates under an offshore banking license issued by the Central Bank of Seychelles. BMIO used to operate under an offshore banking license issued by the Central Bank of Seychelles. From 20 May 2016, ASBS was granted a Banking Business License which permits onshore as well as offshore banking activities. 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.

During 2018, the Group reassessed its involvement with an associate entity and its asset under management, ASB Biodiesel 1 ("Biodiesel"), a company incorporated in Cayman Islands with operations based on in Hongkong undertaking business of manufacturing biodiesel. The Group also had a significant financing exposure to Biodiesel. Based on the Groups ongoing involvement and support of the business and increase in variability of its exposure arising from the operations, it was assessed that the Group has obtained control over relevant activities of the Company in its capacity as principal. Accordingly the Group consolidated ASB Biodiesel and its subsidiaries (together "Biodiesel Group") effective 30 September 2018, being the deemed date of acquisition.

The Bank and its principal banking subsidiary operates through 10 branches in the Kingdom of Bahrain and 1 branch in Seychelles and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial contracts as principal / agent, managing Shari'a-compliant financial contracts and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework. 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)

	Jun-2020	Dec-2019	Dec-2018	Dec-2017	Dec-2016	Dec-2015
Total operating income	30,344	53,527	56,719	62,190	63,000	58,898
Net profit	7,084	21,130	18,520	18,055	16,096	10,548
Total assets	2,193,859	2,047,131	1,710,310	1,589,228	1,681,293	1,656,643
Total equity	291,076	324,402	304,822	303,837	324,899	320,002
Key Ratios	**Jun-2020**	**Dec-2019**	**Dec-2018**	**Dec-2017**	**Dec-2016**	**Dec-2015**
Earnings per share (fils)	3.3	9.8	8.7	8.5	7.6	5.8
Return on average assets (%)*	0.7	1.1	1.1	1.1	1.0	0.6
Return on average equity (%)*	4.6	6.7	6.1	5.7	5.0	3.3
Cost to operating income (%)	48.1	55.6	48.9	39.0	41.4	44.7
Dividend payout ratio (%)	NA	83.9	81.0	83.0	66.5	86.2
Dividend yield ratio (%)	NA	8.0	7.0	6.1	4.2	5.4
Net profit margin on Islamic assets (%)*	3.3%	2.6%	2.9%	3.2%	2.7%	3.3%

* Annualised

2 Financial Performance and Position (continued)

Table 2.2 Financial Summary

(BD '000s)

Consolidated Financial Position	Jun-2020	Dec-2019	Dec-2018	Dec-2017	Dec-2016	Dec-2015
Cash and balances with banks and Central Bank	289,931	219,456	82,587	66,351	131,990	152,572
Sovereign Sukuk	379,264	349,567	354,215	363,569	358,269	350,474
Placements with financial institutions	61,367	114,803	163,305	141,225	182,452	103,345
Corporate Sukuk	11,104	22,228	9,222	10,419	28,934	50,472
Financing assets	806,131	727,010	568,905	532,535	478,798	491,353
Finance lease assets	386,007	348,488	256,892	213,238	188,485	155,217
Non-trading investments	103,673	108,991	107,508	111,325	122,073	123,514
Investment properties	72,494	72,774	74,261	66,782	51,863	68,786
Development properties	2,943	2,943	6,290	6,448	17,781	49,021
Investment in associates	12,150	10,640	15,972	16,835	10,561	9,994
Other assets	42,824	44,260	45,182	34,530	64,276	75,924
Goodwill	25,971	25,971	25,971	25,971	25,971	25,971
Assets classified as held-for-sale	-	-	-	-	19,840	-
Placements from financial institutions	88,272	211,459	144,125	154,765	132,032	120,795
Placements from customers	-	-	705,924	602,784	723,439	842,570
Customer current accounts	336,628	289,456	251,842	283,886	279,609	224,366
Murabaha term financing	320,645	145,590	155,543	79,986	91,837	35,986
Other liabilities	41,277	41,481	48,293	45,089	49,260	50,573
Liabilities relating to assets classified as held-for-sale	-	-	-	-	11,421	-
Equity of Investment Accountholders (EOIA)	1,115,961	1,034,743	99,761	118,881	68,796	62,351
Capital	**Jun-2020**	**Dec-2019**	**Dec-2018**	**Dec-2017**	**Dec-2016**	**Dec-2015**
Capital adequacy (%)	27.4	21.2	20.6	21.4	21.6	20.1
Equity/total assets (%)	13.3	15.8	17.8	19.1	19.3	19.3
Total customer deposits/equity (times)	5x	4.1x	3.5x	3.3x	3.3x	3.5x
Liquidity and Other Ratios	**Jun-2020**	**Dec-2019**	**Dec-2018**	**Dec-2017**	**Dec-2016**	**Dec-2015**
Islamic financing contracts/total assets (%)	54.3	52.5	48.3	46.9	39.7	39.0
Investments/total assets (%)	26.5	27.7	33.2	36.2	36.2	39.4
Liquid assets/total assets (%)	33.3	33.4	35.1	35.9	40.0	36.6
Liquid assets/Current and URIA deposits (%)	50.3	51.6	170.7	141.8	193.1	211.5
Customer Deposits/ Total assets (%)	66.2	64.7	61.8	63.3	63.8	68.2
Due from banks and financial institutions/ Total Assets (%)	2.8	5.6	9.5	8.9	10.9	6.2
Interbank Assets/ Interbank Liabilities	69.5	54.3	113.3	91.3	138.2	85.6
Islamic financing contracts/customer deposits (%)	82.1	81.2	78.1	74.2	62.3	57.3
Number of employees	358	355	341	322	333	368

3 Group and Capital Structure

3.1 Group Structure

The consolidated financial statements for the period comprise of the financial statements of the Bank and its subsidiaries (together referred to as "the Group")
The principal subsidiaries and associates as at 30 June 2020 and their treatment for capital adequacy purposes are as follows:

	Entity classification as per CA Module	Treatment by the Bank
Subsidiary		
Al Salam Bank Seychelles	Banking subsidiary	Aggregation of risk weighted assets approved by the CBB on 28 June 2016
Kenaz Al Kadam Real Estate Investment W.L.L.	Commercial entity	Risk weighting of investment exposure
Kenaz Al Hamala Real Estate Investment W.L.L.	Commercial entity	
Wahat Al Muharraq Real Estate Investment W.L.L.	Commercial entity	
Burj Al Qurb	Commercial entity	
ASB Biodiesel 1	Commercial entity	
Associates		
Al Salam Bank Algeria	Financial entity	
Gulf African Bank	Financial entity	
Manara Developments Company W.L.L.	Commercial entity	Risk weighting of investment exposure
NS Real Estate Company W.L.L.		
Burj Al Jewar Property Investment Company W.L.L.		
Darari Investment Company W.L.L.		
Burj Al Safwa Property Investment Company W.L.L.		
ASB Global REIT Fund		

