بنك السلام
Al Salam Bank

Inspired to Grow

Annual Report 2022

Licensed and regulated as an Islamic Retail Bank by the Central Bank of Bahrain

His Royal Majesty
King Hamad bin Isa Al Khalifa
The King of the Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad Al Khalifa
The Crown Prince, Deputy Supreme Commander and Prime Minister

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Corporate Profile

Establishing its headquarters in the Kingdom of Bahrain in 2006, Al Salam Bank has since cemented its reputation as the fastest growing Bank in the Kingdom and a highly influential force in the Islamic banking industry on a regional level. Leveraging on its robust financial standing as the industry's strongest in asset capital, the Bank has a proven track record in risk mitigation and effectively shifting to market dynamics, through its agile and aggressive growth strategy.

The Bank has adopted a digital-first mindset to meet the modern-day needs of its clientele, delivering curated financial solutions and a seamless, transformative customer experience. Harnessing the power of data-backed insights and state-of-art technology, Al Salam Bank offers a comprehensive range of innovative and unique Shari'a-compliant financial products and services through its extended network of branches and ATMs. In addition to its diverse range of retail banking services, the Bank also provides corporate banking, private banking, asset management, international transaction banking as well as treasury services.

Al Salam Bank's competitive edge lies in its unrivalled approach to nurturing client relationships, fuelled by a deeply-rooted ethos in humanizing the customer journey through personalization, convenience, and efficiency, creating a refined and rewarding client experience. The Bank prides itself on its solution-oriented philosophy, curating tailored solutions with its clients' financial needs at the epicenter of everything they do.

With a Bahrainization rate of 92%, Al Salam Bank considers its people to be its most valued asset. The Bank has prioritized the wellbeing of its human capital, empowering them with the requisite tools, training and opportunities to create an inspired workforce dedicated to the pursuit of excellence. Championing a highly energetic and collaborative work environment, Al Salam Bank fosters a culture of innovation which celebrates collective achievements.

Encouraging a socially responsible culture from within to drive positive change, the Bank is committed to supporting the social and financial wellbeing of the community in which it resides. Driven by the shared passion of its people to form deep relationships with clients, the Bank aims to create solutions to help its customers meet their financial goals in a sustainable manner.

Our Brand Promise

We nurture relationships by enriching experiences.

Our Values

- We are empowered by our human desire to make a difference
- We are passionate by nature in all that we do
- We have an innovative and solution-driven mindset
- We are dedicated to the pursuit of excellence across all fronts

Our Guiding Principles

We Enchant our Clients

We go over and above to deliver an enriching experience by simplifying and humanizing the customer journey through personalization, convenience and rewards.

We are driven by a shared passion to form deep relationships with our clients and curate tailored solutions to help them meet their financial goals efficiently and seamlessly.

We stand by our promise to continuously deliver a refined service offering that places our clients at the core.

We Inspire our People

We prioritize the wellbeing of our people and empower them to promote Al Salam Bank's distinct culture of collaboration, dedication to the pursuit of excellence, and passion for execution.

We celebrate a highly energetic and supportive work environment founded on the principles of teamwork, transparency and mutual respect.

We enable our people with tools, resources and opportunities to play an integral role in Al Salam Bank's mission and to feel engaged, connected, and proud of what they collectively achieve.

We are Digitally Native

At Al Salam Bank, we believe in smart, efficient banking. We adopt a digital-first mindset to meet the banking needs of our clients for convenience, simplicity and efficiency. Digital is never an afterthought with us - it lies at the core of our identity. By nature, we are technologically proficient, harnessing the insights derived from data to deliver curated financial solutions and seamless banking to our customers.

We Do the Right Thing

We live by our values of integrity, fairness, transparency and ethical conduct.

We have made a commitment to stay attentive to customers' needs throughout their journey; whilst providing confidential, secure and ethical banking services.

We Act with Empathy

We are committed to support the social and financial wellbeing of our community.

We encourage a socially responsible culture from within to drive positive change externally.

Inspired
to
Grow

Financial Highlights

Net Operating Income (Million)

BD 96m

2022	BD 96 (USD 256)
2021	BD 67 (USD 177)
2020	BD 57 (USD 152)
2019	BD 54 (USD 142)
2018	BD 57 (USD 151)

Net Profit (Million)

BD 33m

2022	BD 33 (USD 88)
2021	BD 21 (USD 56)
2020	BD 9 (USD 24)
2019	BD 21 (USD 56)
2018	BD 19 (USD 49)

Total Assets (Million)

BD 3,899m

2022	BD 3,899 (USD 10,343)
2021	BD 2,685 (USD 7,122)
2020	BD 2,261 (USD 5,998)
2019	BD 2,043 (USD 5,419)
2018	BD 1,710 (USD 4,537)

Total Equity (Million)

BD 337m

2022	BD 337 (USD 895)
2021	BD 297 (USD 788)
2020	BD 281 (USD 746)
2019	BD 320 (USD 849)
2018	BD 305 (USD 809)

Earning Per Share (Fils)

BD 14 Fils

2022	14 Fils
2021	9 Fils
2020	4 Fils
2019	10 Fils
2018	9 Fils

Cost to Income Ratio (Percent)

BD 53%

2022	53%
2021	49%
2020	50%
2019	56%
2018	49%

Operational Highlights

Al Salam Bank was awarded as 'Best Retail Bank in Bahrain' at the UK based MEA Finance Awards 2022, recognized for its innovative retail banking portfolio, inclusive of transformative products, digital experiences and elevated client service.

- The Bank's retail banking division continued to expand in 2022, where the assets portfolio grew by a healthy 110% YTD.
- The Bank's liabilities portfolio continued on its upwards trajectory marked by 270% growth YTD.
- Private Banking achieved a remarkable growth of 27.62% in 2022. The Private Banking assets reached an all-time high of BHD 368 million that was primarily driven by successful closure of top notch credit rated financing deals for its key clients.
- Private Banking has recognized a total fee income of BHD 1.4 million that has directly contributed to the growth of net profits and enhancing shareholders' returns.
- The Corporate Banking Unit saw a gradual upturn in business over the course of 2022. The division's total assets grew to BHD 671 million from BHD 589 million; representing an increase of BHD 82 million over the course of 2022. This was precipitated by significant government and commercial bookings during the first three quarters of 2022.
- Although 2022 was a challenging year, the Treasury and Capital Markets team achieved further diversification of liquidity sources, utilizing a variety of tools, including Islamic repos and term finance sourced from multiple origins.
- ITB continued to expand services and generate fee income during the year 2022, despite the global downturn, reduction in trade activity, higher commodity prices and credit limits due to ongoing global political and financial challenges.
- The Innovation team managed to increase the bank's cloud capacity by 50%, digital channels have tripled its customer base and the storage and processing power of the bank's digital infrastructure has been quadrupled, ensuring that Al Salam remains at the forefront of digital banking in 2023 and beyond.
- Over the course of last year, the Operations Department continued ratifying service-level agreements with various business units while supporting the seamless migration and integration of the Bank's recently acquired retail portfolio. The team played a vital role in helping Al Salam Bank to realize the strategic objectives set out by the board and the executive management.
- The HR and IT departments have worked together to successfully onboard all Ithmaar Bank's retail employees. This process was completed while adhering to the highest standards of ESG and was done completely paperlessly.
- The digital onboarding process streamlined the HR department's workflow, reducing the time and resources required to onboard new employees. Furthermore, it also led to increased reliability, as by using an entirely digital system, HR was able to ensure that all information was captured accurately, significantly reducing the possibility of errors.

BEST RETAIL BANK

Source: According to MEA Finance Awards 2022 - Bahrain

Board of Directors

H. E. Shaikh Khalid bin Mustahail Al Mashani

Chairman

Non-executive
Director since: 5 May 2014
Current Term started: 17 March 2021
Experience: more than 27 years

H.E. Shaikh Khalid bin Mustahail Al Mashani offers the Bank over 27 years of in-depth experience. He is the Chairman of the Board of Directors of Al Salam Bank in Bahrain, Bank Muscat S.A.O.G. and Dhofar International Development & Investment Holding Company S.A.O.G. in Oman. He is also the Chairman of the Board of Solidarity Group. Additionally, H.E Shaikh Khalid is Director of Al Omaniya Financial Services Company, Dhofar Food and Investment Co S.A.O.G. in Oman and Maalem Holding in Bahrain.

H.E. Shaikh Khalid has a BSc. in Economics, and a Master's Degree in International Boundary Studies from the School of Oriental and African Studies (SOAS), from the University of London.

Board of Directors (continued)

Mr. Matar Mohamed Al Blooshi

Deputy Chairman

Non-executive
Director since: 22 March 2018
Current Term started: 17 March 2021
Experience: more than 25 years

Mr. Matar Mohamed Al Blooshi has over 25 years of experience in the financial and fund management industries. Beginning his career in 1992 with the Central Bank of the United Arab Emirates as a Dealer in the Treasury department, he joined Abu Dhabi Investment Company as a Portfolio Manager in 1995. In 1998, he joined First Gulf Bank as the Head of Treasury & Investment, moving to National Bank of Abu Dhabi in 2001 as Head of Foreign Exchange and Commodities.

In February 2005, Mr. Matar Al Blooshi became the Head of Domestic Capital Market Group and the General Manager of Abu Dhabi Financial Services (a subsidiary of National Bank of Abu Dhabi) and was given the title of Senior Manager, Asset Management Group in October 2006. Mr. Matar Al Blooshi is Group Chief Investment Officer at Das Holding LLC, a Member of the Board of Directors of Al Salam Bank, a Member of the Board of Directors of SAYACORP in Bahrain, Etisalat Misr. Air Arabia, Chief investment officer and Member of Emirates Strategic Investment Company in Emirates and Chairman of Maalem Holdings in Bahrain.

Mr. Matar Al Blooshi holds a BA in Banking & Financial Management from University of Arkansas, US.

Mr. Salman Saleh Al Mahmeed

Board Member

Non-executive
Director since: 15 February 2010
Current Term started: 17 March 2021
Experience: more than 35 years

Mr. Salman Saleh Al Mahmeed is a prominent business figure with experience exceeding 35 years. He is the Chairman of Board's Audit Committee at Al Salam Bank, Chairman of Burj Al Jewar and Burj Al Safwa, the Deputy Chairman of Solidarity Bahrain and Deputy Chairman of Dar Albilad, Chairman of Coca Cola Bottling Company Bahrain and Owner's Representative of Global Express and the Movenpick Hotel in Bahrain.

Previously, he was a Board Member and member of the Investment, Executive and Strategic Options Committee for the Bahraini Saudi Bank, CEO of Bahrain Airport Services and the Investment Director of Magna Holdings.

Mr. Salman Al Mahmeed holds an MBA in Business Administration, a Diploma in Hotel Management and a BSc in Management.

Mr. Salim Abdullah Al Awadi

Board Member

Independent
Director since: 22 March 2018
Current Term started: 17 March 2021
Experience: 33 years

Mr. Salim Abdullah Al Awadi is the Board member of Al Salam Bank Seychelles, Deputy CEO of Al Omaniya Financial Services S.A.O.G., Oman. He is also a Director of Dhofar Cattle Feed Company S.A.O.G., Oman, Chairman of Dhofar Poultry S.A.O.G., Oman and Director of Dhofar International Development & Investment Holding S.A.O.G., Oman. Chairman of Rital Travel LLC, Oman.

Mr. Salim Al Awadi holds a Bachelor Degree in Business Administration, a Post Graduate Diploma in Accounting from Strathclyde University, UK and an MBA from Lincoln University, UK.

Mr. Khalid Salem Al Halyan

Board Member

Independent
Director since: 24 February 2015
Current Term started: 17 March 2021
Experience: more than 40 years

Mr. Khalid Salem Al Halyan is a business professional with over 40 years of senior level experience spanning a number of industries. Mr. Khalid Al Halyan is currently the Group Chief Audit Executive at Dubai Aviation City Corporation (DACC). His career has seen him hold senior positions at the UAE Central Bank, the Department of Economic Development (DED), Dubai, and in the aviation industry where he played a key role in the establishment of the new Dubai Airport Free Zone (DAFZA) and head up the Finance Department, before moving on to establish the Group Internal Audit and Risk Assessment (GIARA) function at DACC.

Mr. Khalid Al Halyan has also supported the establishment of DED, Emaar Properties, the UAE Internal Audit Association, the UAE Golf Association and restructured projects for DUBAL, Dubai World Trade Centre, Dubai Civil Aviation, UAE Central Bank Banking Supervision, and realized the construction of a new facility for the Al Noor Special Needs Centre in Dubai. He currently serves as Vice President of the UAE Internal Audit Association (affiliated to the Institute of Internal Auditors (IIA), USA), is Chairman of Al Noor Special Needs Centre in Dubai, Chairman of Emaar South, Dubai, Board Member of Emaar Development Company, Board Member of Amlak Real Estate, and he has recently become a member at the Board of Trustees of American University in the Emirates.

Mr. Khalid Al Halyan holds an MBA degree from Bradford University in the UK, and a BBA from the UAE University, Al Ain.

Board of Directors (continued)

Mr. Zayed A. R. Al-Amin

Board Member

Non-executive
Director since: 22 March 2018
Current Term started: 17 March 2021
Experience: more than 24 years

Mr. Zayed Al-Amin is a Bahraini Businessman with over 24 years of experience in the finance and investment sectors. Currently serving as Executive Director of Investments at Ali Rashid AlAmin Group, he is also a Board Member of various organizations including Chairman of Bahrain Gourmet, Chairman of SAYACORP, Board Member of Al Salam Bank, Board Member of Solidarity Group, Board Member of Esterad Investment Co., Board Member of Gulf African Bank, and a former Board Member of MIDAD Gulf Energy, RAMAKAZA Logistics Qatar and Food Storage Co. Ltd. KSA. Prior to his current responsibilities at AlAmin Group, he worked for National Bank of Bahrain and Towry Law International. Prior to his current responsibilities at AlAmin Group, he worked for National Bank of Bahrain and Towry Law International.

Mr. Zayed Al-Amin holds a Post Graduate Degree in Finance and Investment from the London School of Business & Finance. He has also attended many executive courses in management, finance and investment.

Mr. Alhur Mohammed Al Suwaidi

Board Member

Independent
Director since: 22 March 2018
Current Term started: 17 March 2021
Experience: 18 years

Mr. Alhur Mohammed Al Suwaidi is a well-rounded investment strategist with over 18 years of experience in investments, portfolio management at both listed and private equities. He is currently serving as a Director in Al Salam Bank in Bahrain, he is also a Director in Al Salam Bank Seychelles and Chairman of BHM Capital in UAE. Beginning his career in 2004, Mr. Alhur Al Suwaidi held senior positions at Abu Dhabi Investment Authority (ADIA), UAE. as a Portfolio manager, a Fund manager and Investment manager. He also served in a number of Advisory Boards of General Partners and International Private Equity Firms that includes Leonard Green and Partners, The Blackstone Group, Carlyle Group, Apollo Global Management, Ares Management and Silver Lake Partners.

Mr. Alhur Al Suwaidi holds a Bachelor degree in Business Administration from Chapman University, California, USA.

Mr. Hisham Al-Saie

Board Member

Non-executive
Director since: 17 March 2021
Current Term started: 17 March 2021
Experience: 24 years

Mr. Hisham Al-Saie has over 24 years of experience in Investment Management (financial investments, real estate asset management and corporate finance). He is a member of the Board and Executive Committee at Al Salam Bank. Mr. Al-Saie, is currently the Deputy Group Chief Executive Officer at Premier Group, he also serves as Board member at McLaren Group Limited where he also Chairs the Board Audit & Risk Committee. In addition, he is a member of the Board of Investcorp Holdings B.S.C, South City W.L.L., Diyar Al Muharraq W.L.L., and Bahrain Bay Development W.L.L.

Furthermore, Al-Saie is the Chairman of the Board's Remuneration Committee and a member of the Board Audit and Risk Committee at Nass Corporation B.S.C Bahrain, he is also the Vice Chairman of the Board at LAMA Real Estate W.L.L. Bahrain, and a Board member of Solidarity Group.

Mr. Hisham Al-Saie holds an MBA from London Business School, has completed the INSEAD YMP Executive Management Program, and holds a BA in Accounting from the University of Texas.

Mr. Tariq Abdul Hafidh Salim Al- Aujaili

Board Member

Independent
Director since: 17 March 2021
Current Terms started: 17 March 2021
Experience: 21 years

Mr. Tariq Al-Aujaili is a Board Member at Al Salam Bank and Board member at Solidarity Bahrain, He is currently Deputy Chairman at Dhofar International Development and Investment Holding Co. SAOG, Dhofar Insurance SAOG and Oman Investment and Finance Co. SAOG. Mr. Al- Aujaili additionally serves on the Board at Bank Dhofar SAOG.

Mr. Tariq Al-Aujaili holds a BSc in Accounting and Finance from the London School of Economics and Political Science.

Fatwa & Shari'a Supervisory Board

Sheikh Adnan Abdullah Al Qattan
Chairman

Sheikh Adnan Al Qattan holds Master's degree in the Quran and Hadith from the University of Um Al-Qura, Makka, Kingdom of Saudi Arabia; and Bachelor's degree in Islamic Shari'a from the Islamic University, Madeena, Saudi Arabia. Shaikh Al Qattan is also a Judge in the Supreme Sharia Court of Appeals, Ministry of Justice – Kingdom of Bahrain. Shaikh Al Qattan is a Member of Shari'a Supervisory Boards for several Islamic banks and he is also Chairman of Al Sanabil Orphans Protection Society, Chairman of the Board of Trustees of the Royal Charity Establishment under the Royal Court – Kingdom of Bahrain, and President of the Kingdom of Bahrain Hajj Mission. In addition, he is a Friday sermon orator at Al Fateh Grand Mosque. Shaikh Al Qattan contributed to drafting the Personal Status Law for the Ministry of Justice and is a regular participant in Islamic committees, courses, seminars and conferences.

Dr. Fareed Yaqoub Al Meftah
Member

Dr. Fareed Almeftah is the Undersecretary – Court of Cassation, Supreme Judicial Council – Bahrain, the Former Undersecretary of the Ministry of Justice & Islamic Affairs – Bahrain, member of the Supreme Council of Islamic Affairs and a former judge of the high Shari'a Court. Dr. Fareed is the Chairman of the Shari'a Supervisory Board of Khaleeji Commercial Bank (KHCB) and a former Lecturer at the University of Bahrain and wrote a lot of research papers. Dr. Fareed holds PhD in Islamic Philosophy from University of Edinburgh – United Kingdom.