3.2 Capital Structure

The Group’s total capital of BD 298,205 thousands comprises of CET 1, AT1 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 230,450 thousands at 30 June 2020, comprising of 2,304,500 thousand shares of BD 0.100 each. **(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	230,450		
Treasury shares	(7,530)		
Legal/statutory reserves	21,107		
Share premium	12,209		
Retained earnings	12,738		
Current interim cumulative net income / losses	5,299		
Unrealized gains and losses on available for sale financial instruments	364		
Gains and loss resulting from converting foreign currency	(3,665)		
Unrealized gains and losses arising from fair valuing equities	17,115		
Total Minority Interest in banking subsidiaries given recognition in	107		
Total CET1 capital prior to regulatory adjustments	**288,195**		
Less:			
Goodwill	(25,971)		
Total Common Equity Tier 1 capital after the regulatory	**262,224**		
Instruments issued by banking subsidiaries to third parties		23	31
Asset revaluation reserve - Property, plant, and equipment		-	23,588
General financing loss provisions		-	12,339
Total Available AT1 & T2 Capital		**23**	**35,958**
Total Tier 1		**262,247**	
Total Capital (PD 1.3.20 a)			**298,205**

Table 3.2

(BD '000s)

	Risk Weighted Exposures		
	Credit	Operational	Market
Risk Weighted Exposures (self-financed)	826,199	96,666	2,226
Risk Weighted Exposures (URIA)	156,646	-	-
Aggregation of Risk Weighted Exposures	4,313	802	-
Risk Weighted Exposures after Aggregation	**987,157**	**97,468**	**2,226**
Total Risk Weighted Exposures			**1,086,851**

	CET 1	T1	Total Capital
% of Total Risk Weighted Exposures (CAR) (PD 1.3.20 a)	**24.13%**	**24.13%**	**27.44%**
Minimum Required by CBB Regulations under Basel III (before CCB)	**6.50%**	**8.00%**	**10.00%**
Capital Conservation Buffer (CCB)	**2.50%**	**2.50%**	**2.50%**
Minimum Required by CBB Regulations under Basel III (after CCB)	**9.00%**	**10.50%**	**12.50%**

* Calculated in accordance with Capital Adequacy Module of Volume 2 issued by the 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.
- Optimize risk adjusted 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 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 period ended 30 June 2020.

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 at 100%.

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.

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. 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)

Contribution by Equity and Current Accounts					
Exposure type	**Gross Credit Exposure**	**CRM**	**Net Credit Exposure**	**Risk-Weighted Assets (RWA)**	**Minimum Capital Charge**
Cash and balances with banks and Central Bank	152,174	-	152,174	30,820	3,853
Sovereign Sukuk	379,322	-	379,322	2,903	363
Placements with financial institutions	6,655	-	6,655	3,328	416
Corporate Sukuk	10,746	-	10,746	10,746	1,343
Murabaha financing	5,121	47	5,074	5,144	643
Mudaraba financing	57,131	327	56,804	69,415	8,677
Musharaka	295	-	295	442	55
Credit Cards	10	-	10	8	1
Finance lease assets	225,430	149,803	75,627	59,591	7,449
Non-trading investments	104,436	-	104,436	405,597	50,700
Investment properties	72,494	-	72,494	144,989	18,124
Development properties	2,943	-	5,886	5,886	736
Investment in associates	12,150	-	12,150	30,374	3,797
Other assets	17,804	-	17,804	18,886	2,361
Total funded exposures	**1,046,711**	**150,177**	**899,476**	**788,130**	**98,516**
Contingent Liabilities & Commitments	48,243	-	48,243	38,069	4,759
Total unfunded exposures	**48,243**	**-**	**48,243**	**38,069**	**4,759**
Aggregation of Risk Weighted Exposures for AlSalam Bank Seychelles Limited	**-**	**-**	**-**	4,313	539
Total exposures	**1,094,954**	**150,177**	**947,720**	**830,511**	**103,814**

Contribution by Equity of Investment Accountholders					
Exposure Type	**Gross Credit Exposure**	**CRM**	**Net Credit Exposure**	**Risk-Weighted Assets (RWA)*30%**	**Minimum Capital Charge**
Cash and balances with banks and Central Bank	135,825	-	135,825	-	-
Placements with financial institutions	52,451	-	52,451	7,224	903
Murabaha financing	163,038	25,725	137,313	31,543	3,943
Mudaraba financing	565,141	38,114	527,027	83,045	10,381
Musharaka	31,777	-	31,777	9,457	1,182
Credit Cards	2,912	-	2,912	1,087	136
Finance lease assets	164,274	192	164,082	24,290	3,036
Total funded exposures	**1,115,418**	**64,031**	**1,051,387**	**156,646**	**19,581**
Contingent Liabilities & Commitments	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**
Total exposures	**1,115,418**	**64,031**	**1,051,387**	**156,646**	**19,581**

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 submitted to the CBB by the Bank.

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 30 June 2020 is BD 109,202 thousands.

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.

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 Gross Credit Exposures (PD 1.3.26 b)

(BD '000s)

Current Credit Exposure by Type of Islamic Financing Contracts	Gross Positive Fair Value (Net of specific provision)	Netting Benefits	Netted Current Credit Exposures	Eligible Collaterals Held (after appropriate haircuts) *				
				Cash	Govt. Securities	Guarantees	Real Estate	Total
Murabaha financing	168,159	-	168,159	5,604	32,296	-	-	37,900
Mudaraba financing	622,272	-	622,272	56,342	-	-	-	56,342
Finance lease assets (Ijarah Muntahia Bittamleek)	389,704	-	389,704	2,846	-	-	220,923	223,769
Musharaka	32,071	-	32,071	-	-	-	-	-
Credit Cards	2,923	-	2,923	-	-	-	-	-
Total	**1,215,130**	**-**	**1,215,130**	**64,792**	**32,296**	**-**	**220,923**	**318,012**

* Over and above the collateral, considered as eligible under the CA Module, the Bank maintains additional collateral in the form of mortgage of residential properties, corporate guarantees and other tangible assets, which could be invoked to claim the amount owed in the event of default.

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 closely related counterparties exceeding 15 percent of total capital.