Dr. Nedham Mohammed Yaqoobi
Member

Sheikh Dr. Nedham Mohammed Yaqoobi is an internationally acclaimed Shari'a scholar in the Islamic banking industry. He has a background in both Traditional Islamic sciences with senior scholars from different parts of the Muslim World. He holds a PhD in Islamic studies also a degree from McGill University in Canada. Sheikh Nedham has taught Islamic Subjects in Bahrain and lectured all over the world. He is a member of many International Boards: the Shari'a Council of AAOIFI, Dow Jones Islamic Index, Central Bank of Bahrain Shari'a Committee and IIFM Shari'a Council. He is also a member of several local and International Shari'a Boards. Sheikh Nedham has edited several Arabic manuscripts and has more the 500 audio-visual lectures and lessons in both Arabic and English.

Dr. Osama Mohammed Bahar
Member

Sheikh Dr.Osama Mohammed Bahar is a recognized Shari'a scholar in Islamic banking and financing. He has extensive experience in the structuring of financial and Islamic products and Islamic contracts, in addition to his contributions to a number of research papers on Islamic finance and banking. Sheikh Osama Bahar holds a Bachelor's degree from Prince Abdul Qader University for Islamic Studies in Algeria and he has a Master's degree in the Islamic economy from 'Al Awzai University' in Lebanon and PhD in Islamic Financial Engineering from Islamic University of Europe. He is also a member of many Shari'a Supervisory Boards.

HIGHEST RATED BANKING APP

Source: According to 19 March 2023 User Ratings on Apple Store, Google Play and Huawei AppGallery

Executive Management

Mr. Rafik Nayed

Group Chief Executive Officer

Experience: more than 30 years

Mr. Rafik Nayed is a seasoned banker with over 30 years of experience. He joined Al Salam Bank from Deutsche Bank where he held several positions, including Vice Chairman of the MENA region, Chief Country Officer for the UAE and Senior Executive Officer of Deutsche Bank AG Dubai (DIFC). Before joining Deutsche Bank, Mr. Nayed was the Chief Executive Officer of the Libyan Investment Authority and prior to that worked for many years in the oil and gas and financial services industries in a variety of senior international positions. He currently serves as a Chairman of Gulf African Bank and a board member of Solidarity Group.

Mr. Anwar Mohammed Murad

Deputy Chief Executive Officer – Banking

Experience: more than 29 years

Mr. Anwar Murad is a proficient Banker with over 29 years of experience in the areas of Private Banking, Treasury, Market Risk Management and Retail Banking. Prior to his current appointment with the Bank, Mr. Murad served as the Executive Vice President - Head of Private Banking at Al Salam Bank since May 2006. Previous to joining Al Salam Bank, he was the Head of Private Banking at BMI Bank, Bahrain and Regional Market Risk Manager for the MENA region at ABN AMRO Bank where he also headed the Bank's Treasury Operations in Bahrain and he held various senior positions at CitiBank – Bahrain. Mr. Murad has extensive knowledge and experience in Global Consumer Banking, Treasury and Investment products including Money Market, Foreign Exchange, Debt Derivatives, and Structured Products.

Mr. Eihab Abdellatif Ahmed

Deputy Chief Executive Officer - Corporate Affairs
Corporate Secretary

Experience: more than 27 years

Mr. Eihab Ahmed has a wide range of professional experience that spans over 27 years covering all major legal disciplines including but not limited to Investment Banking, Corporate Banking and Criminal, Labour, Public and Private International Laws. Prior to joining Al Salam Bank, he was the General Counsel - Corporate Secretary & Money Laundering Reporting Officer (MLRO) Legal & Compliance of First Energy Bank - Bahrain. He was the focal point of communication between the Board of Directors and Senior Management as well as between the Bank and its Shareholders, providing advisory and guidance on Corporate Governance principles and practices. Mr. Ahmed had worked at the International Investment Bank - Bahrain (IIB) as Head of Legal and Compliance, MLRO and for Khaleej Finance & Investment as the Head of Legal, MLRO and Corporate Secretary. He also worked for a number of reputed firms in the Kingdom of Bahrain. Before coming to Bahrain 15 years ago, he served the Ministry of Justice, Sudan as a Legal Counsel. Mr. Ahmed holds L.L.B degree from the Faculty of Law - University of Khartoum, Sudan. In January 2017, he obtained his International Diploma in Governance, Risk and Compliance from the ICTA and University of Manchester, UK. He also holds the Sudanese Bar certificate from Sudan and he is a registered member of the Sudanese Advocates Association as a Proper Advocate before various Courts of Law. Mr. Ahmed is a Certified Compliance Officer (CCO) from the American Academy of Financial Management - Dubai, UAE. In 2014, Mr. Eihab was awarded the GCC MLRO of the year.

Executive Management (continued)

Mr. Yousif Ahmed Ebrahim

Chief Financial Officer

Experience: more than 29 years

Mr. Yousif Ebrahim is a proficient banker with over 29 years of experience in the areas of finance and audit. He is primarily responsible for directing and overseeing the financial and fiscal management of the Bank and its subsidiaries that includes contributing to the Bank's strategy planning, leading and directing the budget process, maintaining appropriate accounting framework and establishing effective system of cost management and internal control. Prior to joining Al Salam Bank, he served as the Chief Financial Officer at First Energy Bank for more than 9 years. He also worked at Gulf International Bank as a Vice President of Internal Audit and he was also in the Audit & Business Assurance services at PricewaterhouseCoopers. Mr. Ebrahim is a Certified Public Accountant (USA) and a member of the American Institute of Certified Public Accountant.

Mr. Abdulkarim Turki

Chief Operating Officer

Experience: more than 42 years

Mr. Abdulkarim Turki is a well-rounded banker with more than 42 years of experience spanning Treasury, Operations, Audit, Internal Controls, Remedial and Risk Management. Mr. Turki worked in the incorporation and structuring of the Bank's Operation and he was appointed as a key member in the Selection and Implementation Committee of the Bank's core banking system responsible for the integration and business transfer of BMI Bank to Al Salam Bank in addition to being a member in the Bank's major management committees. Prior to joining the Bank in 2006, Mr. Turki was Vice President - Head of Treasury Support at Citibank Bahrain where he headed various departments and business units and was a key player in the launch of Citi Islamic Investment Banking. Mr. Turki holds an MBA in Investment & Finance from the University of Hull, UK.

Mr. Ahmed Abdulla Saif

Head of Strategy and Planning

Experience: more than 16 years

Mr. Ahmed Saif brings over 16 years of experience in the banking sector. Prior to joining Al Salam Bank in 2008 as an Associate in the Investment Team, Mr. Saif worked with DBS Singapore as an Investment Analyst. In 2012, he was appointed as the Head of the Investment Middle Office Department, and in 2016 took the reigns as the Head of Strategic Acquisition and Investment Management. Mr. Saif sits on the Board of a number of the Bank's affiliate and subsidiary companies, including Al Salam Bank-Seychelles, NS Real Estate Holding, and SAMA Investment Company. He holds an MSc in Finance and Financial Law with Honors from SOAS University of London, UK, and a BSc with Honors in Commerce, majoring in Finance & Economics, from DePaul University, USA.

Mr. Hussain Abdulhaq

Head of Treasury and Capital Markets

Experience: more than 22 years

Mr. Hussain Abdulhaq is an experienced Treasurer in the area of Islamic Banking and Financial Markets. His 22 years banking career as a treasury specialist has been very focused in Islamic liquidity management, Islamic capital markets, the development of Islamic compliant investment products and hedging instruments as well as Financial Institutions relationships. Mr. Abdulhaq joined Al Salam Bank in 2007 as a senior member in the treasury team, and has led the treasury integration process of Al Salam Bank and Bahrain Saudi Bank in 2010 and the same for BMI Bank in 2014. Prior to joining Al Salam Bank, he was in charge of dealing room activities for Kuwait Finance House Bahrain for a period of 5 years. Mr. Abdulhaq holds an MBA degree in Banking & Islamic Finance with honors from University of Bahrain and is a Chartered Financial Analyst (CFA).

Executive Management (continued)

Mr. Ahmed Jasim Murad

Head of Corporate Banking

Experience: more than 26 years

Mr. Ahmed Murad brings over 26 years of experience in the banking sector covering areas that include Retail, Commercial and Corporate Banking. Prior to joining Al Salam Bank BSC, he served as Head of Corporate Banking and also a member of the Credit Committee at National Bank of Bahrain BSC. Mr. Murad holds a Bachelor degree in Business Marketing from St. Edward's University – Austin, Texas, USA, Associate Diploma in Commercial Studies from University of Bahrain, and Executive Diploma from University of Virginia, USA. Moreover, he attended number of banking training courses inside the Kingdom of Bahrain and abroad

Mr. Ali Habib Qassim

Head of Private Banking

Experience: more than 23 years

Mr. Ali Habib Qassim is a banking expert with more than 23 years of experience covering Corporate, Investment and Private Banking; developing new products, locally and throughout GCC and capitalizing on his investment experience. Previous to his appointment with the Bank's Private Banking division in 2011, he marketed the Bank's Corporate Banking products and services in local markets after which he handled financial institutions and government relationships. He holds a Master Degree in Science from Emerson College, Boston, USA.

Mr. Sadiq Al Shaikh

Head of International Transaction Banking

Experience: more than 25 years

Mr. Sadiq Al Shaikh is a professional banker with over 25 years of experience in both Wholesale and Retail Banks in the Kingdom of Bahrain. Mr. Al Shaikh managed global markets with a focus on the GCC, MENA region, East Africa, South Asia and CIS region, where he develops Financial Institutions Group (FIG) products and structured finance. These include bilateral and syndication, correspondent and transaction banking, global trade finance instruments, export credit insurance covers and credit review of credit limits for countries and banks. Prior to joining Al Salam Bank in 2014, he was the Head of FIG & International banking at BMI Bank for 10 years, and held various senior positions for 7 years at the Arab Investment Company in Operations, Risk Management and the International Banking Division, covering Financial Institutions and Corporate products in overseas markets. Mr. Al Shaikh holds a Bachelor degree in Business Management majoring in finance and marketing from Bangalore University.

Mr. Krishnan Hariharan

Chief Risk Officer

Experience: more than 38 years

Mr. Krishnan Hariharan is a versatile Banker with over 38 years of experience in conventional and Islamic banks in the region and India. Prior to joining Al Salam Bank in 2019 he worked with Ithmaar Bank, Bahrain as Chief Risk Officer. Before joining Ithmaar Bank, he was part of the founding team of Alizz Islamic Bank, Sultanate of Oman. He holds twin Bachelor degrees one in Commerce and the other in Economics from Universities in India, he also holds a Master degree in Financial Management from Jamanalal Bajaj Institute of Management Studies, Mumbai – India.

Executive Management (continued)

Mr. Mohammed Yaqoob Buhijji

Head of Retail Banking

Experience: more than 21 years

Mohammed Buhijji is an accomplished executive of multi-cultural environments with superb organizational skills and has enjoyed an exceptional career to date with more than 21 years of high-level management in banking and consultancy. His skillset embraces superb hallmarks of understanding business restructuring and development processes within an organization. An initial period with Ernst & Young became the baseline for his audit and consultancy skills with exposure to international business practices in major financial institutions and government bodies. He moved to the nascent Al Salam Bank in 2007 to establish the Internal Audit division and various departmental policies and procedures. His essential role in driving the two acquisitions and subsequent mergers with Bahraini Saudi Bank and BMI Bank covered integration and conversion of significant areas of business-related processes. Mr. Buhijji has been resolute in the delivery of operational and financial targets as evidenced by the seamless and impressive Retail Banking transformation within Al Salam Bank resulting in a major contribution to the Bank's asset book and profitability. Mr. Buhijji holds MBA degree from the University of Strathclyde, Glasgow, and completed two Executive Management Programs at Harvard Business School, Boston, and Ivey Business School in Canada.

Ms. Muna Al Balooshi

Head of Human Resources and Administration

Experience: more than 23 years

Ms. Muna Al Balooshi is a practiced HR professional with over 23 years of industry experience and vast knowledge of HR policies and Labor Law regulations. Prior to her appointment with Al Salam Bank in 2006, Ms. Al Balooshi was the Head of Human Resources at the Court of HRH the Crown Prince prior to this served as HR Associate with KPMG Bahrain. She has played a major role in the Bank's two acquisitions of the Bahraini Saudi Bank and BMI Bank where she managed the merger of the Bank's Human Resources. She holds an MBA from De Paul University, Chicago, and is a CIPD Associate.

Mr. Qassim Taqawi

General Counsel

Experience: more than 20 years

Mr. Qassim Taqawi is a skilled legal counsel with over 20 years of experience covering Investment Banking, Islamic Banking, Retail Banking, Finance, Company Law, Labor Law, Real Estate and Construction. Mr. Taqawi has handled legal matters covering the GCC, USA, Europe and MENA region. Prior to his appointment with Al Salam Bank, Mr. Taqawi held a number of senior executive positions with various Banking and Financial Institutions throughout the region. In addition to his current executive responsibilities as General Counsel, Mr. Taqawi is a member of the Bank's Investment Committee and Remedial Committee. Mr. Taqawi holds a Bachelor degree (LLB) in Law, and is a registered lawyer with the Ministry of Justice & Islamic Affairs in the Kingdom of Bahrain.

Dr. Mohammed Burhan Arbouna

Head of Shari'a Compliance

Experience: more than 25 years

Dr. Mohammed Burhan Arbouna is a well versed Islamic banking and finance expert with over 25 years of Islamic banking experience. Prior to joining Al Salam Bank, Dr. Arbouna was the Shari'a Head and Shari'a Board Member of Seera Investment Bank B.S.C Bahrain, Head of the Shari'a department at Kuwait Finance House Bahrain, and has worked as a Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in Bahrain. He is a respected lecturer on Islamic banking and finance, and provides consultancy on orientation and professional programs for a number of professional and educational institutions. Dr. Arbouna was also a member of the Islamic Money Market Framework (IMMF) steering committee, a committee initiated by the Central Bank of Bahrain for the management of liquidity amongst Islamic banks. He holds a PhD in comparative law with a specialization in Islamic banking and finance and a Masters in Comparative Laws with specialization in Law of Evidence from the International Islamic University Malaysia, a BA degree in Shari'a, and Higher Diploma in Education from the Islamic University, Medina.

Executive Management (continued)

Mr. Ali Al Khaja

Head of Compliance and MLRO

Experience: more than 14 years

Mr. Ali Al Khaja brings more than 14 years of Compliance experience to the Bank. Prior to joining Al Salam Bank, he worked with Kuwait Finance House Bahrain, where he was responsible for various regulatory aspects including ensuring that transactions, investments and general dealings with the public were in compliance with the Central Bank of Bahrain (CBB) regulations and applicable laws. Previous to this he was employed by the CBB, where he held responsibility for the oversight of various local Islamic Bank's in the Kingdom of Bahrain. Mr. Al Khaja holds a Bachelor degree in Banking and Finance from the University of Bahrain and an International Diploma in Compliance from the International Compliance Association (ICA).

Mr. Ahmed Abdulrahim Al Mahmood

Head of Internal Shari'a Audit

Experience: more than 16 years

Mr. Ahmed Al Mahmood has over 16 years of professional experience in the field of Shari'a supervision and auditing in Islamic financial institution. Prior to joining Al Salam Bank, he established the Shari'a department in BMI Bank and GBCORP in addition to joining the Shari'a department of Abu Dhabi Islamic Bank (ADIB). He also played an essential role in the integration and conversion phases of the Bank's acquisition of BMI Bank; serving as a member in the Conversion Committee. He holds an MBA degree in Islamic Finance from University of Bolton - UK, and he is currently preparing a PhD at the same university. In addition to BA in Islamic Studies from University of Bahrain. He holds various professional qualifications that includes Certified Shari'a Advisor and Auditor (CSAA) from AAOIFI along with Advanced Diploma in Islamic commercial Jurisprudence (ADICJ) from BIBF. He also provided several training workshops on the principles of Islamic banking and wrote a lot of researches and published articles about Islamic banking & products.

Mr. Mahmood Qannati

Head of Marketing & Communications

Experience: more than 21 years

With over 21 years of extensive experience in Marketing, Communications and Branding on both local and regional levels, Mahmood Qannati is a veteran of the communications industry; having worked across various sectors including banking, telecommunications, automotive and aviation. During his time in the United Arab Emirates, Mr. Qannati worked in prominent and established institutions, leading Standard Chartered Bank as the Regional Head of Marketing & Branding for the entire Middle East, Africa and Pakistan region, as well as serving as the Middle East Chief Marketing Officer at Cigna Insurance. He has also held several senior positions on a local level, gaining experience in marketing and communications at HSBC Bank, Bahrain International Airport and Batelco. Most recently, Mr. Qannati served as the Chief Corporate Communications and Marketing Officer at Bahrain Islamic Bank (BisB), after which he joined Al Salam Bank as Head of Marketing and Communications. Mr. Qannati holds a Master's degree in Marketing Information Systems from the University of Sunderland and a Bachelor's degree in Marketing from the University of Bahrain.

Mr. Hemantha Wijesinghe

Chief Technology Officer

Experience: more than 22 years

Mr. Hemantha Wijesinghe is the Chief Technology Officer at Al Salam Bank, possessing over 22 years of experience in Information Technology management in the banking and finance sector in international markets globally. Prior to his UK based global roles, he had also covered multiple regions including Asia, Middle East, North America and Europe. He carries various international qualifications covering systems engineering and other areas of information technology, in addition to his higher IT studies in NCC Education (UK). Further to the Chartered institute of IT (UK), Mr. Wijesinghe also holds a MSc in Strategic Business Information Technology from the University of Portsmouth – UK.

Executive Management (continued)

Mr. Essa Abdulla Bohijji

Chief Auditor

Experience: more than 22 years

Mr. Essa Bohijji has more than 22 years of consulting and industry experience covering financial services, commercial entities, governmental bodies, and internal audit. Prior to joining Al Salam Bank, Mr. Bohijji was the Chief Auditor and Board Secretary of an Islamic Investment Bank in Bahrain and held senior positions at Ernst & Young where he worked in the Audit and Assurance Services Group and Business Advisory Services responsible for the Internal Audit and Risk Management assignments. Mr. Bohijji has previously served as a Board and Audit Committee member of Al Salam Bank-Algeria, a non-executive Audit Committee member in Manara Developments B.S.C. (c), as a Board member of BMI Bank, as a Board and Audit Committee member of Bahraini Saudi Bank, and an interim Board member in BMIO Bank in Seychelles. Mr. Bohijji is a Certified Public Accountant (CPA), licensed from the state of New Hampshire and is a member of the American Institute of Certified Public Accountants. He also holds a B.Sc. in Accounting from the University of Bahrain.

Mr. Mohammed Alshehabi

Head of Innovation

Experience: more than 16 years

Mohammed AlShehabi has over 16 years of experience in banking covering multiple areas including Capital Markets, Corporate Banking as well as Treasury and Trade Services. He is the Head of Innovation at Al Salam Bank. Mohammed is responsible for the Bank's digital strategy and fintech initiatives with an objective to maintain the Bank's pioneering role in offering digitally native Shari'a-compliant digital products & services in the Kingdom of Bahrain.

Prior to joining Al Salam Bank in 2018, he was part of the Corporate Banking team at Citi Bahrain with a business coverage role after spending several years at Citi's Treasury & Trade Solutions unit covering Bahrain and Saudi Arabia. He started his career at the Arab Banking Corporation as part of the Debt Capital Markets team as well as ABC Islamic Bank before moving to the Bahrain Economic Development Board's Business Development team with a focus on Financial Services.

Mohammed holds dual Bachelor degrees with a B.Sc. in Accounting and a B.B.A. in E-Business from Texas Christian University, Fort Worth Texas.

BANK OF THE YEAR

Source: According to the Banker Awards 2022

Board of Directors' Report to the Shareholders

H. E. Shaikh Khalid bin Mustahail Al Mashani

Following strong organic growth and the acquisition of Ithmaar Bank's consumer banking business, Al Salam Bank's total assets increased by 45% to BD 3.9 billion (US$ 10.3 billion) on a year-on-year basis.

Total Operating Income

42%

2022
BD 155.4 million

2021
BD 109.7 million

The Directors of Al Salam Bank B.S.C. "the Bank" are pleased to submit the annual report to the shareholders, accompanied by the consolidated financial statements of the Bank and its subsidiaries "the Group" for the year ended 31 December 2022.

Global markets and supply chains continue to face significant challenges as economies continue to be weighed down by the pressures initially brought on by the COVID-19 pandemic. Many of these challenges have been compounded by geopolitical tensions in Europe, which have exacerbated uncertainty across markets. The US, UK, and several major European markets are expected to enter recessions of varying depths and lengths as factors such as inflation continue to bite. In 2023, global GDP is forecast to climb 1.6%, with US and European growth expected to rise just 0.8% and 0.2%, respectively.

The GCC economy is expected to grow at a pace twice as fast as the global economy due to robust oil prices along with government investment in national development programs. Furthermore, S&P Global Ratings recently revised its outlook for Bahrain to "positive", citing the Government's fiscal reforms and high crude prices. Bahrain's economy grew by 4.8% in 2022 and is expected to grow annually by around 4% until 2025.

The Bank was well positioned to pivot to evolving market trends, meet challenges and capitalize on emerging opportunities in 2022. Implementing our proven strategy and building on our brand refresh from 2021, we continued to grow core banking activities and successfully capture additional market share. During the year, we acquired Ithmaar Bank's consumer banking business, significantly expanding assets, customer deposits, and financing portfolio. The acquisition, which is now complete, cements the Bank's position as Bahrain's largest and the region's fastest growing Islamic financial institution. We are confident in our resilience and our ability to navigate through market volatility in 2023.

Despite the negative impact of several macroeconomic forces, the Bank posted a total operating income for the year ended 31 December 2022 of BD 155.4 million (US$ 412 million), reflecting a 42% increase compared to BD 109.7 million (US$ 291 million) for the same period in 2021. Owing to inorganic growth as well as the organic expansion of key business lines, the Bank reported a net profit attributable to shareholders of BD 31.6 million (US$ 83.8 million), compared to BD 21.4 million (US$ 56.7 million) in 2021, reflecting an increase of 48%.

Following strong organic growth and the acquisition of Ithmaar Bank's consumer banking business, Al Salam Bank's total assets increased by 45% to BD 3.9 billion (US$ 10.3 billion) on a year-on-year basis. The Bank now has one of the largest distribution network in Bahrain which has been rebranded to reflect Al Salam Bank's brand and values. The Bank recorded growth across verticals, with financing assets increasing by 46% from BD 1.36 billion (US$ 3.6 billion) in 2021 to BD 2.0 billion (US$ 5.3 billion) in 2022. The Bank continued enjoying a strong capital adequacy ratio of 21.9% as of 31 December 2022.

As a result of the Bank's robust performance, the Board of Directors recommended a dividend distribution of 10% of the Bank's issued and paid-up share capital (5% cash dividends and 5% stock dividends), aggregating BD 24.8 million (US$ 65.8 million). The dividend recommendation is subject to AGM and regulatory approval.

2022 was a year of expansion as well as consolidation of the Bank's brand identity. Having launched a new, people-centric brand DNA in 2021, comprising of a new brand promise, our management and employees implemented the Bank's new values in strategies and daily work. In parallel, the Bank continued with the acceleration of its digitalization journey. The Bank launched a new banking application and opened more automated branches with the aim of enhancing profitability, efficiency, and providing more accessible, convenient services enabled by technology. All the Bank's branches are now paperless and fully automated.

As part of Al Salam Bank's acquisition of Ithmaar Bank's consumer banking business, the Bank developed a detailed integration roadmap to ensure a swift and seamless integration. Adopting the Bank's people-first mindset, the integration plan for all assets, employees and services is earmarked to set a new regional benchmark for successful M&As in terms of speed and proficiency. The Bank launched an external microsite to proactively inform clients about key updates and milestones. Additionally, the Bank established an integration hub, 'Al Salam Zone', to help onboard clients and to familiarize them with the Bank's services.

In parallel with our expansion in 2022, the Bank redoubled efforts to create additional value for the communities it serves. We launched several important initiatives, such as a tree planting campaign in the Kingdom through our CSR platform, Helping Hands. In 2023, we remain committed to creating value for the community and environment as well as for our customers.

Board of Directors' Report to the Shareholders (continued)

The Board of Directors wishes to express its sincere appreciation to His Majesty King Hamad bin Isa Al Khalifa and His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister for their inspiring leadership. The stability they bring enables prosperity to thrive across the Kingdom, which provides a platform for all banks to grow, further cementing Bahrain's position as a regional banking hub. We would also like to express our heartfelt gratitude to the Ministry of Finance and National Economy, the Ministry of Industry and Commerce, the Central Bank of Bahrain, the Bahrain Bourse, Dubai Financial Market, as well as the Group's correspondent banks, customers, shareholders, partners and employees for their continued support and cooperation.

We are pleased to have accomplished what we set out to achieve at the beginning of 2022, and we look forward to continuing our sustainable growth journey in 2023.

Moreover, in line with the Commercial Companies Law No. (21) of 2001 and its amendments, and pursuant to the provisions of Article No. (188) of the Commercial Companies Law and Article No. (125) of the Executive Regulations of Resolution No. (3) for the year 2023, we are pleased to attach the table below that shows the remuneration of members of the Board and the Executive Management for the year ending 31 December 2022.

First: Board of Directors' Remuneration Details:

	Fixed remunerations				Variable remunerations							
Name	Remunerations of the chairman and BOD	Total allowance for attending Board and committee meetings	Others*	Total	Remunerations of the Chairman and BOD	Incentive plans	Others**	Total	End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
First: Independent Directors:											
1 Mr. Salim Abdullah Al Awadi	85,000	48,000	-	133,000	-	-	-	-	-	133,000	-
2 Mr. Alhur Mohammed Al Suwaidi	85,000	72,000	-	157,000	-	-	-	-	-	157,000	-
3 Mr. Tariq Abdul Hafidh Al- Aujaili	85,000	56,000	-	141,000	-	-	-	-	-	141,000	-
4 Mr. Khalid Salem Al Halyan	85,000	72,000	-	157,000	-	-	-	-	-	157,000	-
Second: Non-Executive Directors:											
1 H.E. Sheikh Khalid bin Mustahail Al Mashani	100,000	78,000	-	178,000	-	-	-	-	-	178,000	-
2 Mr. Matar Mohamed Al Blooshi	85,000	40,000	-	125,000	-	-	-	-	-	125,000	-
3 Mr. Salman Saleh Al Mahmeed	85,000	52,000	-	137,000	-	-	-	-	-	137,000	-
4 Mr. Zayed Ali Al-Amin	85,000	40,000	-	125,000	-	-	-	-	-	125,000	-
5 Mr. Hisham Al Saie	85,000	40,000	-	125,000	-	-	-	-	-	125,000	-
Total	**780,000**	**498,000**	**-**	**1,278,000**	**-**	**-**	**-**	**-**	**-**	**1,278,000**	**-**

Note: All amounts must be stated in Bahraini Dinars. The Bank does not have any Executive Directors.

Other remunerations:

* No in-kind benefits.

** No share of the profits.

Board remuneration represents allocation of proposed remuneration for 2022, subject to approval of the Annual General Meeting.

Second: Executive Management Remuneration Details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remuneration for 2022	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	1,727,000	1,302,000	135,650	3,164,650

Note: All amounts must be stated in Bahraini Dinars.

* The highest authority in the executive management of the company, the name may vary: (CEO, President, General Manager (GM), Managing Director...etc).

* The company's highest financial officer (CFO, Finance Director, ...etc)

Notes:

… Paid salaries and allowances exclude indirect staff expenses such as GOSI contributions, leave and indemnity accruals, medical insurance and air travel reimbursements.

… Remuneration details include other board remuneration earned by executive management from their role in investee companies or other subsidiaries.

… In addition to the benefits reported above, during the year, the Bank initiated a long-term share incentive plan (LTIP) that allows employees to participate in a share-ownership plan. Under the terms of the LTIP, employees were allocated 120.45 million treasury shares, that would be vested and acquired by employees over a performance period of 6 years. The non-cash accounting charge for the LTIP is assessed under IFRS 2 - Share-based payment and recognized over the vesting period of 5 years. Refer to the Remuneration related disclosures in the Annual Report for a better understanding of the Bank's variable remuneration framework components.

H.E. Shaikh Khalid Bin Mustahil Al Mashani
Chairman
9 February 2023
Manama, Kingdom of Bahrain

Message from the Group Chief Executive Officer

Mr. Rafik Nayed

We closed 2022 with a net profit attributable to shareholders of BHD 31.6 million, the highest since the Bank's inception in 2006, reflecting a return on equity of 10.4%

Net Profit Attributable to Shareholders

48%

2022
BD 31.6 million

2021
BD 21.4 million

2022 offered no respite to the global economy, with inflationary pressures, supply chain disruption and geopolitical tensions heavily impacting economies and communities around the world. The banking sector had to pivot and adapt to a tighter monetary policy environment, particularly in the US and Europe. GCC economies, however, fared comparatively better with relative stability in the region resulting in 6.9 percent growth last year, according to the World Bank.

Al Salam Bank was able to capitalize on the GCC's first fiscal surplus since 2014, performing robustly and maintaining a strong balance sheet despite the macroeconomic aftershocks from the 2020 pandemic. The Group's profitability increased by 56% to BHD 33.1 million in 2022, compared to BHD 21.4 million in 2021. Moreover, we closed 2022 with a net profit attributable to shareholders of BHD 31.6 million, the highest since the Bank's inception in 2006, reflecting a return on equity of 10.4%.

There are various reasons for this performance. Throughout 2022, Al Salam Bank continued to implement a strategy that has propelled the group to become Bahrain's largest Islamic financial institution and the country's largest standalone bank. It is a strategy that adopts the institution's way of thinking, operational model and organizational framework to create a platform for sustainable and responsible growth over the next decade.

Our growth in 2022 was also driven by the USD 2.2 billion landmark transaction with Ithmaar Holding, which included Ithmaar Bank's consumer banking division, welcoming many new customers and team members to the Al Salam Bank family. The acquisition involved 10 branches being rebranded, 22 ATMs being reconfigured, and 144,000 customers migrating to Al Salam Bank.

Al Salam Bank's inorganic growth contributed significantly to its bottom line in 2022. But the progress of the Bank's multiple business lines reflects the organic expansion of all its core banking activities. The Bank's Retail Banking division continued to expand in 2022 supported by new digital offerings on the updated mobile banking application which included client-focused initiatives such as the launch of the flexible 'Buy Now Pay Later' service, a live chatbot, and instant and paperless accounts. On this note, Al Salam Bank was named Best Retail Bank in Bahrain at the UK-based MEA Finance Awards 2022, recognizing its innovative retail banking portfolio, including its transformative products, digital experiences and client service.

The Bank's Corporate Banking division also performed well in 2022, growing by 14%. Reporting strong growth in total assets over the course of the year, corporate banking remains on a secure footing and is well positioned to meet potential near-term challenges.

Al Salam Bank's Private Banking division broke records in 2022, with assets reaching an all-time high and experiencing a net increase of 26%, while deposits increased by 1.7% during the same period. Private Banking also grew its liabilities while controlling the cost of funding. Additionally, the department also welcomed 217 new clients in 2022, with almost half of those representing ultra-high-net-worth clients.

In 2022, the Treasury and Capital Markets department was the Bank's main source of liquidity, playing an instrumental role in growth. The integration of various Ithmaar Holding assets led to Al Salam Bank growing its asset base by 17%. The department continued to grow and diversify its fixed-income portfolio, with the sukuk portfolio experiencing a 27% increase. The improvement in yields, through careful use of leverage, supported the Bank's liquidity profile and overall profitability. The Treasury and Capital Markets division will continue to be critical to the group's performance in 2023, where we continue to build on our aggressive expansion efforts of 2022.

During 2022, we increased our asset base by 45.3% to BHD 3.90 billion (2021: BHD 2.68 billion). This growth was driven in part by our acquisition, as well as organic growth in our financing and sukuk portfolios. Despite the substantial growth in total assets, the Bank remains well capitalized with a capital adequacy ratio of 21.9% (2021: 28.5%).

But as well as scaling up, the Bank has been working intensely to enhance the quality of the balance sheet through improving the credit quality of its financing book while adopting a rigorous remedial strategy. The Bank's NPF ratio now stands at 2.5%, one of the lowest in the Kingdom.

Aside from enhancing its resilience, the Bank has progressed with creating innovative products and digitalizing operations to further improve the customer experience. The Bank is preparing for a sustainable digital future, having increased its cloud capacity by 50% and quadrupling the processing power of its digital infrastructure. In 2022, Al Salam Bank introduced a new digital feature every month, while Ithmaar's consumer banking arm had its customer management portal revamped, ensuring new customers could transition smoothly.

In line with the Bank's modernization, it has automated key regulatory processes using Robotic Process Automation (RPA) and it has introduced highly sophisticated self-service kiosks to be able to serve more customers faster. Further, the Bank is embracing electronic signatures to enable day-to-day transactions to be conducted without the need for clients to physically visit branches.

Message from the Group Chief Executive Officer (continued)

As well as making the customer experience more seamless, Al Salam Bank worked hard in 2022 to continue to positively impact the communities within which it operates. The Bank's recently introduced 'Inspired to Grow' campaign gathered pace, with the Bank having committed to planting 7,000 trees across the Kingdom by 2035.

Our journey continues to be informed by our brand DNA and work culture, which focuses on promoting wellbeing in the workplace. The Bank's investment in employee wellbeing has paid off, with staff reporting increased motivation and job satisfaction, resulting in even better performance.

Looking ahead to the remainder of 2023 and beyond, we are optimistic about the GCC economy. We are also highly confident in our proven model and ability to manage risk and unlock new opportunities. Our focus remains on both organic and inorganic growth – a stance that has driven our positive trajectory over the last four years.

With the acquisition of Ithmaar Bank's consumer banking portfolio, we can look forward to a new chapter at Al Salam Bank. We are a major player in the region's financial services sector and are committed to leveraging this privileged position to benefit economies, communities, team members, stakeholders, clients and our shareholders.

We remain ambitious and maintain a healthy appetite for sustainable expansion. This growth will be fuelled by digitalization, product innovation, enhanced customer service, asset management and orderly exits of non-core banking and real estate assets.

It will be underpinned by the unwavering support of the leadership of the Kingdom of Bahrain, led by His Majesty King Hamad bin Isa Al Khalifa, King of Bahrain, and His Royal Highness the Crown Prince and Prime Minister, Prince Salman bin Hamad Al Khalifa, for which I am highly grateful.

I also wish to express my sincere appreciation to the Central Bank of Bahrain, the Ministry of Industry, Commerce and Tourism, Bahrain Bourse, Dubai Financial Market (DFM), and the Securities & Commodities Authority in the UAE, for their continued guidance.

Finally, I would like to acknowledge the invaluable counsel of the Board of Directors and express my sincere thanks to our shareholders and customers. And of course, I thank the management and each of our team members who are dedicated to ensuring Al Salam Bank realizes its potential.

Rafik Nayed
Group Chief Executive Officer
Al Salam Bank

LARGEST ISLAMIC BANK

Source: According to the Audited Financials of
Bahraini Domestic Banks as of 31 December 2023

Management Review of Operations and Activities

Operating Environment

Global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. The cost-of-living crisis, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook. As a result, food, energy and commodity prices are still high, affecting household's income and generating a global cost-of-living crisis, especially in low-income countries. The global economic activity deteriorated amid high inflation, aggressive monetary tightening, and uncertainties from the war and the persistence of China "Zero Covid" strategy. Global economic activity is experiencing a slowdown with inflation levels that were not seen in decades with countries continuing towards monetary and fiscal policy normalization with the aim to lower inflation.

The world economic outlook update projects that global growth will fall to 2.9 percent in 2023 but rise to 3.1 percent in 2024. The 2023 forecast is 0.2 percentage point higher than predicted in the October 2022 World Economic Outlook but below the historical average of 3.8 percent. Rising interest rates and the war in Ukraine continue to weigh on economic activity. China's recent reopening has paved the way for a faster-than-expected recovery. Global inflation is expected to fall to 6.6 percent in 2023 and 4.3 percent in 2024, still above pre-pandemic levels.

The Gulf economies have continued to record positive growth despite the expectations of a global economy slowdown as a result of the economic pressures and geopolitical conflicts. GDP growth for GCC countries reached to 6.5% in 2022, compared to 3.1% in 2021, supported by recent financial and structural reforms in terms of medium-term financial sustainability, maintaining stability of the financial sector, and promoting economic diversification. As for 2023, indicators show that the economies of the GCC countries will continue their expected growth at 3.6%, supported by tight monetary policies adopted by some central banks. GCC economies experienced recovery with hydrocarbon prices picking up and relaxation of social distancing measures and increased spending in some countries. Liquidity and fiscal support were above emerging economies. GCC are not insulated from global price developments, but the effect remains contained and direct spillovers on the GCC economies from the war in Ukraine have been small. Regarding the inflation rates in the GCC countries, prices remained relatively steady showing signs of overall stabilization. Despite high contribution rates of international import to the trade balance, the inflationary pressures have been muted by the strong Dollar as most GCC countries' currencies are pegged to the USD which saw a strong appreciation in comparison to other main currencies.

Business Development

Bahrain's real GDP continued its positive performance during the third quarter of 2022, growing by 4.2% YoY in real terms, supported by 4.9% growth in the nonoil sector as well as 1.2% YoY growth in the oil sector. The banking sector was able to weather challenges brought in by the COVID-19 pandemic with Central Bank of Bahrain ("CBB") policy and government support which helped maintain the stability in the sector. CBB's policy on currency valuation has provided price stability over the years and as a result has managed to keep inflation relatively stable.