As at 30 June 2020, the Group's exposures in excess of 15% of the obligor limits to individual counterparties, and excluding Central Bank exposures were BHD nil thousands. **(PD 1.3.23 f)**

Table 5.3 Gross Credit Exposures (PD 1.3.23 a)

(BD '000s)

Contribution by Equity and Current Accounts		
Exposure Type	**Gross Credit Exposure**	**Average Gross Credit Exposure**
Cash and balances with banks and Central Bank	154,106	206,837
Sovereign Sukuk	379,264	368,737
Placements with financial institutions	8,916	46,727
Corporate Sukuk	11,104	13,478
Financing assets	48,803	90,302
Finance lease assets	215,650	116,830
Non-trading investments	103,673	104,446
Investment properties	72,494	72,502
Development properties	2,943	2,943
Investment in associates	12,150	12,242
Other assets	42,824	45,295
Goodwill	25,971	25,971
Total funded exposures	**1,077,898**	**1,106,309**
Contingent Liabilities & Commitments	100,977	101,314
Total unfunded exposures	**100,977**	**101,314**
Total exposures	**1,178,875**	**1,207,624**

Contribution by Equity of Investment Accountholders		
Exposure Type	**Gross Credit Exposure**	**Average Gross Credit Exposure ***
Cash and balances with banks and Central Bank	135,825	135,825
Placements with financial institutions	52,451	52,451
Financing assets	757,328	674,638
Finance lease assets	170,357	264,638
Total funded exposures	**1,115,961**	**1,127,552**
Contingent Liabilities & Commitments	-	-
Total unfunded exposures	**-**	**-**
Total exposures	**1,115,961**	**1,127,552**

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

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 30 June 2020, the collaterals eligible for CRM (after applying regulatory haircuts) amounted to BD 318,012 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 parties 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 parties.

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 5.4 **(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	62,185	17	18,377	185	71,769	1,573	**154,106**
Sovereign Sukuk	376,363	-	-	2,901	-	-	**379,264**
Placements with financial institutions	6,453	-	-	-	-	2,463	**8,916**
Corporate Sukuk	10,726	-	-	-	-	378	**11,104**
Murabaha financing	8,381	1,102	352	-	-	120	**9,955**
Mudaraba financing	36,339	50	-	-	-	342	**36,731**
Musharaka	1,942	-	-	-	-	-	**1,942**
Credit Cards	173	-	-	-	-	1	**174**
Finance lease assets	215,300	-	-	-	-	349	**215,649**
Non-trading investments	96,218	-	2,403	1,160	3,891	-	**103,673**
Investment properties	72,494	-	-	-	-	-	**72,494**
Development properties	-	-	2,943	-	-	-	**2,943**
Investment in associates	-	8,885	-	-	-	3,265	**12,150**
Other assets	17,959	-	101	23,180	1	1,582	**42,823**
Goodwill	25,971	-	-	-	-	-	**25,971**
Total funded exposures	**930,505**	**10,055**	**24,176**	**27,426**	**75,661**	**10,074**	**1,077,897**
Contingent Liabilities & Commitments	93,792	6,185	159	744	-	98	**100,977**
Total unfunded exposures	**93,792**	**6,185**	**159**	**744**	**-**	**98**	**100,977**
Total exposures	**1,024,297**	**16,240**	**24,335**	**28,170**	**75,661**	**10,172**	**1,178,874**

Table 5.5 **(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**
Cash and balances with banks and Central Bank	135,825	-	-	-	-	-	**135,825**
Placements with financial institutions	52,451						**52,451**
Murabaha financing	130,057	17,103	5,462	-	-	1,862	**154,484**
Mudaraba financing	563,912	776	-	1	-	5,308	**569,997**
Musharaka	30,130	-	-	-	-	-	**30,130**
Credit Cards	2,690	6	-	1	6	14	**2,718**
Finance lease assets	170,081	-	-	-	-	276	**170,357**
Total funded exposures	**1,085,146**	**17,885**	**5,462**	**2**	**6**	**7,460**	**1,115,961**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**1,085,146**	**17,885**	**5,462**	**2**	**6**	**7,460**	**1,115,961**

Table 5.6 The geographical distribution of exposures including impaired assets and the related impairment provisions **(PD 1.3.23 i)**

(BD '000s)

	Gross Past Due Financing Contracts	**12 month ECL and Lifetime ECL not impaired (Stage 1 & 2)**	**Gross Impaired Financing Contracts**	**Life time ECL credit impaired (Stage 3)**
GCC Countries	52,063	(242)	75,754	(22,798)
Others	-	-	-	-
Total	**52,063**	**(242)**	**75,754**	**(22,798)**

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	-	27,762	-	-	-	126,344	-	**154,106**
Sovereign Sukuk	4,073	88,854	-	-	-	286,337		**379,264**
Placements with financial institutions	-	8,916	-	-	-	-		**8,916**
Corporate Sukuk	-	5,784	2,033	-	-	-	3,288	**11,104**
Murabaha financing	959	1,349	531	-	6,949	157	11	**9,955**
Mudaraba financing	11,828	3,193	6,164	-	3,436	11,253	857	**36,731**
Musharaka	-	-	1,494	-	447	-	-	**1,942**
Credit Cards	-	-	-	-	175	-	-	**175**
Finance lease assets	22,594	13,833	37,264	-	137,838	1,104	3,016	**215,649**
Non-trading investments	-	-	102,513	1,160	-	-	-	**103,673**
Investment properties	-	-	72,494	-	-	-	-	**72,494**
Development properties	-	-	2,943	-	-	-	-	**2,943**
Investment in associates	-	12,150	-	-	-	-	-	**12,150**
Other assets	24,011	4,081	1	-	4,611	-	10,119	**42,823**
Goodwill	-	25,971	-	-	-	-	-	**25,971**
Total funded exposures	**63,465**	**191,893**	**225,439**	**1,160**	**153,456**	**425,195**	**17,290**	**1,077,898**
Contingent Liabilities & Commitments	90,844	7,664	1,874	-	89	-	506	**100,977**
Total unfunded exposures	**90,844**	**7,664**	**1,874**	**-**	**89**	**-**	**506**	**100,977**
Total exposures	**154,309**	**199,557**	**227,313**	**1,160**	**153,545**	**425,195**	**17,796**	**1,178,874**