Bahrain is repositioning itself to be a Financial Technology (FinTech) hub in the region combining conventional and Shariah compliant FinTech solutions. This was also supported by Fintech initiatives by the Government as part of digital transformation strategy to further facilitate a more efficient provision of banking services to customers.

Financial Performance

Despite the negative impact of several macroeconomic forces, the Group reported a net profit attributable to shareholders of BHD 32 million for the year ended 31 December 2022 as compared to BHD 21 million for the year ended 31 December 2021, representing an increase of 48%. The Bank adopted a prudent approach to provisioning levels, resulting in a stable impairment charge from BHD 12.5 million in 2021 to BHD 12.7 million in 2022.

Total operating income stood at BHD 155.4 million for the year ended December 2022 – an 42% increase from BHD 109.7 million recorded for the year ended December 2021. Total assets recorded strong growth in 2022, increasing by 45% to BHD 3.9 billion from BHD 2.7 billion in December 2021. The growth was to mark the Bank's organic and the acquisition of Ithmaar Bank's certain group of assets, including the consumer banking division. The customer deposits reached BHD 2.6 billion, up from BHD 1.8 billion in 2021 - a YOY increase of 42%. Financings rose by 46% for the year, reaching BHD 2 billion compared to BHD 1.3 billion in 2021. Total shareholders' equity increased by 2.4% from BHD 296.2 million in 2021 to BHD 303.2 million at the end of December 2022.

Capital Adequacy

The Group continued to enjoy strong financial solvency and liquidity in 2022 and, in accordance with the Basel III capital adequacy guidelines, achieved a Capital Adequacy Ratio of 21.92% against a mandatory Central Bank of Bahrain minimum requirement of 12.5%.

Asset Quality

The Bank maintained its conservative approach to asset selection for financing and investments, as of 31 December 2022, 98% of the financing portfolio was classified under the 'good & satisfactory' category (2021: 98%), with the nonperforming facilities ratio maintained as low as 2.5%.

Strategy

The Bank has successfully implemented its upscaling strategy with the landmark transaction of USD 2.2 billion acquisition of Ithmaar Bank's consumer banking business, making it the largest Islamic Bank in the Kingdom of Bahrain. Furthermore, Al Salam Bank currently holds the largest financing portfolio and deposit books in the Kingdom.

Extensive efforts have been made to improve the credit quality of the Bank's financing book, while continuing to adopt a rigorous remedial strategy. The Bank is committed to implementing continuous and conscious initiatives to solve, reduce, and ultimately eliminate non-core and real estate exposures.

The Bank is currently undertaking a comprehensive strategy review to adapt its operational model and organizational framework to complement its new scale and regulatory responsibilities. This will ensure continued growth and success throughout the decade. While this strategy is developed, the Bank will work to implement initiatives that align with the thematic direction of this new phase; optimizing the balance sheet, enhancing the fixed income portfolio, and assertively managing funding costs.

As in recent years, digitization remains at the center of every facet of the Bank's business. The digital roadmap and the encouragement of digital nativism are imperative to achieving all of its strategic objectives, whether client-facing, internal, or concerning corporate expansion.

Private Banking

Private Banking achieved a remarkable growth of 27.62% in 2022. The Private Banking assets reached an all-time high of BHD 368 million that was primarily driven by successful closure of top notch credit rated financing deals for its key clients. The liabilities of Private Banking touched 1.11 billion mark in Bahraini Dinars with the team performing at its best overcoming the challenging market conditions. On a consistent basis, the Private Banking team has been a leading contributor of sourcing liquidity for the bank and thus bringing down the overall cost of funding and acting as a pillar of support in boosting treasury income.

The offerings of Private Banking has had always commanded a premium over its clients backed up by niche product portfolio and impeccable services. In 2022, Private Banking has recognized a total fee income of BHD 1.4 million that has directly contributed to the growth of net profits and enhancing shareholders' returns. The sustained efforts of the team have resulted in onboarding total of 217 new ultra-high-net worth clients from regional and international markets. Also, as one of its kind, the team successfully raised USD 40 million in sovereign and IGB Sukuks.

Private Banking leads from the front to achieve Al Salam Bank's strategic and financial goals. The growth performance and profitability of the Private Banking unit has positioned itself as one amongst the frontrunners in the private banking space. The team aspires to evolve its business strategy with the objectives of broadening its client base, enhance profit growth and remain focused on rewarding growth opportunities.

Corporate Banking

After a challenging 2021, the Corporate Banking Unit saw a gradual upturn in business over the course of 2022. The division's total assets grew to BHD 671 million from BHD 589 million; representing an increase of BHD 82 million over the course of 2022. This was precipitated by significant government and commercial bookings during the first three quarters of 2022. The unit's liability position heightened slightly by the end of 2022 (compared to a year earlier) due to clients deploying funds or settling their major obligations as a result of rising global interest rates. Corporate banking remains on a secure footing, well positioned to meet the potential challenges of 2023.

The unit continued to attract and onboard new-to-bank clients with many joining following Al Salam Bank acquisition of Ithmaar Bank's consumer banking business. Several Ithmaar retail clients transitioned their corporate banking business as well, resulting in the consolidation of 34 new clients over the course of 2022.

Early in 2022, Al Salam Bank launched a new line of corporate cards specifically introduced to cater to the needs of large organizations as well as Micro, Small & Medium Enterprises (MSME) across Bahrain. The cards can be used through the Bank's self-service portal, enabling clients to issue and manage card limits without having to visit a branch. The initiative is in line with Al Salam Bank's 'digital-first' philosophy, which seeks to affect and implement the latest advancements in technology, providing clients with a seamless banking experience.

Management Review of Operations and Activities (continued)

The development of online banking remains a focus area for the unit and the revamping of the corporate banking platform saw a drastic increase (of more than 70%) in online banking payments, including payroll processing. Furthermore, following the integration of Solidarity, the unit began referring clients for property insurance renewals and several clients have now been referred to the Takaful insurance scheme.

The corporate banking division re-launched five new products offered by Tamkeen after the funding schemes were paused during 2021-22. Al Salam Bank has teamed up with Tamkeen to offer these revamped solutions to the MSME caucus however, due to shifting preferences and low uptake, these products are being reconstituted to suit market appetites with increased traction expected in 2023.

During the final two quarters of 2022 many clients submitted restructuring requests to aid their repayments following the cessation of CBB deferral schemes. The unit has proactively engaged with clients, identifying areas in which the Bank could assist them through the provision of flexible repayment terms. In total there were 15 clients whose conditions were revisited and amended to accommodate their stressed cash flows and future market expectations.

With the market outlook remaining volatile, the unit will continue to demonstrate prudent lending strategies over the course of 2023 all while ensuring robust client management, exploring environmental, social, and governance (ESG) initiatives and implementing liquidity management measures.

Treasury and Capital Markets

The Treasury and Capital Markets Department is the primary source of liquidity for the Bank. In 2022, it played an instrumental role in supporting the Bank's growth strategy, which led to a 17%. Increase in its assets base after the integration of various Ithmaar Bank's assets.

The department's contribution to the Bank's success was significant, as it utilized numerous funding sources and tools to support its focus on large syndication activities developed for crucial Bahrain-based clients. Despite the highly volatile market due to rapid changes in the global economic landscape which was associated with unprecedented fast-paced rate raises, the Treasury and Capital Markets department applied extraordinary control measures to ensure sustainable liquidity, profitability, and seamless business delivery.

The department continued to grow and diversify its fixed-income portfolio, with the Sukuk portfolio seeing a 27% increase. The careful use of leverage supported the Bank's liquidity profile and overall profitability.

The Bank also supported Bahrain's sovereign requirements by distributing local and international CBB Sukuk issuances to domestic and regional client bases. Furthermore, the department successfully placed several tranches of Investment Gateway Bahrain (IGB) Sukuk; a corporate issuance originating from Bahrain, with a distribution mandate issued to the department.

In addition to overseeing the Bank's Asset and Liability management functions, the Treasury and Capital Markets department expanded and developed its institutional relationships with several local, regional, and international financial institutions. This was due, in part, to successful engagement with new counterparties across the MENA region, as well as the development of a wide-reaching network of intrabank relationships.

Following the Executive Management's mandate, the department successfully structured several shari'a-compliant hedging products including; FX Wa'ad and Cross Currency Swaps and supported the group (Seychelles and Kenya) with relevant products in their respective treasury units.

Although 2022 was a challenging year, the Treasury and Capital Markets team achieved further diversification of liquidity sources, utilizing a variety of tools, including Islamic repos and term finance sourced from multiple origins.

As the Bank continues to implement its growth strategy and amasses core assets, the focus remains on enhancing liquidity sources in terms of international diversification. This is in addition to the implementation of fixed-income structures and leveraged products offered by international banks.

The Treasury and Capital Markets department will continue to assume its central role in assisting business units within the group to strategically deploy their liquidity while simultaneously ensuring adherence to regulatory liquidity ratios.

International Transaction Banking

Despite the emergence of challenges within the regional and global business environments following the geopolitics challenges and their impact on commodity prices and global trade, the International Transaction Banking department (ITB) achieved success in 2022. ITB grew its total funds by 20% (BHD 51 million) over the previous year, reaching a net growth of 84% (BHD 142 million) over the past two years. Its total funds increased from BHD 168 million in 2020 to approximately BHD 310 million by the end of 2022. The growth of the funds provided an opportunity for the Bank to raise cost-effective funds and liquidity. thanks to the Bank's services and commitment to its client base. During the year, the business made a healthy ancillary business in excess of US$ 3 billion, mainly foreign exchange volumes for trades and cash management services.

The Bank's senior management continues to focus on attracting inexpensive funds while continuing to develop services. The implementation of internal swift notification setup helped the Bank provide much better overall services , which played an important role in business growth. Over the course of 2022 the business entered new markets and developed burgeoning relationships, the full impact of which will be seen in 2023.

Al Salam Bank maintains its position as one of the few banks in the region that is capable to raise structured trade funding against its Fixed Income (FI) trade portfolio, resulting in a net growth of US$150 million in 2022. Its success in this area is partly due to the Bank's overall financial strength and the trust the Bank's partners have in its ability to manage its portfolio, which passed all checks undertaken by partners.

The Bank's success is also due, in part, to the relationships it has cultivated with financial institutions such as ABC London, Rakbank, Standard Chartered Bank, and the Arab Monetary Fund amongst others. 2023 will deliver a new pipeline of funds that ranges from US$70 to US$ 120 million, allowing the Bank to explore new avenues for expanding its trade loan book.

During the course of 2022 ITB helped the Bank raise medium-term funding from fresh sources and through opening new lines of credit. ITB secured US$ 40 million for the duration of three years, and a new funding facilities amounting to US$ 100 million is in the process of being finalized during the first quarter 2023. The department plans to raise an additional US$ 60 million – US$

100 million from regional and development banks over the course of 2023.

Fee Income

ITB continued to expand services and generate fee income during the year 2022, despite the global downturn, reduction in trade activity, higher commodity prices and credit limits due to ongoing global political and financial challenges. Improvement is expected in 2023 if turbulence is reduced in the respective global spheres of credit, commerce and geopolitics. While trade finance services have only an advisory purview, they saw good growth with a 40% increase from 2021.

Resilience

Al Salam Bank continues to be resilient, strengthening its robust position with every year. The Bank has honed its capacity to navigate risk and adapt to the ongoing changes in the global business environment. The business has the requisite experience to posit a business module that takes into account current circumstances and possible contingencies. The Bank remains flexible, adept at shifting between asset building, services, fundraising, developing the LC off-balance sheet and its contingent liabilities. The business's continued strategy of maintaining diverse market portfolios reduces its reliance on specific products and markets, and the Bank has been able to manage the various forms of risk in each market on a case-by-case basis.

2023 looks promising for the Bank, despite the expected global financial downturn. The business is developing in roads into new markets, working with new counterparties and expanding its tranche of services and products. The Bank maintains an advantage in that a part of ITB's business and clients are not fully integrated with global markets, thereby providing further scope for development.

Innovation

The Innovation unit enjoyed a very strong year with successes and achievements seen on multiple fronts. The team continued to engage with the business units as the bank's digital offerings were revamped and repackaged. The Retail Banking Platform underwent several significant upgrades while multiple digital-only products and services were launched covering both assets and liabilities. Products which were rolled out included digital cards and financing applications in addition to money management products such as automated saving as part of the 'Fils Challenge' and new budgeting tools. Private Banking Clients were offered a suite of new investment opportunities to suit their needs. The team also launched a new electronic bill payment widget (Fawateer) for Al Salam's corporate banking platform.

Management Review of Operations and Activities (continued)

The team's dedication to pioneering – and implementing – the best practices within the digital space was evident during the first half of 2022. In that timeframe, the team implemented an efficient development methodology resulting in the introduction of a new digital feature every month (as per the Bank's 2021 digital strategy).

The department was heavily involved the execution of the migration project during the second half of the year. The team's specific purview was to enhance the customer experience and ensure the smooth absorption of the incoming Ithmaar Bank retail clients. Following the acquisition of Ithmaar's consumer banking arm the unit augmented middle and back-office functions and engaged with customer service teams as they revamped the customer management portal, ensuring that the new customers were smoothly transitioned.

In keeping with Al Salam's strategy, the team managed to increase the bank's cloud capacity by 50%, digital channels have tripled its customer base and the storage and processing power of the bank's digital infrastructure has been quadrupled, ensuring that Al Salam remains at the forefront of digital banking in 2023 and beyond.

Operations

Over the course of last year, the Operations Department continued ratifying service-level agreements with various business units while supporting the seamless migration and integration of the Bank's recently acquired retail portfolio. The team played a vital role in helping Al Salam Bank to realize the strategic objectives set out by the board and the executive management.

In keeping with the Bank's digitization program, processes and protocols throughout the bank were continuously reviewed and reengineered to expedite processing while maintaining an optimum level of checks and balances.

2022 saw the bank introduce a paperless customer onboarding process through enlisting the help of solution providers, which led to instantaneous customer onboarding and IBAN issuance. Furthermore, the bank used Sijilat's API service to assist SMEs to onboard and rapidly open accounts. The Bank also utilized the service to update SME records on frequent basis.

Conscious of the need for greater automation, the Operations Department automated a key regulatory requirement using a Robotic Process Automation (RPA), allowing a pre-programmed BOT to process approximately 300 per day with minimal human intervention.

The Bank has also introduced highly sophisticated self-service kiosks, which provide multiple services such as customer onboarding, account opening, KYC updates, card issuances as well as personal details updates. These kiosks are fully integrated into the central banking system, precluding the need for back-office teams to have to perform repetitive manual tasks.

As the use of electronic signatures becomes increasingly common, the Bank has begun using the services provided by DocuSign to process transactions. With the increasing acceptance of e-signatures, day-to-day banking transactions will soon be able to take place without the need for clients to physically attend branches.

Information Technology

For much of 2022 the Information Technology (IT) team was focused upon the integration and migration work needed to complete the acquisition of the Ithmaar retail portfolio. This has involved projects which improve the IT infrastructure, network, systems and services in order to support the increased workload, while also improving performance and reliability. In addition to installing next generation infrastructure, the team upgraded the core banking system – a project that was completed in just seven months. The team also augmented the payment channels in preparation for the Ithmaar Bank retail client migration to the Bank's system.

Another major project the team undertook was the integration of newly acquired buildings and infrastructure – such as branches, ATMs, security panels, fire alarm systems, and CCTV networks – into the bank's operational framework. The acquisition of the Ithmaar retail portfolio led to two hundred plus staff joining Al Salam Bank. For IT this meant onboarding these new team members onto the bank's systems and migrating hundreds of computers, printers, scanners, and phones. In addition to these significant undertakings, the team has worked tirelessly to support the Bank's day-to-day activities, in the likes of assisting the business and operations units and ensuring quick responses to support and service requests.

At the end of 2022, the migration of client accounts, financial data, credit cards, and debit cards from Ithmaar Bank to Al Salam Bank took place. The carefully managed migrations were the culmination of thousands of hours of preparation and involved a host of teams and consultants. The successful migration programme took 38 hours to complete with the IT team accomplishing it within the prescribed six-month timeframe.

Risk Management

Following the COVID-19 pandemic, the Bank continued to monitor and review its financing portfolio, reviewing its exposure to entities in vulnerable sectors. Clients requiring restructuring were reviewed on a case-by-case basis, ensuring that clients were not impacted.

Learnings from the pandemic situation have strengthened the business continuity management infrastructure and ensured that select employees are provided with the means to work from home without the bank's operations being disrupted.

The increase in the FED rates followed by increase of profit rates in local and international markets resulted in a liabilities price rise, compelling the Bank to review its pricing strategy for its assets and liabilities to ensure that a targeted and considered spread is maintained.

The Bank continues to monitor market conditions very closely, examining systemic as well as idiosyncratic liquidity conditions. Al Salam Bank continues to insulate itself with high-quality liquid assets in the instance of unforeseen stress situations, and this is reflected in the bank's healthy liquidity ratios.

Cyberattacks continue to pose a threat, and the bank has improved its cybersecurity through reviewing its policies and procedures and investing in new security enhancement programs. Awareness sessions on cybersecurity are being held for the bank's employees on a regular basis. The bank continues to enhance its cybersecurity framework through investment in new technologies, which increases its resilience and expedites its response to cyber threats. Al Salam has instituted thorough and effective protocols to ensure the detection of - and protection against – cybersecurity incidents.

The Bank's Corporate Governance and Risk Management function continues to take appropriate action to ensure that the asset quality of the financing is maintained with low levels of NPAs. Teams continue to focus closely on liquidity risks, market risk and cyber risks. Al Salam bank continues to invest in new projects to not only comply to regulatory guidelines, but also because of its desire to adopt the best international practices concerning risk management and corporate governance.

Know Your Customer

The strict application of the Know Your Customer (KYC) policies and protocols has been essential to protect the bank and its stakeholders from fraud and money laundering activities.

Furthermore, the Bank has stringently followed the CBB's Financial Crimes guidance, and the Anti Money Laundering (AML) directives developed by the Financial Action Task Force (FATF). The bank runs internal AML training sessions for staff throughout the year and employees are being taught about the bank's client onboarding risk assessment procedures and the requisite due diligence for digital onboarding.

The Bank will continue to review its policies and processes to ensure its continued compliance with digitization rules and standards. Additionally, it will continue to develop its systems and control mechanisms following international trends.

Human Resources

The HR and IT departments have worked together to successfully onboard all Ithmaar Bank's retail employees. This process was completed while adhering to the highest standards of ESG and was done completely paperlessly.

The digital onboarding process streamlined the HR department's workflow, reducing the time and resources required to onboard new employees. Furthermore, it also led to increased reliability, as by using an entirely digital system, HR was able to ensure that all information was captured accurately, significantly reducing the possibility of errors. This form of onboarding is user-friendly and provides a seamless experience for new joiners transitioning over from Ithmaar Bank.