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**
Cash and balances with banks and Central Bank of	-	135,825	-	-	-	-	-	**135,825**
Placements with financial institutions	-	52,451	-	-	-	-	-	**52,451**
Murabaha financing	14,879	20,937	8,243	-	107,827	2,431	167	**154,484**
Mudaraba financing	183,546	49,551	95,653	-	53,326	174,627	13,295	**569,997**
Musharaka	-	-	23,189	-	6,941	-	-	**30,130**
Credit Cards	-	1	2	-	2,713	2	-	**2,718**
Ijarah Muntahia Bittamleek	17,848	10,928	29,438	-	108,888	872	2,382	**170,357**
Total funded exposures	**216,274**	**269,692**	**156,523**	**-**	**279,695**	**177,933**	**15,844**	**1,115,961**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-	**-**
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**216,274**	**269,692**	**156,523**	**-**	**279,695**	**177,933**	**15,844**	**1,115,961**

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

(BD '000s)

	Gross Past Due Financing Contracts	**12 month ECL and Lifetime ECL not impaired (Stage 1 & 2)**	**Gross Impaired Financing Contracts**	**Life time ECL credit impaired (Stage 3)**
Trading and Manufacturing	1,198	(65)	13,966	(4,398)
Banks and Financial Institutions	-	-	25,597	(3,045)
Real Estate	607	(34)	4,628	(1,608)
Individuals	12,410	(144)	14,474	(5,498)
Others	37,847	-	17,089	(8,249)
Total	**52,063**	**(242)**	**75,754**	**(22,798)**

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

5.1 Credit Risk (continued)

5.1.2 Exposure by Industry (continued)

Table 5.11 Ageing Analysis **(PD 1.3.24 b (i))**

(BD '000s)

	Gross Impaired and Past Due Contracts			Expected Credit Losses (ECL) / Specific Provisions	Net Outstanding	Market Value of Collateral
	Up to 1 Year	Over 1 year up to 3 years	Over 3 years			
Trading and Manufacturing	4,748	6,745	3,670	(4,463)	10,700	23,238
Banks and Financial Institutions	-	25,597	-	(3,045)	22,552	5,637
Real Estate	2,659	874	1,701	(1,642)	3,593	4,701
Individuals	17,406	2,280	7,198	(5,642)	21,242	29,100
Others	51,264	2,644	1,028	(8,249)	46,688	105,692
Total	**76,077**	**38,141**	**13,598**	**(23,040)**	**104,776**	**168,367**

5.1.3 Movement In Net Allowance For Credit Losses / Impairment (PD 1.3.24 d)

Table 5.10 The balance of allowance for credit loss in the below table includes all financial assets and off-balance sheet exposures in addition to financing assets:

(BD '000s)

	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total ECL
Balance at the beginning of the year	**7,191**	**7,295**	**19,042**	**33,528**
- transferred to Stage 1: 12 month ECL	1,258	(1,233)	(25)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(55)	324	(269)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(39)	(994)	1,033	-
Net remeasurement of loss allowance	2,536	(26)	6,243	8,753
Recoveries / write-backs	-	(7)	(70)	(77)
Allowance for credit losses	**3,700**	**(1,936)**	**6,912**	**8,676**
Exchange adjustments and other movements	**-**	**-**	(99)	**(99)**
Amounts written off during the year	-	-	(568)	**(568)**
Balance at the end of the year	**10,891**	**5,359**	**25,287**	**41,537**

5.1.4 Exposure by External Credit Rating

The Group uses public information provided by external rating agencies such as Standard & Poor's, Fitch, Moody's and Capital Intelligence (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 5.12 (BD '000s)

Exposure Type	**Gross Credit Exposure***	**Rated Exposure**	**Unrated Exposure**
Cash	9,161		9,161
Claims on sovereigns	632,663		632,663
Claims on banks	244,944	202,063	42,881
Claims on corporate portfolio	277,012		277,012
Regulatory retail portfolio	81,675		81,675
Mortgages	622,617		622,617
Past due receivables over 90 days	56,168		56,168
Investments in Securities and Sukuk	14,531		14,531
Holding of Real Estate	178,412		178,412
Other assets and Specialized financing	93,188		93,188
Total	**2,210,372**	**202,063**	**2,008,309**

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

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)**

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 submitted to the CBB by the Bank.

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

5.1 Credit Risk (continued)

5.1.5 Maturity Analysis of Exposures

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	28,078	16,203
Irrevocable unutilised commitments	72,899	23,815
Forward foreign exchange contracts	8,225	8,225
Operating lease commitments	1,786	-
Total	**110,988**	**48,243**

* Credit exposure is after applying CCF.

Table 5.14 Contractual maturity analysis by major type of credit exposure - Funded **(PD 1.3.23 g) (PD 1.3.24 a)**

(BD '000s)

Exposure Type	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	289,931	-	**289,931**	-	-	-	-	**-**	**289,931**
Sovereign Sukuk	10,157	10,667	**20,824**	225,183	118,365	-	14,893	**358,440**	**379,264**
Placements with financial institutions	58,597	2,770	**61,367**	-	-	-	-	**-**	**61,367**
Corporate Sukuk	61	5,039	**5,099**	6,005	0	-	-	**6,005**	**11,104**
Financing assets and finance lease assets	75,620	239,703	**315,323**	530,920	217,842	92,563	35,489	**876,815**	**1,192,138**
Non-trading investments	-	-	**-**	-	103,673	-	-	**103,673**	**103,673**
Investment properties	-	-	**-**	-	72,494	-	-	**72,494**	**72,494**
Development properties	-	-	**-**	-	2,943	-	-	**2,943**	**2,943**
Investment in associates	-	-	**-**	-	12,150	-	-	**12,150**	**12,150**
Other assets	2,718	5,178	**7,896**	1,226	33,216	486	-	**34,928**	**42,824**
Goodwill	-	-	**-**	-	25,971	-	-	**25,971**	**25,971**
Total	**437,084**	**263,357**	**700,441**	**763,334**	**586,654**	**93,049**	**50,381**	**1,493,418**	**2,193,859**

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

(BD '000s)

Exposure Type	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	14,785	27,259	**42,044**	13,129	7,074	10,328	325	**30,855**	**72,899**
Contingent liabilities	14,707	9,190	**23,897**	4,168	13	-	-	**4,181**	**28,078**
Operating lease commitments	-	997	**997**	789	-	-	-	**789**	**1,786**
Forward foreign exchange contracts	7,975	250	**8,225**	-	-	-	-	**-**	**8,225**
Total	**37,467**	**37,695**	**75,162**	**18,086**	**7,087**	**10,328**	**325**	**35,826**	**110,988**

The above contractual 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 Maturity Analysis of Exposures (continued)

Table 5.15 Contractual 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	Total
Placements from financial institutions	41,132	47,140	**88,272**	-	-	-	-	**-**	**88,272**
Placements from customers	-	-	**-**	-	-	-	-	**-**	**-**
Customer current accounts	336,628	-	**336,628**	-	-	-	-	**-**	**336,628**
Liabilities under conversion	-	-	**-**	-	-	-	-	**-**	**-**
Murabaha term financing	93,408	195,116	**288,525**	16,873	15,247	-	-	**32,121**	**320,645**
Other liabilities	10,633	14,482	**25,115**	7,523	8,639	-	-	**16,162**	**41,277**
Equity of Investment Accountholders	601,765	432,484	**1,034,249**	81,700	11	-	-	**81,711**	**1,115,961**
Total	**1,083,566**	**689,222**	**1,772,789**	**106,097**	**23,897**	**-**	**-**	**129,994**	**1,902,783**

5.2 Market Risk

Market risk arises from fluctuations in market prices 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 Requirement –Minimum*	Capital Requirement –Maximum*
Foreign exchange risk	2,226	278	178	178	258
Total market risk	**2,226**	**278**	**178**	**178**	**258**

* 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 preiod ended 30 June 2020.

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 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)**

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 Business Continuity Policy and 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.

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

5.3 Operational Risk (continued)

In accordance with the basic indicator approach methodology of Basel III, the total minimum capital charge in respect of operational risk was BD 12,184 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)**

	30 June 2020
Average gross income	51,555
Risk weighted exposures	96,666
Minimum capital charge	12,083

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. The Bank uses a dedicated system namely 'Risk Nucleus' system developed by BenchMatrix for effective operational risk management.

Non-Shari'a compliant income for the period ended 30 June 2020 amounted to BD 37 thousands. This has arisen primarily from conventional financing and investments, penalty charges from customers and income on current accounts balances held with correspondent banks. No Sharia violations were identified during the year. **(PD 1.3.30 a, b)**

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

5.4 Rate of Return Risk (PD 1.3.39)

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 below tables provides the asset and liability re-pricing profile on the contractual repricing or maturity dates, whichever is earlier for the period ended 30 June 2020. **(PD 1.3.27 c)**

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

Assets	Total	Upto 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 2 years	>2 to 3 years	>3 years	Profit insensitive
Cash and balances with banks and Central Bank	289,931	-	-	-	-	-			289,931
Sovereign Sukuk	379,264	8,939	1,218	1,051	9,616	48,614	48,808	261,018	-
Placements with financial institutions	61,367	52,079	6,518	2,191	579	-	-	-	-
Corporate Sukuk	11,104	-	61	5,039	-	1,838	189	3,978	-
Murabaha financing	164,439	1,055	3,433	15,071	26,386	19,188	15,847	83,459	-
Mudaraba financing	606,728	15,098	50,737	76,097	92,443	73,198	59,962	239,194	-
Musharaka	32,071	-	27	704	12,264	5,595	2,582	10,899	-
Credit Cards	2,893	2,893	-	-	-	-	-	-	-
Finance lease assets	386,006	850	1,519	1,276	15,462	27,902	49,183	289,814	-
Non-trading investments	103,673	-	-	-	-	-			103,673
Investment properties	72,494	-	-	-	-	-			72,494
Development properties	2,943	-	-	-	-	-			2,943
Investment in associates	12,150	-	-	-	-	-	-	12,150	-
Other assets	42,823	2,589	129	1,454	3,724	568	172	33,432	755
Goodwill	25,971	-	-	-	-	-	-	-	25,971
Total Assets (A)	**2,193,858**	**83,503**	**63,642**	**102,883**	**160,474**	**176,903**	**176,743**	**933,944**	**495,767**

Liabilities	Total	Upto 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 2 years	>2 to 3 years	>3 years	Profit insensitive
Placements from financial institutions	88,273	21,914	19,218	27,457	19,683	-	-	-	-
Customer current accounts	336,628	-	-	-	-	-	-	-	336,628
Murabaha term financing	320,645	2,625	90,783	125,388	69,728	14,662	-	17,459	-
Other liabilities	41,277	10,308	325	11,909	2,573	-	7,523	8,639	-
Equity of investment accountholders	1,115,961	196,246	192,162	203,036	229,448	60,248	6,647	14,816	213,358
Total Liabilities	1,902,783	231,093	302,488	367,790	321,433	74,910	14,171	40,913	549,985
Shareholders funds	291,076	-	-	-	-	-	-	-	291,076
Total Liabilities & Shareholders Funds	**2,193,859**	**231,093**	**302,488**	**367,790**	**321,433**	**74,910**	**14,171**	**40,913**	**841,061**
Off-Balance Sheet Liabilities	100,977	11,478	11,654	22,956	19,103	34,034	-	1,752	-
Total liabilities with Off-Balance Sheet Items (B)	**2,294,836**	**242,572**	**314,141**	**390,747**	**340,536**	**108,943**	**14,171**	**42,665**	**841,061**
Gap (A - B)		(159,069)	(250,500)	(287,863)	(180,062)	67,959	162,573	891,279	(345,295)
Cumulative Gap		**(159,069)**	**(409,568)**	**(697,432)**	**(877,494)**	**(809,535)**	**(646,962)**	**244,317**	**(100,977)**

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

Profit rate risk in the Banking Book 200bp Profit Rate Shocks	
Rate shock	**Effect on net profit at 30 June 2020**
Upward rate shocks:	(4,886)
Downward rate shocks:	4,886

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.

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)

	Gross Credit Exposure
Quoted Equities	3,076
Unquoted Equities	101,360
Investment in associates - equity accounted	12,150
Net realized gain during the year	199
Net unrealized gain during the year	(3,598)

(BD '000s)

Asset Categories for Credit Risk	Gross Credit Exposure	Risk-Weighted Assets (RWA)	Minimum Capital Charge
Equity Investments - Unlisted	2,057	3,086	386
Significant investment in the common shares of financial entities >10%	12,150	30,374	3,797
Investment in listed real estate companies	6,968	20,903	2,613
Investment in unlisted real estate companies	95,244	380,976	47,622

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 a) (PD 1.3.21 f) (PD 1.3.32 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. The liquidity coverage ratio as of 30 June 2020 was 97.43%.

5.8 Other Risks

The Group has an investment in a foreign banking subsidiary wherein the transactions are denominated in US Dollars (USD) and since the BHD is pegged to USD there is no foreign exchange translation effect on the investment. **(PD 1.3.42).**

6 Equity of Investment Accountholders

Equity of investment accountholders' fund is commingled with Group's and Wakala fund to form one general mudaraba pool. This pooled fund is used to fund and invest in assets generating income, however no priority is granted to any party for the purpose of investments and distribution of profits.