The HR team has helped to highlight the importance of ESG through the successful elimination of paper from the Bank's onboarding process, leading to a reduced carbon footprint and a more sustainable workplace. Thanks to the automation and digitization of many aspects of the onboarding process, the department was able to make savings on printing, mailing, and storage.

The collaborative work of the HR and IT departments resulted in a comprehensive, efficient, and green digital onboarding process, setting a high standard for ESG and contributing to the success of the organization.

Ongoing Development

The Bank has welcomed several school trips, educating children about finance and the banking industry. Al Salam Bank also supports student development through its open internship program, providing vocational experiences and developmental opportunities. These initiatives demonstrate the Bank's commitment to the communities it serves.

The Bank continues to invest in staff training and development, providing leadership programs, online training portals as well as cross-functional development opportunities. Furthermore, the establishment of a learning academy demonstrates the Bank's commitment to employee growth and professional development.

Management Review of Operations and Activities (continued)

Culture

The addition of a large employee caucus was smoothly managed with effective communication and procedural meetings seen pre-and-post-employee onboarding. The Bank effectively configured the new staff member's working environment prior to their joining, assisting their transition to the new workplace.

The Bank's attention to detail and its commitment to a positive and supportive workplace culture enabled a smooth transition for the new employees, and they have been successfully integrated, leading to high employee morale and productivity.

Health & Wellbeing

The Bank maintains its commitment to employee wellbeing by providing various initiatives, awareness sessions, and activities. These efforts focus on promoting positive mental wellbeing, healthy eating habits, and exercise, with weekly tips communicated to all employees.

One of the highlights of 2022 was the 'biggest loser' challenge, during which employees competed with each other to try and lose weight. These forms of initiative help to improve employee health and wellness while also fostering a sense of community and friendly competition among employees. The Bank's investment in employee wellbeing has paid off, with staff reporting increased motivation and job satisfaction, leading to higher productivity.

Social

The Bank continues to actively participate in societal events with a view to doing its bit for the community. In honor of Bahraini Women's Day 2022 – during which the Kingdom celebrates and supports the achievements of women and their successful contribution towards the community – Al Salam Bank arranged a special talk for its employees. A human capital expert gave the seminar, reflecting on female accomplishments and the importance of gender equality in the workplace.

Brand, Marketing and Corporate Communications

The Marketing and Communications department had a highly productive year in 2022, successfully implementing numerous initiatives. The team collaborated with other departments to ensure effective communication of the Bank's recent accomplishments, including product campaigns, CSR initiatives and brand positioning.

Recently, the Bank introduced its 'Inspired to Grow' campaign, which reflects its increased dedication to Environment, Social and Governance (ESG) projects and reaffirms its people-focused reputation as a Bank that looks to serve its community. The primary purpose is to support ongoing efforts to double Bahrain's tree coverage by 2035. The Bank gave away 13,000 plants and plans to plant 7,000 trees in Bahrain during the first quarter of 2023. To encourage public engagement, visitors to one of Al Salam Bank's Inspired to Grow plant nurseries receives a seedling, and every time a member of the public participates in the campaign, a tree is planted, and BD1 is added to a weekly prize pool for social media competitions featured on the Bank's Instagram channel.

Al Salam Bank attained significant awards recognition in 2022. At the MEA Finance Awards, the Bank was named as the 'Best Retail Bank in Bahrain'. It was also named as the 'Bank of the Year – Bahrain' at The Banker Awards, the 'Best Islamic Banking Brand' at the Global Islamic Finance Awards 2022, the Best Bank for Corporate Banking in Bahrain at the Euromoney Excellence Awards while also winning the J.P. Morgan Elite Quality Recognition Award for the second consecutive year. Al Salam Bank's popularity with industry insiders reflects the work of the various Marketing and Communications teams who have tirelessly publicized and promoted the Bank's recent successes.

Moving forward, the Bank will continue to demonstrate its commitment to simplifying and humanizing client interactions while instituting the convenience of digitalization and introducing ever-more reward schemes.

FASTEST GROWING BANK

Source: According to the Audited Financials of
Bahraini Domestic Banks as of 31 December 2022

Corporate Governance Report

Corporate Governance Practice

The Bank aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy, transparency, and maintaining full compliance with the laws and regulations that govern the Bank's business. Since the introduction of the Corporate Governance Code in the Kingdom of Bahrain, the Bank has continuously implemented measures to enhance its compliance with the code. The Bank also follows Module HC of the CBB rulebook. The Same is tested regularly to ensure compliance. Furthermore, as per the latest updates there are no major changes to the Bank's corporate governance guidelines.

Shareholders

Major Shareholders as of 31 December 2022

S. No.	Investor Name	Country	No. of Shares	%
1	Bank Muscat (S.A.O.G)	Sultanate of Oman	367,275,880	14.74
2	Overseas Investment S.P.C.	Kingdom of Bahrain	238,360,460	9.56
3	Sayacorp B.S.C Closed	Kingdom of Bahrain	156,440,101	6.28
4	Al Salam Bank - Bahrain B.S.C	Kingdom of Bahrain	145,000,000	5.82
5	تصاميم العقاريه (تصاميم)	United Arab Emirates	119,048,957	4.78
6	AL-RUSHD INVESTMENTS LIMITED	Jersey	97,786,635	3.92
7	المتحده العالميه لتمثيل الشركات ذ.م.م	United Arab Emirates	90,184,887	3.62
8	Royal Court Affairs, Sultanate of Oman	Sultanate of Oman	82,449,682	3.31
9	Sayed Hussain Ali Alawy Alqatary	Kingdom of Bahrain	69,074,679	2.77
10	Global Express Comapany W.L.L.	Kingdom of Bahrain	61,800,000	2.48
11	بوند للاستثمار ش. ذ.م.م	United Arab Emirates	44,586,048	1.79
12	EMIRATES INVESTMENT BANK	United Arab Emirates	27,604,633	1.11
13	H.H SH. Salman Khalifa Salman Alkhalifa	Kingdom of Bahrain	26,763,997	1.07
14	Al Salam Bank - Sudan	Sudan	24,446,658	0.98
15	HRH Prince Mohammad Fahad A.Aziz Alsaud	Kingdom of Saudi Arabia	24,438,425	0.98

Shareholding – 31 December 2022

Category	No. of Shares	No. of Shareholders	% of Outstanding Shares
Less than 1%	965,938,470.00	22,910	38.76
1% to less than 5%	619,299,518.00	9	24.85
5% to less than 10%	539,800,561.00	3	21.66
10% to less than 20%	367,275,880.00	1	14.74
20% up to less than 50%	-	-	-
50% and above	-	-	-
Total	**2,492,314,429**	**22,923**	**100.00**

The outstanding ordinary share ownership of the Bank is distributed as follows:

Nationality	No. of Shares	Ownership Percentage
Bahraini		
Government	-	-
Institutions	736,966,620	29.57
Individuals	287,383,484	11.53
GCC		
Government	82,449,682	3.31
Institutions	775,100,710	31.10
Individuals	371,154,266	14.89
Other		
Government	-	-
Institutions	164,919,677	6.62
Individuals	74,339,990	2.98
Total	**2,492,314,429**	**100.00**

Board of Directors

The Board of Directors provides central leadership to the Bank, establishes the Bank's objectives, and develops the strategies that directs the ongoing activities of the Bank to achieve these objectives. Directors determine the future of the Bank through the protection of its assets and reputation. Directors apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties. Directors are accountable to the shareholders of the Bank for the Bank's performance and can be removed from office by them.

The primary responsibility of the Board is to provide effective governance over the Bank's affairs for the benefit of its shareholders, and to balance the interests of its diverse stakeholders including its customers, correspondents, employees, suppliers, and the local community. In all actions taken by the Board, the directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Bank and its stakeholders. In discharging that obligation, directors may rely on the honesty and professional integrity of the Bank's senior management and, its external advisors and auditors.

Board Composition

The Board consists of members who possess both the required skills and expertise to govern the Bank in a manner that would achieve the objectives of all stakeholders. Furthermore, in compliance with relevant regulations, the Board Committees consist of Directors with adequate professional background and experience. The Board periodically reviews its composition, the contribution of Directors and the performance of its various Committees. The appointment of Directors is subject to prior screening by the Nomination and Corporate Governance Committee and the Board of Directors, as well as the approval of both the Shareholders and the Central Bank of Bahrain. The classification of "executive", "non-executive" and "independent" directors is as per the definitions stipulated in the Central Bank of Bahrain Rulebook.

Each Director is elected for a three-year term, after which he must present himself to the Annual General Meeting of shareholders for re-appointment. Board Meeting attendance is as per the regulations stipulated in the Central Bank of Bahrain Rulebook.

Currently, Al Salam Bank does not have any female representation on the Board of Directors as per the below:

Gender	Men	Women
Number of Directors	9	0
Percentage %	100%	0%

However, the Bank will take into consideration female representation on the Board of Directors in the future.

Corporate Governance Report (continued)

Mandate of the Board of Directors and their Roles and Responsibilities

The principal role of the Board is to oversee the implementation of the Bank's strategic initiatives in accordance with relevant statutory and regulatory structures. The Board is also responsible for the consolidated financial statements of the Group. The Board ensures the adequacy of financial and operational systems and internal controls, as well as the implementation of corporate ethics and the code of conduct. The Board has delegated the responsibility of the day-to-day management of the Bank to the Group Chief Executive Officer ("Group CEO").

The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board. This includes:

- Reviewing the strategic plan of the Bank.
- Performance reviews of the Senior Management (all approved persons).
- Performance assessment of the Board, Board Sub-Committees and the Shari'a Supervisory Board.
- Approving material acquisition and disposal of assets.
- Approving capital expenditure.
- Approving authority levels.
- Appointing auditors and, reviewing the financial statements and financing activities.
- Reviewing the Corporate Governance Report
- Approving the annual operating plan and budget.
- Ensuring regulatory compliance through its various committees.
- Reviewing the adequacy and integrity of the internal controls; and
- Approving all policies pertaining to the Bank's operations and functioning.

Board Elections System

Article 25 of the Bank's Articles of Association provides the following:

1. The company shall be administered by a Board of Directors consisting of not less than five (5) members elected by the shareholders by means of cumulative voting by secret ballot and in accordance with the provisions of the Commercial Companies Law, after obtaining the approval of the Central Bank of Bahrain for their appointment. Members of the Board of Directors shall be appointed or elected to serve for a term not exceeding three (3) years renewable. A cumulative vote shall mean that each shareholder shall have a number of votes equal to the number of shares he owns in the Company and shall have the right to vote for one candidate or to distribute them among his chosen candidates.
2. Each shareholder owning 10% or more of the capital may appoint whoever represents him on the Board to the same percentage of the number of the Board members. His right to votes shall be forfeited for the percentage he has appointed representatives. If a percentage is left that does not qualify him to appoint another member, he may use such percentage to vote.
3. The Board of Directors shall elect, by secret ballot, a Chairman and one Vice Chairman or more, three years renewable. The Vice Chairman shall act for the Chairman during his absence or if there is any barrier preventing him. The Ministry of Industry and Commerce and the Central Bank of Bahrain shall be provided with a copy of the resolution electing the Chairman and the Deputy Chairman.
4. The Board of Directors shall consist of independent and non-executive members in accordance with the Central Bank of Bahrain's rules and regulations.
5. No person may be appointed or elected as a member of the Board of Directors until he has declared his acceptance to such nomination in writing, provided that the declaration includes the disclosures of any work performed that may directly or indirectly constitute competition for the company, names of the companies and entities in which he works in or in which he is a member of their board of directors.

Article 27 of the Bank's Articles of Association covers the "Termination of Membership in the Board of Directors" which states the following:

A Director shall lose his office on the Board in the event that he:

1. Fails to attend four consecutive meetings of the Board in one year without an acceptable excuse, and the Board of Directors decides to terminate his membership;
2. Resigns his office by virtue of a written request;
3. Forfeits any of the provisions set forth in Article 26 of the Articles of Association;
4. Is elected or appointed contrary to the provisions of the Law; and
5. Has abused his membership by performing acts that may constitute a competition with the Company or caused actual harm to the Company;
6. If he has been convicted before any court for theft, embezzlement, fraud, forgery or issuing dishonored cheques or any crime as provided in the law;
7. If he declares bankruptcy;
8. If any of the shareholders have terminated his appointment to any of their representatives on the Board of Directors or if the shareholders of the General Assembly vote for his removal in accordance with Article 42; or
9. If the Central Bank of Bahrain considers him not eligible for the position.

Independence of Directors

An independent Director is a Director whom the Board has specifically determined has no material relationship, which could affect his independence of judgment, taking into account all known facts. The Directors have disclosed their independence by signing the Directors Annual Declaration whereby they have declared that during the year ending 31 December 2022, they have met all the conditions required by the various regulatory authorities to be considered independent.

As of 31-12-2022, the members of the Board were:

Non-executive Members

H.E. Shaikh Khalid bin Mustahil Al Mashani	Chairman
Mr. Matar Mohamed Al Blooshi	Vice Chairman
Mr. Salman Saleh Al Mahmeed	Board Member
Mr. Hisham Saleh AlSaie	Board Member
Mr. Zayed Ali Al-Amin	Board Member

Independent Members

Mr. Salim Abdullah Al Awadi	Board Member
Mr. Alhur Mohammed Al Suwaidi	Board Member
Mr. Khalid Salem Al Halyan	Board Member
Mr. Tariq Abdulhafidh AlAujaili	Board Member

All current Directors were elected for a three-year term on 17 March 2021.

Corporate Governance Report (continued)

The Board Charter

The Board has adopted a Charter which provides the authority and practices for governance of the Bank. The Charter was approved by the Board with the beginning of its term in 2021 and includes general information on the composition of the Board of Directors', classification of Directors', Board related Committees, Board of Directors' roles and responsibilities, Board of Directors' code of conduct, Board remuneration and evaluation process, insider dealing, conflict of interest and other Board related information.

Conflict of Interest

The Bank has a documented procedure for dealing with situations involving "conflict of interest" of Directors. In the event of the Board or its Committees considering any issues involving "conflict of interest" of Directors, the decisions are taken by the full Board/ Committees. The concerned Director abstains from the discussion/ voting process. These events are recorded in Board/ Committees proceedings. The Directors are required to inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to, other organizations as they arise and abstain from voting on the matter. This disclosure includes all material facts in the case of a contract or transaction involving the Director. A report detailing the absentation from voting relating to conflict of interest is made available to shareholders upon their request.

The below illustrates instances where Board Members have abstained from voting due to conflict of interest

Sr.	Members	Instances of abstaining from voting	Status
1	Mr. Hisham Saleh AlSaie	3 instances	Approved by Board
2	Mr. Zayed Ali Al Amin	2 instances	Approved by Board
3	H. E. Shaikh Khalid bin Mustahail Al Mashani	1 instance	Approved by Board
4	Mr. Matar Al Blooshi	1 instance	Approved by Board
5	Mr. AlHur Mohammad Al Suwaidi	1 instance	Approved by Board
6	Mr. Salman Al Mahmeed	1 instance	Approved by Board
7	Mr. Tariq Al Aujaili	1 instance	Approved by Board

Induction and Orientation for New Directors

When new Directors are appointed, they shall be provided with an appointment letter and the Directors' Handbook containing information relevant to the performance of their duties as members of the Board. The Handbook includes the Corporate Governance Guidelines, Charters of the Board and Committees, key policies, etc. The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board.

Code of Conduct

The Board has an approved Code of Conduct for Directors, as follows:

- To act with honesty, integrity and in good faith, with due diligence and care, in the best interest of the Bank and its stakeholders;
- To act only within the scope of their responsibilities;
- To have a proper understanding of the affairs of the Bank and to devote sufficient time to their responsibilities;
- To keep confidential Board discussions and deliberations;
- Not to make improper use of information gained through the position as a director;
- Not to take undue advantage of the position of director;
- To ensure his/her personal financial affairs will never cause reputational loss to the Bank;
- To maintain sufficient/detailed knowledge of the Bank's business and performance to make informed decisions;
- To be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions of the Board;
- To consider themselves as a representative of all Shareholders and act accordingly;
- Not to agree to the Bank incurring an obligation unless he/she believes at the time, on reasonable grounds, that the Bank will be able to discharge the obligations when it is required to do so;

- Not to agree to the business of the Bank being carried out or cause or allow the business to be carried out, in a manner likely to create a substantial risk of serious loss to the Bank's creditors;
- To treat fairly and with respect all of the Bank's employees and customers with whom they interact;
- Not to enter into competition with the Bank;
- Not to demand or accept substantial gifts from the Bank for himself/herself or his/her associates;
- Not to take advantage of business opportunities to which the Bank is entitled for himself/herself or his/her associates;
- Report to the Board any potential conflicts of interests; and
- Absent themselves from any discussions or decision-making that involves a subject in which they are incapable of providing objective advice or which involves a subject or proposed conflict of interest.

Evaluation of Board Performance

The Board has adopted a 'Performance Assessment Framework' designed to provide Directors with an opportunity to assess their performance on an annual basis. The self-assessment consists of three categories, such as:

- Assessment of the Board as a unit;
- Assessment of the Committee as a unit; and
- Self-assessment of individual Directors.

The results of the annual performance assessment shall be communicated to the Shareholders at the Annual General Meeting. The results for this year were satisfactory.

Remuneration of Directors

Remuneration of the Directors as provided by Article 34 of the Articles of Association states the following:

"The General Assembly shall specify the remuneration of the members of the Board of Directors. However, such remunerations must not exceed in total 10% of the net profits after deducting statutory reserve and the distribution of dividends of not less than 5% of the paid capital among the shareholders. The General Assembly may decide to pay annual bonuses to the Chairman and members of the Board of Directors in the years when the Company does not make profits or in the years when it does not distribute profits to the shareholders, subject to the approval of the Ministry of Industry and Commerce. The report of the Board of Director to the general Assembly shall include full statement of the remuneration the members of the Board of Directors have been paid during the year in accordance with the provisions set forth in Article (188) of the Law."

The Board, based upon the recommendation of the Remuneration Committee and subject to the laws and regulations, determines the form and amount of Director compensation subject to final approval of the shareholders at the Annual General Meeting. The Remuneration Committee shall conduct an annual review of Directors' compensation.

As per the Directors Remuneration Policy approved by the Shareholders, the structure and level for the compensation for the Board of Directors consist of the following:

1. Annual remuneration subject to the annual financial performance of the Bank and as per the statutory limitation of the law.
2. The total amount payable to each Board member with respect to Board and Committee meetings attended during the year.
3. The remuneration of the Board of Directors will be approved by the shareholders at the Annual General Meeting.

In addition to the above, Directors who are employees of the Bank shall not receive any compensation for their services as Directors and Directors who are not employees of the Bank may not enter any consulting arrangements with the Bank without the prior approval of the Board. Directors who serve on the Audit and Risk Committee shall not directly or indirectly provide or receive compensation for providing accounting, consulting, legal, investment banking or financial advisory services to the Bank.