The Group does not allocate non-performing assets to EIAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders. Only the profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. As per the policy of the Group, minimum of 15% of return on assets earned is distributed to investment accountholders and 85% is retained by the Group as Mudarib share or Wakala fee. The Group did not charge any administration expenses to investment accounts.

The funds are invested and managed in accordance with Shari'a principles. **(PD 1.3.32 b)**

According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested after deducting a mandatory reserve. 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)**

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

The EIAH and other customers can use the Group's relationship managers for any advice, mediation services, grievances and complaints. **(PD 1.3.32 f, g)**

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 ended 30 June 2020 and years ended 31 December 2019, 2018,2017, 2016 and 2015 are as follows: **(PD 1.3.33 e, l, m, n)**

Table 6.1 (BD '000s)

	Jun 2020	Dec 2019	Dec 2018	Dec 2017	Dec 2016	Dec 2015
Shareholders	14,667	14,013	246	119	119	155
EOIA (before smoothing)	18,835	25,026	492	230	216	282
Profit earned for EOIA before smoothing	18,835	25,026	492	230	216	282
Profit paid for EOIA after smoothing	14,667	14,013	246	119	119	155
Balance of:						
PER	N/A	N/A	N/A	N/A	N/A	N/A
IRR	N/A	N/A	N/A	7	7	7
Annual Rate of Return Benchmark	3%	3%	3%	3%	3%	3%
Annual Rate of Return (EOIA) - Profit earned	1.69%	2.42%	0.53%	0.23%	0.18%	0.41%
Annual Rate of Return (EOIA) - Profit paid	1.31%	1.35%	0.27%	0.12%	0.10%	0.23%
PER Amount	-	-	-	-	-	-
PER %	-	-	-	-	-	-
IRR Amount	-	-	-	-	7	7
IRR %	-	-	-	-	-	-
Reconciliation						
Mudaraba Profit Earned	18,835	25,026	492	230	216	282
Mudarib fees	(4,168)	(11,013)	(246)	(111)	(97)	(127)
Profit credited to EOIA accounts	**14,667**	**14,013**	**246**	**119**	**119**	**155**
IRR movements	-	-	-	-	-	-
Profit on EOIA	**14,667**	**14,013**	**246**	**119**	**119**	**155**
Mudarib fee as a percentage of total investment profit	22%	44%	50%	48%	45%	45%
EOIA Balance	1,115,961	1,034,743	99,761	118,881	68,796	62,351
RWA as per PIRI Report	156,646	11,469	6,886	18,727	4,128	1,952

Table 6.2

	Jun 2020	Dec 2019	Dec 2018	Dec 2017	Dec 2016	Dec 2015
Rate of Return	1.31%	1.35%	0.25%	0.10%	0.17%	0.25%
Return on average EOIA assets (ROAA)	2.36%	7.58%	0.49%	0.26%	0.32%	0.42%
Return on average equity (Total Owner's Equity) (ROAE)	6.22%	8.01%	0.16%	0.14%	0.07%	0.09%

6 Equity of Investment Accountholders (continued)

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

Total assets breakdown by EOIA & Self financed **(BD '000s)**

	Total Exposures	Funded by EOIA	Funded by Self & Call Accounts	% of EOIA to Total
Sovereign	603,128	177,933	425,195	30%
Financial Institutions	461,586	269,692	191,893	58%
Corporate	695,994	388,642	307,353	56%
Retail	433,151	279,695	153,456	65%
Total	**2,193,859**	**1,115,961**	**1,077,898**	**51%**

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

(BD '000s)

	Cash and balances with banks and Central Bank		Placements with financial institutions		Financing Assets		Finance Lease Assets	
	EOIA	Self & Call Accounts	EOIA	Self & Call Accounts	EOIA	Self & Call Accounts	EOIA	Self & Call Accounts
Asset Allocation as on 30 June 2020	135,825	154,106	52,451	8,916	757,328	48,803	170,357	215,650
Asset Allocation as on 31 December 2019	117,829	101,627	76,660	38,143	656,985	70,025	183,269	165,219
Asset Allocation as on 31 December 2018	-	-	99,761	63,544	-	-	-	-
Asset Allocation as on 31 December 2017	-	-	118,881	22,344	-	-	-	-
Asset Allocation as on 31 December 2016	-	-	68,796	113,656	-	-	-	-
Asset Allocation as on 31 December 2015	-	-	62,351	40,994	-	-	-	-

There are no off-balance sheet exposures arising from investment decisions attributable to the EOIA holders.

7 Other Disclosures

7.1 Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a periodic basis by the Audit and Risk Committee as well as ALCO to ensure positions are maintained within established limits. Substantial portion of the Group's assets and liabilities are denominated in Bahraini Dinars, US Dollars or Saudi Riyals. As the Bahraini Dinar and Saudi Riyals are pegged to the US Dollars, positions in these currencies are not considered to represent significant currency risk as of 30 June 2020.

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 13 titled Related Party Transactions in the consolidated financial statements for the period ended 30 June 2020. The intra-group and related party transactions are made at arms length basis during the year.
(PD 1.3.10 e) (PD 1.3.23 d)

7.3 Restructured Facilities

As at 30 June 2020, the bank did not have any renegotiated financing facilities to individuals and corporate.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. Previous restructuring of any facilities to individual and corporate customers did not have any significant impact on 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 30 June 2020. **(PD 1.3.23 k)**

7.5 Legal Risk and Claims

As at 30 June 2020, legal suits amounting to BD 5,718 thousands (2019: BD 385 thousands) were pending against the Group. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group has also filed counter cases against these parties. **(PD 1.3.30 c)**

7.6 Deposit Protection Scheme

Certain customers' deposits of the Group are covered by deposit protection schemes established by the Central Bank of Bahrain (CBB). Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits and Equity of unrestricted investment accounts issued by the CBB in accordance with Resolution No.(34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of BD 20,000 as set out by CBB requirements. A periodic contribution as mandated by the CBB is paid by the Group under this scheme. **(PD 4.4.2)**

7.7 Exposure to highly-leveraged and other high-risk counterparties

The bank has no exposure to highly-leverged and other high-risk counterparties as per the definition provided in the CBB rulebook PD-1.3.24 **(PD 1.3.23 e)**

7.8 Exposures in excess of regulatory limits

The CBB has set a single exposure limit of 15% of the bank's total Capital Base on exposures to individuals and a combined exposure limit of 25% of the total Capital Base of closely-connected counterparties. The excess amount of any exposure above the mentioned thresholds must be risk-weighted at 800% unless it is an exempt exposure in accordance with the requirements in the CBB rulebook.

The bank has no exposures that are in excess of individual obligor limit of 15% of the bank's Capital Base as of 30 June 2020 **(PD 1.3.23 f)**

7.9 CBB Penalties (PD 1.3.44)

During the first half of 2020 an amount of BD nil was paid as penalty to the Central Bank of Bahrain (CBB) for failure to comply with CBB requirements.

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	**2,193,859**
Collective provision impairment	16,250
Less: Provision related to Contingent Liabilities and Commitments	(368)
Balance sheet as in Regulatory Return	**2,209,741**

Step 2: Reconcilation of published financial balance sheet to regulatory reporting as at 30 June 2020

BHD '000

	Balance sheet as in published financial statements	Consolidated PIRI data	Reference
Assets			
Cash and balances with banks and Central Bank	**289,931**	**290,069**	
of which Self financed		154,244	
of which financed by URIA		135,825	
Placements with banks and similar financial institutions	**61,367**	**61,595**	
of which Self financed	-	9,144	
of which financed by URIA	-	52,451	
Held-to-maturity investments	**390,368**	**390,447**	
of which Sovereign Sukuk	379,264	-	
of which Corporate Sukuk	11,104	-	
Financing assets	**806,131**	**1,207,543**	
Finance lease assets	**386,006**	-	
of which Self financed	-	279,858	
of which financed by URIA	-	927,685	
Available-for-sale investments	**1,510**	**1,510**	
Investment properties	**75,437**	**75,437**	
of which Investments in real estate	72,494	-	
of which Development properties	2,943	-	
Investment in associates	**12,150**	**12,150**	
Property, plant, and equipment (PPE)	**22,410**	**22,410**	
Other Assets	**148,547**	**148,581**	
Non Trading investment	102,163	-	
Other receivables and prepayments	20,413	-	
Goodwill	25,971	-	**G**
Total Assets	**2,193,859**	**2,209,741**	
Liabilities			
Customers' current accounts	**336,628**	**336,628**	
Placements from financial institutions	**88,272**	**88,272**	
Funding Liabilities (e.g. reverse commodity murabaha, etc.)	**320,645**	**320,645**	
of which Murabaha term financing	320,645	-	
Accruals, deferred income, other liabilities, current and deferred tax liabilities (DTLs)	**41,277**	**40,909**	
of which Other liabilities	35,274	34,906	
of which Dividends payable	6,003	6,003	
Unrestricted Investment Accounts	**1,115,961**	**1,115,961**	
Total Liabilities	**1,902,783**	**1,902,415**	
Owners' Equity			
Total share capital	**222,920**	**222,920**	**A**
Share capital	230,450	230,450	
Treasury stock	(7,530)	(7,530)	
Reserves and retained earnings	**67,638**	**67,638**	
Share premium	12,209	12,209	**C-1**
Statutory reserve	21,107	21,107	**C-2**
Retained earnings (excluding profit for the year)	13,342	13,342	**B-1**
Subsidy from government	1,848	1,848	
Modification Loss	(24,768)	(24,768)	
Modification loss amortization	16,512	16,512	**B-2**
Net profit for the year	**7,101**	**7,101**	
of which amount eligible for CET1	5,299	5,299	**B-3**
of which amount not eligible for CET1	1,802	1,802	
Fx translation adjustment	(3,666)	(3,666)	**C-3**
Changes in fair value - amount eligible for CET1	364	364	**C-4**
Real estate fair value reserve - amount eligible for T2	23,589	23,589	**D**
Minority interest in subsidiaries' share capital	**518**	**518**	
of which amount eligible for CET1	-	107	**E-1**
of which amount eligible for AT1	-	23	**E-2**
of which amount eligible for T2	-	31	**E-3**
of which amount not eligible for regulatory capital	-	357	
Expected credit losses (Stages 1 & 2)	-	**16,250**	
of which amount eligible for T2	-	12,339	**F**
of which amount not eligible for regulatory capital	-	3,911	
Total Owners' Equity	**291,076**	**307,326**	
Total Liabilities + Owners' Equity	**2,193,859**	**2,209,741**	

AL SALAM BANK-BAHRAIN B.S.C.
BASEL III - PILLAR III - DISCLOSURES
30 June 2020

Appendix PD-1: Reconciliation requirements & Template
Step 3: Composition of Capital Common Template as at 30 June 2020

BHD '000

	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
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	222,920	A
2	Retained earnings	35,153	B1+B2+B3
3	Accumulated other comprehensive income (and other reserves)	30,014	C1+C2+C3+C4
4	*Not Applicable*		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	107	E1
6	**Common Equity Tier 1 capital before regulatory adjustments**	288,195	
	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	-	
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	CBB 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**	25,971	
29	**Common Equity Tier 1 capital (CET1)**	**262,224**	
	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)	23	E-2
35	*of which: instruments issued by subsidiaries subject to phase out*	**-**	
36	**Additional Tier 1 capital before regulatory adjustments**	**23**	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments plus related stock surplus	**-**	
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	CBB 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)**	**23**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**262,247**	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	23,589	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)	31	E-3
49	*of which: instruments issued by subsidiaries subject to phase out*	**-**	
50	Provisions	12,339	F
51	**Tier 2 capital before regulatory adjustments**	**35,959**	

	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		
57	**Total regulatory adjustments to Tier 2 capital**	**-**	
58	**Tier 2 capital (T2)**	**35,959**	
59	**Total capital (TC = T1 + T2)**	**298,206**	
60	**Total risk weighted assets**	**1,086,851**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	**24.13%**	
62	Tier 1 (as a percentage of risk weighted assets)	**24.13%**	
63	Total capital (as a percentage of risk weighted assets)	**27.44%**	
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	**0.00%**	
67	of which: D-SIB buffer requirement	**0.00%**	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	**24.13%**	
	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)	16,250	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	12,339	
78	N/A		
79	N/A		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)		
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: Features of regulatory capital
For the period ended 30 June 2020

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)	BD 230.45 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

APPENDIX II - NET STABLE FUNDING RATIO (NSFR) DISCLOSURE

Background:

ASBB has been subjected to the Basel III NSFR standards from December 2019, pursuant to CBB circular No. EDBS/KH/54/2018 dated 16th August 2018. ASBB is required to maintain NSFR of at least 100% on an on-going basis. CBB has relaxed this ratio to 80% due to the pressures within the banking sector following the COVID-19 pandemic. However, ASBB still seeks to maintain the original 100% requirement.

The objective of NSFR is to improve the resiliency of banks by promoting long term funding stability. NSFR is designed to limit the risks emanating from excessive maturity mismatches over the medium to long term. More specifically, the NSFR requires ASBB to fund illiquid assets with a minimum amount of stable liabilities over a horizon of one year.