Corporate Governance Report (continued)

Board Meetings and Attendances

The Board of Directors meets at the summons of the Chairman or his Deputy (in the event of his absence or disability) or if requested to do so as per the Bank's Board Charter. According to the Bahrain Commercial Companies Law and the Bank's Articles of Association, the Board meets at least four times a year. A meeting of the Board of Directors shall be valid if attended by half of the members in person. During 2022, the Directors that were present at the Annual General Meeting are detailed in the minutes of the 2022 Annual General Meeting. The details of the Board meetings held during 2022 are as follows:

Board Meetings in 2022 - Minimum Four Meetings per Annum

Members	10 Feb	12 May	13 Jun	22 Sep	13 Nov	12 Dec
H.E. Shaikh Khalid bin Mustahil Al Mashani	√	√	√	√	√	√
Mr. Alhur Mohammed Al Suwaidi	√	√	√	√	√	√
Mr. Khalid Salim Al Halyan	√	√	√	√	√	√
Mr. Matar Mohamed Al Blooshi	√	√	*	√	√	√
Mr. Salim Abdullah Al Awadi	√	√	√	√	√	√
Mr. Salman Saleh Al Mahmeed	√	√	√	√	√	√
Mr. Zayed Ali Al Amin	√	√	√	√	√	√
Mr. Tariq Abdulhafidh AlAujaili	√	√	√	√	√	√
Mr. Hisham Saleh AlSaie	√	√	√	√	√	√

Directors' Interests

Directors' shares ownership in two-year comparison as of 31 December:

	No of Shares		Number of Shares in 2022	
Member	2022	2021	Bought	Sold
H.E. Shaikh Khalid bin Mustahil Al Mashani	0	0	0	0
Mr. Matar Mohamed Al Blooshi	0	0	0	0
Mr. Salim Abdullah Al Awadi	0	0	0	0
Mr. Alhur Mohammed Al Suwaidi	0	0	0	0
Mr. Khalid Salem Al Halyan	11,641	11,302	0	0
Mr. Zayed Ali Al-Amin	5,150,000	5,000,000	0	0
Mr. Salman Saleh Al Mahmeed	0	0	0	0
Mr. Tariq Abdulhafidh AlAujaili	0	0	0	0
Mr. Hisham Saleh AlSaie*	3,036,668	735,000	2,279,618	0

*Indirect ownership

Approval Process for Related Parties' Transactions

The Bank has a due process for dealing with transactions involving related parties. Any such transaction will require the unanimous approval of the Board of Directors. The nature and extent of transactions with related parties are disclosed in the consolidated financial statements under note 29 - related party transaction.

Material Transactions that require Board Approval

Depending on the internal risk rating transactions above BD 5 million and up to BD 15 million requires the approval of the Executive Committee of the Board of Directors, any transaction above BD 15 million requires the approval of the Board of Directors of the Bank. In addition, when acquiring 20% of a company Board approval is required regardless of the amount.

Material Contracts and Financing Involving Directors and Senior Management During 2022

The Bank's dealings with its directors/ associated entities are conducted on an arms-length basis and at prevailing commercial terms in respect of its exposure to and deposits received from them. All financing facilities to senior management members are governed by the policies applicable to staff, which are reviewed and approved by the Board Remuneration & Nomination Committee. Material contracts and financing facilities involving directors and senior management during 2022 are as follows:

- Financing Facilities provided to certain Directors of the Board and related entities with a total amount of BD 315,848.
- Financing Facilities provided to senior management with a total amount of BD 510,756.

All related party transactions are disclosed in note 29 of the consolidated financial statements for the year ending 31 December 2022.

Directorships held by Directors on Other Boards

The High-Level Controls Module of the Central Bank of Bahrain Rulebook provides that no Director should hold more than three directorships in Bahrain public companies. All members of the Board of Directors met this requirement and are approved by the Central Bank of Bahrain.

Board Committees

Consistent with the industry's best practice, the Board has established four Committees with defined roles and responsibilities. The Standing Committees of the Board are Executive Committee, Audit and Risk Committee, Remuneration Committee and, Nomination and Corporate Governance Committee.

Certain information relating to the work of certain Board Committees during the year 2022, summary of the dates of Committee meetings held, Directors' attendance and a summary of the main responsibilities of each Committee is enclosed in this report.

Executive Committee

The Committee operates under the delegated authority of the Board and provides direction to the executive management on business matters, as delegated by the Board, to address matters arising between the Board meetings. The Committee is responsible for reviewing business matters concerning credit and market risks, strategy review and providing recommendation to the Board.

Committee Meetings in 2022 - Minimum four meetings per annum.

Four Committee meetings were held during 2022 as follows:

Members	7 Feb	9 Jun	13 Sep	30 Dec
Mr. Matar Mohamed Al Blooshi (Chairman)	√	√	√	√
Mr. Hisham Saleh AlSaie	√	√	√	√
Mr. Salim Abdullah Al Awadi	√	√	√	√
Mr. Zayed Ali Al Amin	√	√	√	√

Audit and Risk Committee

The Committee's responsibility is to assist the Board in discharging its oversight duties relating to matters such as Audit, Risk and Compliance including the integrity of the Bank's financial statements, financial reporting process and systems, internal controls and financial controls. The Committee also acts as a liaison between the external auditor, internal auditor and the Board. The Committee is also charged with the responsibility of handling whistleblowing complaints and monitoring related party transactions.

Committee Meetings in 2022 - Minimum four meetings per annum.

Corporate Governance Report (continued)

Seven Committee meetings were held during 2022 as follows:

Members	3 Feb	8 May	6 Jun	2 Aug	12 Sep	7 Nov	8 Dec
Mr. Salman Saleh Al Mahmeed (Chairman)	√	√	√	√	√	√	√
H.E. Shaikh Khalid bin Mustahil Al Mashani	√	√	√	√	√	√	√
Mr. Khalid Salim Al Halyan	√	√	√	√	√	√	√
Mr. Alhur Mohammed Al Suwaidi	√	√	√	√	√	√	√
Mr. Tariq Abdulhafidh AlAujaili	√	√	√	√	√	√	√

Remuneration Committee

The Committee's role is to provide a formal and transparent procedure for developing a compensation policy for the Board, Group Chief Executive Officer and Senior Management (approved persons and material risk takers); ensures that compensation offered is competitive, in line with the market/peer group and consistent with the responsibilities assigned to employee. In addition, the Committee recommends to the Board special compensation plans, including annual performance bonus and short/long term incentives to attract, motivate and retain key employees.

Committee Meetings in 2022 - Minimum two meetings per annum.

Four meetings were convened during 2022:

Members	3 Feb	6 Jun	2 Aug	8 Dec
H.E. Shaikh Khalid bin Mustahail Al Mashani (Chairman)	√	√	√	√
Mr. Khalid Salim Al Halyan	√	√	√	√
Mr. Alhur Mohammed Al Suwaidi	√	√	√	√

Nomination and Corporate Governance Committee

The Committee's role is to evaluate and nominate candidates to the Board, as well as facilitate the assessment of the performance of the Board, Committees and individual Directors. In addition, the Committee is responsible to ensure that Directors receive adequate training during the year so as to be able to perform their duties on the Board and the Committees they serve on. The Committee is also charged with the responsibility of ensuring that the Corporate Governance Framework of the Bank is adequate and in compliance with the prevailing regulations. The Committee liaises with the Bank's Corporate Governance Officer to manage the governance related activities.

Committee Meetings in 2022 - Minimum two meetings per annum.

Two meetings were convened during 2022:

Members	7 Feb	13 Sep
Mr. Salim Abdullah Al Awadi (Chairman)	√	√
Mr. Matar Mohamed Al Blooshi	√	√
Mr. Tariq Abdulhafidh AlAujaili	√	√
Dr. Fareed AlMaftah (Shari'a Supervisory member)	√	√

Fatwa & Shari'a Supervisory Board

The Bank is guided by a Shari'a Supervisory Board consisting of four distinguished scholars. The Shari'a Supervisory Board reviews the Bank's activities to ensure that all products and investment transactions comply fully with the rules and principles of Islamic Shari'a. Further, the Shari'a Supervisory Board shall review and vet the screening criteria for charitable donations/ sponsorships as well as the sponsorship contracts.

The Shari'a Supervisory Board shall also ensure that an internal Shari'a audit function is in place and is adequately performing their duties as stipulated in the Shari'a Governance Module and AAOIFI Standards.

In addition, one designated member from the Shari'a Supervisory Board shall form part of the Nomination and Corporate Governance Committee to ensure that the corporate governance related matters are in compliance with the Islamic Shari'a rules and guidelines.

The Board meets at least 4 times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended, with travel expenses reimbursed as appropriate. Its members are not paid any performance-related remuneration.

Performance assessment of the Shari'a Supervisory Board is done on a self-assessment basis and submitted to the Board for their review and action.

Annual General Meeting

The Board of Directors report to the Shareholders on the performance of the Bank through the Annual General Meeting. The meeting shall be convened upon an invitation from the Chairman of Board and be convened during the three months following the end of the Bank's financial year.

All the Directors, especially the Chairs of the Board and Committees, at least one member of the Shari'a Supervisory Board and the external auditors shall be present at this meeting to answer questions from the Shareholder regarding matters within their responsibilities:

At a minimum, the Board shall report on the following to the Shareholders, for their approval, at the Annual General Meeting:

- Audited financial statements of the Bank;
- Related party transactions executed;
- Corporate governance report;
- Corporate social responsibility report;
- Performance assessment of the Board, Committees and individual Directors; and
- Remuneration for the Directors and the Shari'a Supervisory Board members.

Executive Management

The Board delegates the authority of managing the Bank to the Group Chief Executive Officer ("Group CEO"). The Group CEO and Executive Management are responsible for implementation of decisions and strategies approved by the Board of Directors and the Shari'a Supervisory Board.

Senior Managers' interest

The number of shares held by the senior managers, in two-year comparison, as on 31 December 2022 is as follows:

Members	Shares	
	2022	2021
Mr. Anwar Mohammed Murad*	772,500	750,000
Mr. Abdulkarim Turki	206,192	187
Mr. Essa Abdulla Bohijji	138,523	134,489
Dr. Mohammed Burhan Arbouna	389	378
Total	**1,117,604**	**885,054**

*The shares represent shares under Mr. Anwar's guardianship

Corporate Governance Report (continued)

Management Committees

The Group Chief Executive Officer ("Group CEO") is supported by a number of management committees each having a specific mandate to give focus to areas of business, risk and strategy. The various committees and their roles and responsibilities are:

	Roles and Responsibilities
Management Executive Committee	Overseeing the other Management committees and assisting the Group CEO in various issues or topics as and when required.
Credit/Risk Committee	Recommending the risk policy and framework to the Board. Its primary role is the selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to Board, Board Committees, Regulators and Executive Management. In addition to these responsibilities, individual credit transaction approval and monitoring is an integral part of the responsibilities.
Asset Liability Committee	This Committee's primary responsibility is to review the trading and liquidity policy for the overall management of the balance sheet and its associated risks.
Investment Committee	The role of the Committee is to review and approve all transactions related to corporate and real estate investments and 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.
Technology Steering Committee	The Committee oversees the information technology function of the Bank. It recommends the annual IT budget and plans, drawn up in accordance with the approved strategy of the Bank, to the Group CEO for submission to the Board of Directors for their approval. It supervises the implementation of the approved IT annual plan within set deadlines and budgetary allocations.
Remedial Committee	The role of the committee is to assess and follow up on all non-performing assets of the Bank with the objective of maximizing recoveries for the Bank.
Human Resources Committee	The role of the committee is to enable the Bank's employees to meet their professional and personal goals aligned with the growth of the Bank by focusing on skill enhancement, career development, rewards with performance, and work life balance.
Information Security Committee	The role of the committee is advisory in nature. It assists the relevant stakeholders to develop, review and execute a comprehensive Information Security Management System (ISMS) for the Bank. The role of the Committee is to strengthen the Information Security Department's capabilities as well.
Sustainability Committee	This Committee oversees the Corporate Social Responsibility affairs of the Bank, managing donations and sponsorship requests, evaluating the proposals and allocating funds to causes that the Bank is committed to support, in line with the annual corporate social responsibility plan and the Corporate Social Responsibility Policy. Any exceptions to the approved plan are reviewed and recommended to the Board for approval. The Committee is also involved in the preparation of the Corporate Social Responsibility Report, which forms part of the Annual Report, detailing the donations and sponsorships made during the year. The social causes that are supported by the Bank are: • Medical assistance; • Care for the less fortunate; and • Cultural initiatives focused on preserving and promoting Bahraini traditions into the future.
Operational Risk Committee	The Operational Risk Committee ("ORC" or the ''Committee'') is appointed by the Management Executive Committee ("MANCO") of Al Salam Bank BSC ("the Bank") to assist the MANCO and other committees in discharging its oversight duties relating to: Reviewing the Bank's Operational risk policies, which must be approved by the Board and be consistent with the corporate values and strategy of the Bank; and Making recommendations regarding Operational risk policies, and procedures related to operational risk management.

Executive Management Compensation

The performance bonus of the Group Chief Executive Officer is recommended by the Remuneration and Nomination Committee and approved by the Board. The performance bonus of senior management is recommended by the Group Chief Executive Officer for review and endorsement by the Remuneration Committee subject to Board approval. The Performance Audit for the Compliance, Audit and Risk functions are assessed and approved by both the Audit and Risk Committee and the Remuneration Committee.

Compliance

The Bank has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the respective regulators.

Due diligence is performed to ensure that the financial activities of the Bank's customers are performed in accordance with the guidelines issued by the regulatory authorities.

The Bank continuously endeavors to enhance its Compliance and Anti Money Laundering systems. The Bank as part of its enhancement efforts, has recently started implementing the national E-KYC initiative which was launched nationwide as part of the Kingdom of Bahrain's digitization initiatives related to the Banking Sector.

The Bank adheres to the Financial Crimes Module of Central Bank of Bahrain's Rulebook. The module contains Bahrain's current anti-money laundering legislation, developed under the directives of the Financial Action Task Force, which is the international organization responsible for developing global anti-money laundering policies. The Bank complied with Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) requirements as mandated by the Central Bank of Bahrain (CBB).

Remuneration And Appointment of The External Auditors

During the Annual General Meeting held on 17 March 2022, the shareholders approved the re-appointment of KPMG as external auditors for the year ending 31 December 2022 and authorized the Board of Directors to determine their remuneration. The remuneration to the external auditors for the services provided to the Group are as follows:
Audit and audit related fees : BD 296,950, Non audit services : BD 311,676

Internal Control

Internal control is an active process that is continually operating at all levels within the Bank. The Bank has established an appropriate culture to facilitate an effective internal control process. Every employee of the Bank participates in the internal control process and contributes effectively by identifying risks at an earlier stage and implementing mitigating controls at optimum cost. Residual risk is properly communicated to the senior management and corrective actions are taken.

Key Persons Policy

The Bank has established a Key Persons' Policy to ensure that Key Persons are aware of the legal and administrative requirements regarding holding and trading of the Bank's shares, with the primary objective of preventing abuse of inside information. Key Persons include the Directors, Executive Management, designated employees and any person or firm connected to the identified Key Persons. The ownership of the Key Persons' Policy is entrusted to the Board's Audit Committee. The latest Key Persons' Policy is posted on the Bank's website and is updated every board term.

Employee Relations

Al Salam Bank is committed to promoting a diverse and inclusive environment and encourages understanding of the individuality and creativity that each employee uniquely brings to the Bank. Employees are hired and placed on the basis of ability and merit. Evaluation of employees is maintained on a fair and consistent basis.

In line with the Bank's policy of being on equal opportunity firm and as part of Central Bank of Bahrain's Rulebook and Corporate Governance requirements, the Bank shall not employ relatives of employees up to the 4th degree. Existing employees must alert the Human Resources of any relatives or relationship of other employees or candidates being interviewed. Failure to do so will subject the employee to disciplinary action pursuant to the Law No. 36 of 2012 Promulgation of the Labour Law in the Private Sector and the Bank's Disciplinary Guidelines.

Corporate Governance Report (continued)

Communication Policy

The Bank recognizes that active communication with different stakeholders and the general public is an integral part of good business and administration. In order to reach its overall communication goals, the Bank follows a set of guiding principles such as efficiency, transparency, clarity and cultural awareness.

The Bank uses modern communication technologies in a timely manner to convey messages to its target groups. The Bank shall reply without unnecessary delay, to information requests by the media and the public. The Bank strives in its communication to be as transparent and open as possible while taking into account Bank confidentiality. This contributes to maintaining a high level of accountability. The Bank also proactively develops contacts with its target groups and identifies topics of possible mutual interest. The Bank reinforces clarity by adhering to a well-defined visual identity in its external communications. The Bank's formal communication material is provided in both Arabic and English languages.

The annual reports and quarterly financial statements and Corporate Governance reports are published on the Bank's website. Shareholders have easy access to various types of forms including proxies used for the Annual General Meeting. In addition, forms are also available online to file complaints or make inquiries which are duly dealt with. The Bank regularly communicates with its staff through internal communications to provide updates of the Bank's various activities.

Whistle Blowing Policy

This Policy details the procedures for a whistleblower to escalate a complaint to the designated authority and procedures that are to be followed by the Audit and Risk Committee to ensure that a valid whistleblowing complaint is investigated properly and action taken appropriately, while protecting the whistleblower from any adverse reaction due to their complaint.

Delegation of Authority Limits

Approving limits for the Board, Board Committees and other designated individuals are incorporated into the Delegation of Authority Limits. The authorities are established for both financial and operational activities.