The NSFR requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. CBB circular stipulates the applicable Required Stable Funding (“RSF”) factor for each category of asset and Available Stable Funding (“ASF”) factor for each type of funding source.

ASBB seeks to ensure that its NSFR remains above the specified regulatory minimum requirements. This is achieved by:

(i) Monitoring the NSFR closely against an established internal early warning trigger and management target.

(ii) Managing and developing strategies to build a diversified funding base with access to funding sources across retail and wholesale channels.

Analysis and main drivers:

Al Salam Bank strategy is to maintain stable and well-diversified funding sources by focusing on raising more stable free float and long-term deposits from core clientele base in Bahrain and across other key GCC markets where strong banking relationships have been successfully established. The main driver of this strategy is to fund bank’s core business activities with the widest deposit base and hence maintaining conformable funding mix for the long-term assets and subsequently healthy NSFR.

The Assets and Labilities Committee (ALCO) regularly review the different liquidity indicators -including the NSFR- and set appropriate action plans in maintaining adequate, sustainable and healthy liquidity position. ALCO review takes global economic indicators as well as local micro economic factors into consideration. Hence effective liquidity management is set into practice steered by treasury and risk department and collaborated with other key business units.

As at 30 June 2020, the weighted value of the Available Stable Funding (ASF) stood at BD 1.235 billion, while the total weighted value of the Required Stable Funding (RSF) stood at BD 1.243 billion. The resultant NSFR stood at 99%, well above the current 80% threshold stipulated by CBB. The ASF is primarily driven by a strong capital base, substantial retail and private banking deposit base and deposits from non-financial corporate customers.

Post application of the relevant factors, the contribution of regulatory capital, retail deposits and deposits from non-financial corporates stood at 24%, 39% and 17% respectively. The bank does not rely on financial market funding sources (such as DCM) and interbank funding activities are primarily used for short term funding gaps.

The RSF post application of relevant factors is driven by financing provided to non-financial corporate customers, retail and small business customers, and some unlisted investments.

ASBB’s High-Quality Liquid Assets (HQLA) requires minimum funding due to its sovereign nature and high liquidity which, after applying the relevant factors, makes up 1% of the RSF portfolio. Performing financing and Investment accounts for 68% and 15% of the RSF.

At ASBB, there is considerable focus on growing and maintaining stability of demand and term deposits provided by private, corporate and retail customers which will continue to form a significant part of the funding.

AL SALAM BANK-BAHRAIN B.S.C.

Net Stable Funding Ratio (NSFR) Report - Consolidated

30 June 2020

NET STABLE FUNDING RATIO (NSFR)

BHD '000

No.	Item	Unweighted Values (before applying relevant factors)				Total weighted value
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available Stable Funding (ASF):						
1	Capital:					
2	Regulatory Capital	265,298	-	-	35,958	**301,256**
3	Other Capital Instruments	-	-	-	-	**-**
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	-	-	-	**-**
6	Less stable deposits	-	400,135	117,401	71,964	**537,747**
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	**-**
9	Other wholesale funding	-	1,008,236	172,174	62,948	**395,863**
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities		-	-	-	
12	All other liabilities not included in the above categories	-	50,424	-	-	**-**
13	**Total ASF**					**1,234,866**
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)					**12,274**
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	**-**
16	Performing financing and sukuk/ securities:					
17	Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	**-**
18	Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	238,463	8,047	5,353	**45,146**
19	Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	166,312	142,508	717,414	**734,192**
20	With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	150,103	**97,567**
21	Performing residential mortgages, of which:	-	-	-	103,987	**67,591**
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	103,987	**67,591**
23	Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	8,119	-	469	**4,458**
24	Other assets:					
25	Physical traded commodities, including gold	-				**-**
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs		-	-	-	**-**
27	NSFR Shari'a-compliant hedging assets		-	-	-	**-**
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted		-	-	-	**-**
29	All other assets not included in the above categories	380,323	-		42,293	**374,038**
30	OBS items		108,909	-	-	**5,445**
31	**Total RSF**		-	-	-	**1,243,144**
32	**NSFR (%)**					**99%**

AL SALAM BANK-BAHRAIN B.S.C.

Leverage Ratio - Consolidated
30 June 2020

APPENDIX III - LEVERAGE RATIO

S.No.	Description	BHD '000
1	Total Self Financed Assets	1,065,548
2	Total URIA Financed Assets	1,115,961
3	Off Balance Sheet items - with relevant Credit Conversion Factors	53,681
4	**Leverage ratio exposure [(1) + (2)*30% + (3)]**	**1,454,017**
5	Regulatory Adjustments	25,971
6	**Total exposures for the calculation of the leverage ratio [(4)-(5)]**	**1,428,046**
7	**Tier 1 Capital**	**239,327**
	Leverage Ratio [(7)/(6)]	**17%**
	Minimum Leverage Ratio as required by CBB	3%

AL SALAM BANK-BAHRAIN B.S.C.

Liquidity Coverage Ratio (LCR) Report - Consolidated

30 June 2020

APPENDIX IV - LIQUIDITY COVERAGE (LCR) RATIO

		Q2-2020		Q4-2019	
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets					
1	Total HQLA		**230,904**		**267,049**
Cash outflows					
2	**Retail deposits and deposits from small business customers, of which:**				
3	Stable deposits	55,596	1,671	47,906	1,437
4	Less stable deposits	151,692	15,209	126,221	12,622
5	**Unsecured wholesale funding, of which:**				
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-
7	Non-operational deposits (all counterparties)	536,756	331,642	459,802	291,999
8	Unsecured sukuk	-	-	-	-
9	**Secured wholesale funding**		-		-
10	**Additional requirements, of which:**				
11	Outflows related to Shari'a-compliant hedging instruments exposures and other collateral requirements	-	-	-	-
12	Outflows related to loss of funding on financing products	-	-	-	-
13	Credit and liquidity facilities	25,543	7,577	10,292	3,086
14	**Other contractual funding obligations**	-	-	-	-
15	**Other contingent funding obligations**	77,223	3,929	71,573	3,910
16	Total Cash Outflows		**360,027**		**313,054**
Cash inflows					
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	19,560	11,063	37,193	19,470
19	Other cash inflows	189,475	184,500	176,518	171,741
20	Total Cash Inflows	209,035	**195,562**	213,711	**191,211**
			Total adjusted Value		**Total adjusted Value**
21	**Total HQLA**		**230,904**		**267,049**
22	**Total net cash outflows**		**164,873**		**122,135**
23	**Liquidity Coverage Ratio (%)**		**141%**		**230%**