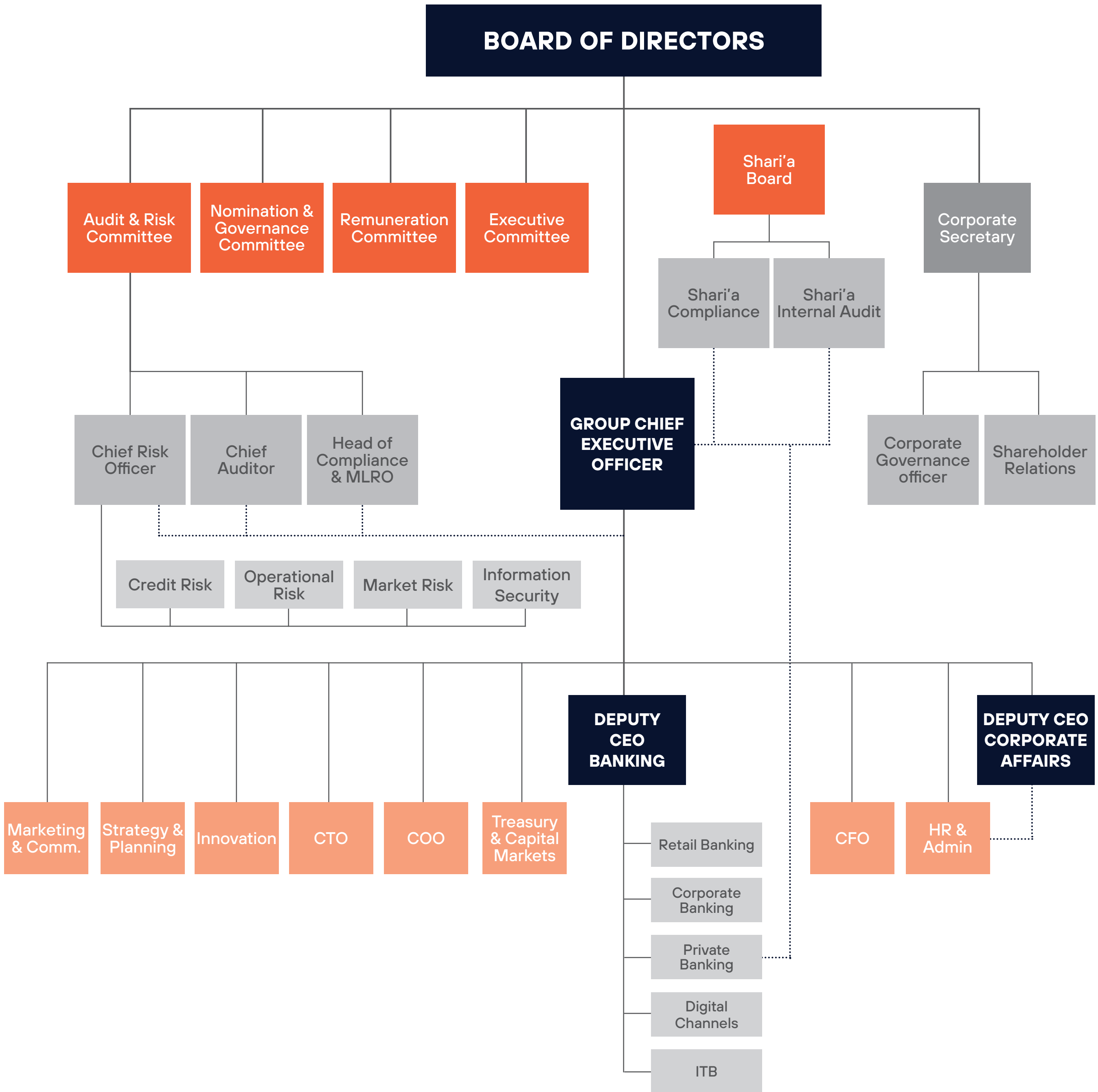
Disclosures

The Bank has a Disclosures Policy in place detailing the Bank's internal as well as external communications and disclosures. The Board oversees the process of disclosure and communication with the internal and external stakeholders.

HC comply or Explain:

Sr	Rule	Explanation
1	HC-1.4.6 - The chairman of the Board should be an independent director, so that there will be an appropriate balance of power and greater capacity of the Board for independent decision making.	The Board structure is approved by the CBB, the chairman is non-executive, however, given his experience he was deemed the most suitable director to chair the board.
2	HC-5.3.2 (Remuneration Committee) - The committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors and the chairman is an independent director. This is consistent with international best practice and it recognizes that the remuneration committee must exercise judgment free from personal career conflicts of interest.	The chairman is non-executive, however, given his experience he was deemed the most suitable director to chair the Remuneration committee. The same was approved by the CBB.
3	HC-6.6.15A (Board Risk Committee) - The risk committee must be chaired by an independent director.	The chairman is non-executive, however, given his experience he was deemed the most suitable director to chair the Board Risk Committee. The same was approved by the CBB.
4	HC-3.2.1 - The Board must establish an audit committee of at least three directors of which the majority must be independent including the Chairman.	The chairman is non-executive, however, given his experience he was deemed the most suitable director to chair the audit committee. The same was approved by the CBB.

Organizational Structure



BEST ISLAMIC BANKING BRAND

Source: According to Global Islamic Finance Award (GIFA) 2022 - Bahrain

Remuneration Policy

Core Remuneration Policy

The fundamental principles underlying our remuneration policy which has been approved by the Board of Directors and the shareholders of the Bank are:

- The composition of salary, benefits and incentives is designed to align employee and shareholder interests;
- Remuneration determination takes into account both financial and non-financial factors over both the short and longer-term;
- Emphasis is on performance evaluations that reflect individual performance, including adherence to the Bank's risk and compliance policies in determining the total remuneration for a position;
- The Bank has set a fixed remuneration of the employees at such a level to reward the employees for an agreed level of performance and the variable pay or bonus will be awarded purely at the discretion of the Board's Remuneration Committee in recognition of the employees exceptional effort in any given performance period;
- The Bank shall have a well-defined variable pay scheme in place, to support the Remuneration Committee, should they decide to pay variable pay or bonus in any performance period;
- Variable pay will be determined based on achievement of targets at the Bank level, unit level and individual level;
- Variable pay scheme is designed in a manner that supports sound risk and compliance management. In order to achieve that goal:
    - Performance metrics for applicable business units are risk-adjusted where appropriate;
    - Individual award determinations include consideration of adherence to compliance-related goals.
- The remuneration package of employees in Control and Support functions are designed in such a way that they can function independent of the business units they support. Independence from the business for these employees is assured through:
    - Setting total remuneration to ensure that variable pay is not significant enough to encourage inappropriate behaviours while remaining competitive with the market;
    - Remuneration decisions are based on their respective functions and not the business units they support;
    - Performance measures and targets are aligned to the Bank and individual objectives that are specific to the function;
    - Respective function's performance as opposed to other business unit's performance is a key component for calculating individual incentive payments.
- Both qualitative and quantitative measures will be used to evaluate an individual's performance across the Bank.
- The Bank reviews the salaries and benefits periodically, with an objective of being competitive in the market places, based on salary surveys and market information gathered through secondary sources.
- The Bank does not provide for any form of severance pay, other than as required by the Labour Law for the Private Sector (Law No.36 of 2012 of the Kingdom of Bahrain), to its employees.

Remuneration Policy (continued)

Regulatory Alignment

The Bank reviewed and revised the remuneration policy and especially its variable pay policy to meet the requirements of the CBB Guidelines on remuneration with the help of external consultants. Key regulatory areas and the Bank's response are summarized below:

REGULATORY AREA	BANK'S PRACTICE
Governance	The composition of Remuneration Committee, is as required by the CBB remuneration guidelines and is chaired by an Independent Director. The Remuneration Committee charter has been revised in line with the requirements of the CBB guidelines and the Committee will be responsible for the design, implementation and supervision of the remuneration policy. The aggregate fees / compensation paid to Remuneration Committee members for 2021 amounted to BD 36,000 (2020: BD 22,500). The Committee utilized the services of an external consultant to redesign and implement the revised remuneration policy aligned to the CBB guidelines on remuneration.
Risk Focused Remuneration Policy	The Bank has set the Fixed Remuneration of the employees at such a level to reward the employees for an agreed level of performance and the variable pay or bonus is being paid purely at the discretion of the Remuneration Committee in recognition of the employees exceptional efforts in any given performance period. Should the Remuneration Committee decide to award Variable Pay, it will be determined based on risk adjusted targets set at the Business unit level aggregated to the Bank level. The variable pay for the Group CEO, senior management in Business units and the Material Risk takers would be higher as compared to the fixed pay subject to achieving the risk adjusted targets both at the business unit and the Bank level. For employees in Control and Support functions, the pay mix is structured as more fixed and lesser variable. Further the variable pay, for employees in Control and Support Functions, is based on their units target and individual performance and not linked to Bank's performance.
Capital and Liquidity	The bonus or variable pay computation process is designed in such a way to ensure that it does not impact the Capital and Liquidity as there are validation checks prior to approval of the Remuneration Committee. The validation checks are the bonus pool as compared to the realized profit, impact on capital adequacy computed as per Basel III guidelines and as compared to the total fixed pay.
Deferral and Share Linked Instruments	The Bonus for the Group CEO, his deputies and Material Risk Takers and Approved Persons as per CBB and those whose total remuneration exceeds the regulatory threshold has a deferral element and share - linked payment. Phantom or Shadow shares are offered to such employees. The deferral arrangements are as follows: Group CEO, his deputies and top 5 Executive Management members (in terms of total remuneration) in Business units: • 40% of the variable pay will be paid in cash at the end of the performance period; and • The balance 60% will be deferred over a period of 3 years with 10% being cash deferral and 50% being phantom or shadow shares and the entire deferred variable pay will vest equally over a 3-year period. For all other employees in Business units and Approved Persons in Control and Support Functions and whose total remuneration exceeds the regulatory threshold: • 50% of the variable pay will be paid in cash at the end of the performance period; and • 10% in the form of phantom or shadow shares at the end of the performance period and the phantom or shadow shares subject to a minimum share retention period of 6 months from the award date. • The balance 40% will be deferred over a period of 3 years and paid in the form of phantom or shadow shares and vests equally over the 3 year period and the phantom or shadow shares subject to a minimum share retention period of 6 months from the award date.
Claw Back and Malus	The Bank has introduced claw - back and malus clauses whereby the Remuneration Committee has the right to invoke these clauses under certain pre-defined circumstances where in the Bank can claw-back the vested as well as the unvested bonus paid or payable to an employee.

Remuneration Components

It is the Bank's intent to have a transparent, structured and comprehensive remuneration policy that covers all types of compensation and benefits provided to employees.

The remuneration policy provides a standardized framework for remuneration covering employees at all levels of the Bank.

Remuneration offered by the Bank shall reflect the Bank's objective of attracting and retaining the desired level of talent from the banking sector.

Remuneration will be at a level, which will be commensurate with other Banks of similar activity in Bahrain, and will allow for changes in the cost of living index. The compensation package shall comprise of basic salary and benefits and discretionary variable pay.

The following table summarizes the total remuneration:

Element of Pay	Salary and Benefits
Rationale	To attract and retain the desired level of talent.
Summary	*Reviewed annually.* Benchmarked to the local market and the compensation package offered to employee is based on the job content and complexity. The Bank offers a composite fixed pay i.e. it is not split as Basic and Allowances but is paid as one lump sum. The benefits are aligned to the local market practice.

Remuneration Policy (continued)

Element of Pay	Variable Pay / Bonus
Rationale	To incentivize the achievement of annual targets set at the Bank level and at the Business unit levels and thereby also make sure that senior management get substantial portion as variable pay which is linked to performance. The Variable pay is deferred to ensure that the management's interests are aligned to the shareholder value and to align time horizon of risk.
Summary	The Bonus pool is determined based on the bottom up approach i.e. by setting base multiples of monthly salary per level and aggregating the multiples per unit and then on to the Bank level. The basis of payment of bonus would be as follows: GCEO and Senior Management: Base multiple * Bank score * Individual score Business units: Base multiple * Bank score * Unit score * Individual score Control & Support units: Base multiple * Unit score * Individual score **Computation of Variable Pay - Business Units** **Beginning of the financial year:** Targets are set for the Business units and are aggregated to the Bank level target. In setting targets certain Bank wide risk parameters which include capital, liquidity, profit and qualitative measure such as reputation risk and the Bank and unit specific KPIs shall be considered. For achieving this target, total Bonus pool is set based on monthly multiples of salary across the Bank. The Key feature is that bonus is self-funding and the different levels of targets are not just % increase in profits but profits adjusted for additional bonus. This Bonus Pool is subject to additional checks for its impact on the capital adequacy, as a proportion of net profit and realized profit and as a proportion of the total fixed pay in any given financial year. **At the end of the financial year:** The actual results are evaluated against targets, considering the risk parameters matrix and adjustments if any to the unit score or the Banks score as appropriate are made and the bonus pool is revised accordingly. The actual bonus pool is approved by the Remuneration Committee and the individual Bonus payments are as per the scoring matrix. **Computation of Variable Pay – Control and Support Units** The Unit targets as set out and agreed with the Remuneration Committee in the beginning of each evaluation period will be the base for Variable pay to be paid. Except in the case of Bank making a loss, the variable pay for the employees in the Control and Support unit, would be payable based on the Unit targets and the individual performance. Base Multiples are set for each employee level in each Control and Support unit. The achievement of unit target is assigned a weight of 1 and scored based on the level of actual results achieved. The individual performance score is based on the individual rating and the score is set to vary between 0 up to a maximum of 1. The Summary of the Variable pay process is: Links reward to Bank, business unit and individual performance. Target setting process considers risk parameters which are both quantitative and qualitative such as reputation. Aligned to time horizon of risk the bonus has a deferral element and a share linkage to align the employee's interest with that of the shareholders. Bonus can be lesser or nil if the Bank or business units do not achieve the risk adjusted targets or make losses. Post risk assessment is carried out to ensure that in case of material losses or realization of less than expected income which can be attributed to employee's actions the claw back or malus as appropriate is invoked.

Details of Remuneration

(A) Board of Directors

Amounts in BD	2022	2021
Attendance fee and travel expenses	498,000	478,000
Remuneration paid	780,000	690,000
Al Salam Bank subsidiaries' Board remuneration, attendance fees and expenses	113,100	18,655

(B) Employees

		Amounts in BD thousands					
			Variable upfront		Variable deferred		
31-Dec-22	No of staff	Fixed *	Cash	Non-cash	Cash	Non-cash	Total
Approved person business line	11	2,794	904	-	217	1,050	4,965
Approved person control & support	19	1,887	368	-	56	224	2,535
Other material risk takers	60	2,482	628	-	3	11	3,124
Other employees - Bahrain operations	487	11,332	2,456	-	-	57	13,845
Other employees overseas	26	177	12	-	-	-	189
	603	18,672	4,368	-	276	1,342	24,658
31-Dec-21							
Approved person business line	10	2,508	610	-	148	718	3,984
Approved person control & support	22	1,762	264	-	33	134	2,193
Other material risk takers	39	1,718	447	-	2	9	2,176
Other employees - Bahrain operations	305	7,602	1,659	-	-	-	9,261
Other employees overseas	27	236		-	-	-	236
	403	13,826	2,980	-	183	861	17,850

Fixed remuneration includes all compensation and benefits that are due to employees based on contractual arrangements (GOSI,indemnity,tickets & medical)

Severance payments during the year amounted to zero.

Remuneration Policy (continued)

Deferred Performance Bonus Awards

31-Dec-22	Cash	Phantom shares		LTIP shares	Total
Awards	(BD000)	Nos.	(BD000)	(BD000)	
Opening balance	397	15,896,357	2,105		2,502
Awarded during the year	276	4,229,632	567	4,237	5,080
Bonus shares adjustment		541,852	-		-
Exercised / sold / paid during the year	(124)	(4,833,681)	(660)		(784)
Vested for the year				(847)	(847)
Remeasurement of phantom shares/ true-up adjustments	-	-	142		142
Closing balance	549	15,834,160	2,154	3,390	6,093

As part of the Bank's efforts to maintain competencies to continue the successful journey of the bank, 124.7 million LTIP shares were allocated under the program that includes employee share purchases using leverage. The vesting is based on performance measures and is released over a period of 5 years. Based on the 2022 performance conditions, 24.9mn shares are eligible for vesting. The amount reflected in the table above is the value of the employee benefit calculated in accordance with the requirements of IFRS 2 and do not represent the issue or vested value of the shares. The actual award cost to the Bank will be trued up each year at the time of vesting. The accounting charge in the P&L is calculated based on a graded vesting schedule and may not reconcile with the numbers disclosed above. The above disclosure provides a movement of the awards measured on a historical cost and release basis.

31-Dec-21	Cash	Phantom shares		Others	Total
Awards	(BD000)	Nos.	(BD000)	(BD000)	
Opening balance	355	13,448,921	1,889	-	2,244
Awarded during the year	183	6,606,156	861		1,044
Bonus shares adjustment		489,482	-		
Exercised / sold / paid during the year	(141)	(4,675,202)	(689)		(830)
Remeasurement of shares			44		44
Risk Adjustment	-	-	-		-
Closing balance	397	15,869,357	2,105	-	2,502

BEST BANK

FOR CORPORATE BANKING

Source: According to Euromoney Awards for Excellence 2022 - Bahrain

Risk Management & Compliance

Risk Management & Compliance

At Al Salam Bank, our success is largely dependent on how efficiently we identify, measure, control and manage risks. Hence, we view risk management as a core competency from a strategic point of view. Provisions of the Basel Accord are the catalysts to the successful implementation of the pillars of risk management in line with industry best practice.

The fundamental principle underlying our risk management framework is ensuring that accepted risks are within the Board approved risk appetite and the returns are commensurate with the risks taken. The risk appetite approved by the Board is cascaded down to business units at a granular level and compliance to the same is monitored, reported and suitable corrective action, wherever required, is initiated. The objective is creating shareholder value through protecting the Group against unforeseen losses, ensuring maximization of earnings potential and opportunities vis-à-vis the Group's risk appetite and ensuring earnings stability.

With this in mind, the Bank has focused its efforts on establishing effective and practical risk management and compliance frameworks taking into consideration local and international best practices, the requirements of the Central Bank of Bahrain and the Basel Accord.

The Bank continues to invest in new technologies to enhance its physical and cyber security posture. It will also invest in new projects to ensure compliance to the changing regulatory landscape and further strengthen its risk-management framework.

Risk Management Framework

The risk management framework defines the risk culture of Al Salam Bank and sets the tone throughout the Group to practice the right risk behavior consistently to ensure that there is always a balance between business profits and risk appetite.

The risk management framework achieves this through the definition of the Group's key risk management principles covering credit, market, operational, information security, strategic and reputation risks.

Moreover, the framework further addresses the roles and responsibilities of the Board, risk management group and senior management towards risk management. The individual component of the framework captures the risk assessment methodology adopted, risk limits, the risk management information systems and reports, as well as the Group's approach to capital management.

The effectiveness of the risk management framework is independently assessed and reviewed through internal audits, external audits and Central Bank of Bahrain supervision. In addition, business and support groups carry out periodic risk control self-assessments.

As a result, the risk management framework creates an alignment between business and risk management objectives.

Capital Management

The cornerstone of risk management framework is the optimization of risk-reward relationship against the capital available through a focused and well monitored capital management process involving risk management, finance, and business groups.

Corporate Governance

The risk management framework is supported by an efficient Corporate Governance Framework discussed on pages 42 to 58.

Risk Ownership

The implementation of the Group-wide risk management framework is the responsibility of the Risk Management Department under the supervision of the Group Chief Executive Officer and Board Audit and Risk Committee. Ownership of the various risks across the Group lies with the business and support heads, being the first line of defense, and it is their responsibility to ensure that these risks are managed in accordance with the risk management framework. Risk Management assists business and support heads in identifying concerns and risks, identifying risk owners, evaluating risks as to likelihood and consequences, assessing options for mitigating the risks, prioritizing risk management efforts, developing risk management plans, authorizing implementation of risk management plans and tracking risk management efforts.

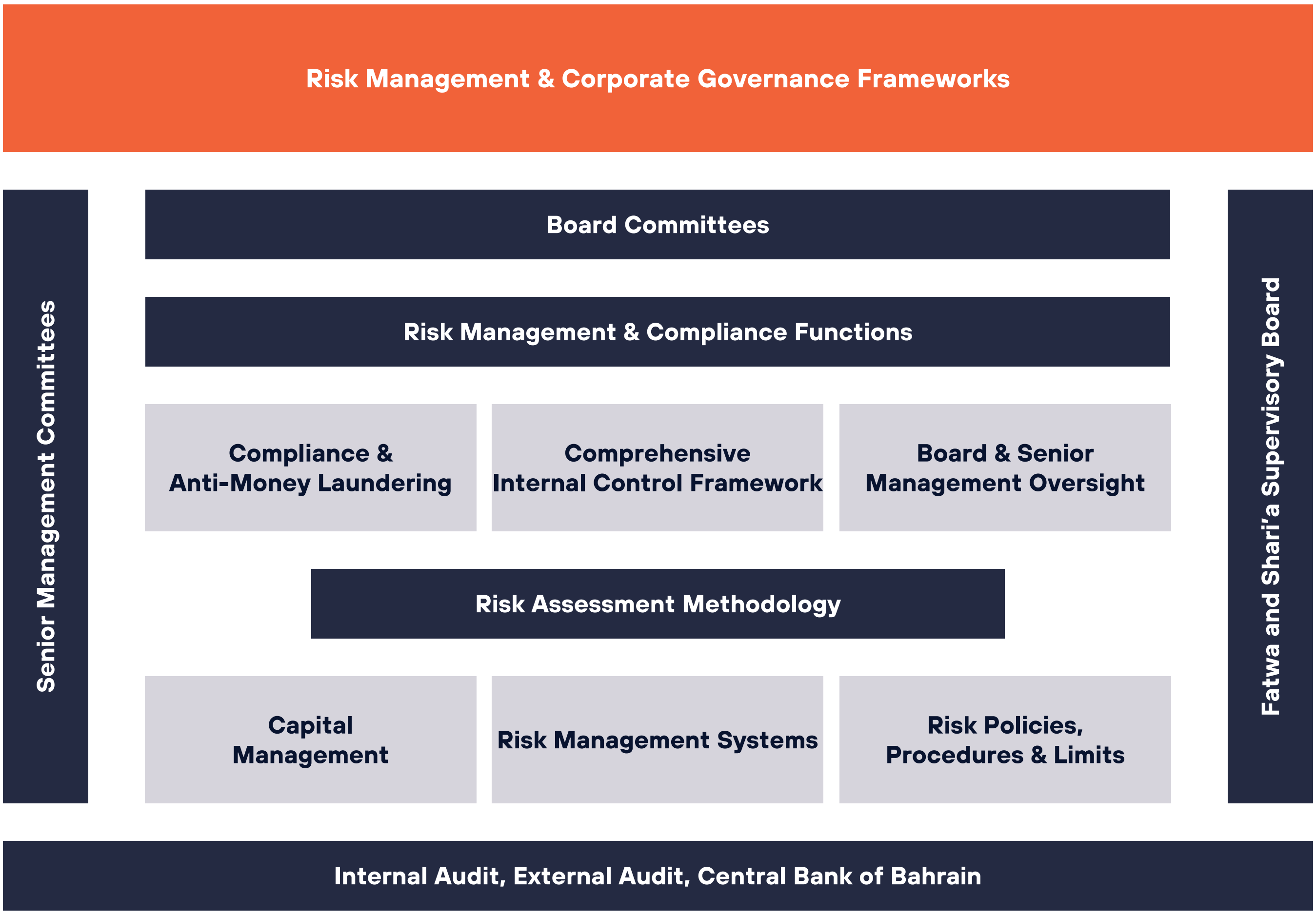
Compliance & Anti-Money laundering Department

The Bank has established an independent and dedicated department to coordinate the implementation of compliance and Anti-Money Laundering and Anti-Terrorist Financing program. The program covers policies and procedures for managing compliance with regulations, anti-money laundering, disclosure standards on material and sensitive information and insider trading. In line with its commitment to combat money laundering and terrorist financing, Al Salam Bank through its Anti-Money Laundering policies ensures that adequate preventive and detective internal controls and systems operate effectively. The policies govern the guidelines and procedures for client acceptance, maintenance and monitoring in line with the Central Bank of Bahrain and International standards such as FATF recommendations and Basel Committee papers.

All inward and outward electronic transfers are screened against identified sanction lists issued by certain regulatory bodies including the UN Security Council Sanctions Committees and US Department of the Treasury - OFAC, in addition to those designated by the Central Bank of Bahrain.

The compliance program also ensures that all applicable Central Bank of Bahrain regulations are complied with and/ or non-compliance is detected and addressed in a timely manner. The program includes compliance with regulations set by Ministry of Industry & Commerce and Bahrain Bourse.

The Bank has formulated appropriate policies and implemented the requirements of Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) as required by the regulators. The due diligence and reporting requirements have been complied with.



Corporate Social Responsibility

Al Salam Bank is dedicated to supporting the communities it serves, and has launched several projects to promote education, environmentalism, and medical care in the Kingdom of Bahrain. Since the launch of its CSR arm 'Helping Hands' the Bank has developed numerous initiatives to support different sectors and communities.

Recently, the Bank funded the refurbishment of the University of Bahrain's Al Salam Knowledge Center and equipped it with new technologies that will provide students with enhanced learning experiences, enabling more interactive and engaging education. Al Salam Bank has also sponsored scholarships for five academically outstanding students at the American University of Bahrain and introduced a six-month vocational training program for Bahraini graduates, providing them with real-world skills and preparing them for future careers.

In the health space, Al Salam Bank has funded the Ministry of Health's acquisition of a mammogram device, which is crucial for detecting and preventing certain diseases in women. The Bank has also sponsored "Athar", the Bahraini Women's Monument Project led by the Supreme Council for Women, and funded a statue that commemorates the contributions of Bahraini women to the Kingdom, unveiled in December 2022.

Last year, one of the Bank's most-far reaching initiatives was its 'Inspired to Grow' campaign, which aimed to make Bahrain greener by encouraging tree-planting across the Kingdom. Over the course of the campaign, more than 13,000 plants were distributed to participants keen to do their part, and the Bank funded the planting of 7,000 trees across various regions in the Kingdom of Bahrain, promoting greenery and sustainability.

Al Salam Bank remains committed to exploring ways to support key sectors as part of its Corporate Social Responsibility (CSR) and will build on the successful programs and initiatives undertaken during the course of 2022.

Fatwa & Shari'a Supervisory Board Report to the Shareholders

In the name of Allah, the Beneficent and the Merciful

Praise be to Allah; Prayers and peace be upon the most ennoble messenger, our Prophet Muhammad and his companion

The Report of Shari'a Supervisory Board of Al Salam Bank B.S.C, ("the Board") submitted to the General Assembly on the Bank's activities during the financial year ending 31 December 2022.

First: Memorandum and Articles of Association

Al Salam Bank, B.S.C. operates as an Islamic Bank authorized by the Central Bank of Bahrain. We therefore confirm that the Memorandum and Articles of Association of the Bank are in conformity with the rules and principles of Shari'a.

Second: Activities of the Bank and Board's Guidance

The Board has supervised the activities and transactions of the Bank during the reporting year either directly or through the Sharia Compliance department, it has, therefore, instructed and guided various departments to comply with the rules and principles of Shari'a and fatwas of the Board in relation to such activities and transactions. During the year, the SSB has held four meetings with the senior staff of the Bank, three of which are conducted online, and one was conducted physically. Also, SSB Executive Committee conducted nine meetings.

Third: Contracts and Transactions

The Board studied the operational structures that have been presented to it during the year, approved their contracts and documents, and responded to the questions and inquiries that were raised in respect thereof and issued decisions and fatwas in this regard. These fatwas and decisions have been circulated to the concerned departments of the Bank for execution and implementation. It has also reviewed and studied drafts of the contacts and agreements that were presented to it in respect to sukuks (investment certificates), syndicated financing transactions and investment funds and approved them after its comments were considered.

Fourth: Access to Records

The Management of the Bank has positively cooperated with the Board and based on its request, allowed it to access the records, information and data of the Bank that are necessary for it to perform the Sharia audit and Sharia supervision.

Fifth: Shari'a Audit

The Board has reviewed Internal Shari'a Audit reports and pointed out its observations on the reports. The Board further reviewed and discussed the external Shari'a Auditor observations and took note of these observations.

Sixth: Training

The Board has taken note of the efforts of the Bank's Management in training its employees and recommended that the Management continues to conduct regular training programmes for its employees in order to raise the level of Shari'a performance and compliance.

Seventh: The structure of Bank's acquisition of some Ithmaar Bank's assets including BBK shares

During the year 2022, the Board had supervised the entire processes for the Bank's acquisition bid of the Ithmaar Bank's assets. It also supervised the suggested structure for the treatment of BBK shares that form part and parcel of the acquisition deal of the Ithmaar holdings.

Eighth: Balance Sheet

The Board has reviewed the balance sheet, profit and loss accounts, accounting policies for the preparation of the financial statement and the basis of distributing dividends and profits to the shareholders and depositors.

The Board believes that the financial numbers presented in the balance sheet, to the extent of correct presentation and information provided by the Bank's Management and the Bank's compliance with some observations, did not result in non-compliance of the underlying transactions with the rules and principles of Shari'a. The Bank got rid of non-Sharia compliant earnings. The Board, therefore, approved the balance sheet.

Ninth: Zakah

Since the Articles of Association of the Bank do not oblige the Bank to pay Zakah on behalf of shareholders, and on the invested Shareholder's equity, the Board has reviewed the calculation of the Zakah payable by the shareholders in order to be disclosed in the balance sheet. The Zakah calculation was prepared in line with Shari'a Standards on Zakah issued by Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"). Resultantly, the Board approved the calculation of Zakah and instructed the Bank to notify Shareholders of the Zakah for this year as a disclosure in the balance sheet.

Tenth: Charity Fund

The Board has ensured that all non-Sharia compliant income and dividends are channelled to the Bank's Charity Fund, which are noted to be resulted from either the previous transactions due to merger and conversion of conventional banks into Al Salam Bank or any other arising reasons.

Decision of the Board

The Board emphasizes that compliance to the rules and principles of the Shari'a in respect of all the businesses and transactions of the Bank is the responsibility of the Bank's Management. The Board confirms that the transactions executed by the Bank during the year, to the extent of the information and data made available to it by the Bank's Management, do not conflict, in general, with the rules and principles of Shari'a. The Board also confirms that the accuracy of information, data, numbers, and correctness of the profit distribution are the responsibility of the management.

Allah is the guider to the right path.

The Board wishes for the Bank a continuous success and rectitude in doing things that pleases Allah.

Fatwa and Shari'a Supervisory Board

Shaikh Adnan Abdulla AlQattan
Chairman

Dr. Fareed Yaqoob AlMeftah
Vice Chairman

Dr. Nedham Mohamed Yaqoobi
Member

Dr. Osama Mohamed Bahar
Member

Dr. Mohammed Burhan Arbouna
Head – Shari'a Compliance Department

Financial Statements

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Independent Auditors' Report to the Shareholders

Al Salam Bank B.S.C., Manama, Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Al Salam Bank B.S.C. (the "Bank"), and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of income, changes in equity, cash flows, for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and consolidated results of its operations, changes in equity, its cash flows, for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI").

In our opinion, the Group has also complied with the Islamic Shariah Principles and Rules as determined by the Group's Shariah Supervisory Board during the year ended 31 December 2022.

Basis for Opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions ("ASIFIs") issued by AAOIFI. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with AAOIFI's Code of Ethics for Accountants and Auditors of Islamic Financial Institutions, together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment allowance on financing assets

Refer to accounting policy in Note 2.4 (d), disclosure on use of estimates and judgment in Note 2.3 and management of credit risk in Note 32.2 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
We focused on this area because: • of the significance of financing assets representing 51% of total assets by volume; • impairment of financing assets involves: ➤ complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias; ➤ use of statistical models and methodologies for determination of expected credit losses. The Group exercises significant judgments and makes a number of assumptions in developing its expected credit loss ('ECL) models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") associated with the underlying financial assets; and ➤ complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses;	Our procedures, amongst others, included: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of applicable accounting standards, regulatory guidance, our business understanding and industry practice. • Confirming our understanding of management's processes, systems and controls over the ECL calculation process **Control testing** We performed process walkthroughs to identify the key systems, applications and controls associated with the ECL calculation process. Key aspects of our control testing involved the following: • Testing controls over the transfer of data between underlying source systems and the ECL models that the Group operates. • Performing a detailed credit risk assessment for a sample of performing corporate contracts to test controls over the credit rating and monitoring process. • Testing controls over the review and approval of post model adjustments and management overlays and the governance process over such overlays. • Testing controls over the modelling process, including governance over model monitoring, validation and approval.

The key audit matter	How the matter was addressed in our audit
• the need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them; and • adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks.	**Tests of details** Key aspects of our testing involved: • Reviewing a sample of credit files for performing accounts and evaluating the financial performance of the borrower, source of repayment and eligible collateral and on this basis assess the appropriateness of credit rating and staging. • Sample testing over key data inputs used in estimating the ECL and assessing the completeness, accuracy and relevance of data used. • Re-performing key elements of the Group's model calculations and assessing performance results for accuracy. • Sample testing over factors used to determine whether significant increase in credit risk has been appropriately identified. • Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data. • Assessing the adequacy of provisions against individually impaired financing assets (stage 3) in accordance with the applicable FAS. **Use of specialists** For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in estimating expected credit losses. Key aspects of their involvement included the following: • We involved our Information Technology Audit (IT) specialists to test the relevant General IT and Application Controls over key systems used for data extraction as part of the ECL calculation process. • We involved our Financial Risk Management (FRM) specialists in: ➤ Evaluating the appropriateness of the Group's ECL methodologies (including the staging criteria used); ➤ On a test check basis, re-performing the calculation of certain components of the ECL model (including the staging criteria); ➤ Evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weights applied to them; and ➤ Evaluating the overall reasonableness of the management forward-looking estimates by comparing it to external market data and our understanding of the underlying sector and macroeconomic trends. **Disclosures** We assessed the adequacy of the Group's disclosure in relation to use of significant estimates and judgement and credit quality of financing assets by reference to the requirements of relevant accounting standards.

Independent Auditors' Report to the Shareholders (continued)

Business Combination
Refer to accounting policy in Note 2.2 and disclosure related to the business combination in Note 46 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
During the year, the Group acquired the consumer banking business, takaful subsidiary and certain investment assets from Ithmaar Holding Group. This transaction has been accounted for in accordance with IFRS 3 Business Combinations ("IFRS 3") using the acquisition method. We have considered this to be a key audit matter due to: • significant increase in assets and liabilities acquired as a result of the acquisition; • the complexity associated with application of acquisition accounting principles, including the recognition of newly identified intangible assets and the resultant goodwill; and • the subjectivity and judgement in determining the fair value and its allocation to the assets acquired, including purchased or originated credit impaired (POCI) financial assets, and the liabilities assumed.	Our procedures, amongst others, included: • involving our valuation specialist to review the appropriateness of fair value adjustment recognized by management on the acquired assets and liabilities to ascertain that they are in accordance with the requirements of IFRS 3; • challenging management's basis and assumptions used in determining initial classification of the acquired assets and liabilities and identification of intangible assets; • evaluating the accounting policy adopted by management for the identification of POCI financial assets and assessed the appropriateness of fair value adjustments made on initial recognition; • reviewing the appropriateness of the useful lives assigned to the identified intangible assets; • testing the process and controls put in place over consolidation of the financial position and results of the subsidiary from the date of acquisition, including assessing consistency of accounting policies used; and Disclosures evaluating the appropriateness and adequacy of disclosures in relation to the business combination by reference to the relevant accounting standards.

Independent Auditors' Report to the Shareholders (continued)

Other Information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the board of directors' report and other sections which forms part of the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Board of Directors for the Consolidated Financial Statements

The board of directors is responsible for the Group's undertaking to operate in accordance with Islamic Sharia Rules and Principles as determined by the Group's Shariah Supervisory Board.

The board of directors is also responsible for the preparation and fair presentation of the consolidated financial statements in accordance with FAS, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ASIFIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ASIFIs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Independent Auditors' Report to the Shareholders (continued)

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Regulatory Requirements

As required by the Commercial Companies Law and Volume 2 of the Rulebook issued by the Central Bank of Bahrain, we report that:

a. the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

b. the financial information contained in the chairman's report is consistent with the consolidated financial statements;

c. we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

d. satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Mahesh Balasubramanian.

KPMG Fakhro
Partner Registration Number 137
9 February 2023

Consolidated Statement of Financial Position

31 December 2022

	Note	2022 BD '000	2021 BD '000
Assets			
Cash and balances with banks and central bank	4	367,747	309,149
Placements with financial institutions	5	113,096	133,860
Investment in sukuk	6	837,381	639,688
Financing assets	7	1,986,465	1,364,452
Non-trading investments	9	106,796	91,591
Takaful and related assets	10	51,690	-
Investment in real estate	11	62,462	60,904
Investment in associates	12	254,006	14,533
Other assets	13	67,720	44,423
Goodwill and other intangible assets	14	51,998	25,971
Total Assets		3,899,361	2,684,571
Liabilities, Equity of Investment Accountholders, Owners' Equity and Non-Controlling Interest			
Liabilities			
Placements from financial institutions and customers	5	187,724	126,891
Customers' current accounts		550,281	482,739
Murabaha term financing	15	320,989	100,216
Takaful and related liabilities	10	91,741	-
Other liabilities	16	78,798	53,789
Total Liabilities		1,229,533	763,635
Equity of Investment Accountholders			
Wakala from financial institutions	17	319,339	299,607
Wakala and mudaraba from customers	17	2,013,134	1,324,570
Total Equity of Investment Accountholders		2,332,473	1,624,177
Owners' Equity			
Share capital	18	249,231	241,972
Treasury shares	18	(12,021)	(12,473)
Share premium		209	209
Retained earnings		31,691	19,531
Reserves		34,141	47,012
Total owners' equity		303,251	296,251
Non-controlling interest		34,104	508
Total Equity		337,355	296,759
Total Liabilities, Equity of Investment Accountholders, Owners' Equity and Non-Controlling Interest		3,899,361	2,684,571

H.E. Shaikh Khalid bin Mustahil Al Mashani
Chairman

Matar Mohamed Al Blooshi
Deputy Chairman

Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 47 form part of these consolidated financial statements.

Consolidated Income Statement

Year ended 31 December 2022

	Note	2022 BD '000	2021 BD '000
Operating Income			
Finance income	21	95,158	76,357
Income from sukuk		34,778	22,421
Income from non-trading investments, net	22	2,720	370
(Loss) / income from properties, net	23	(222)	56
Fees and commission, net	24	7,828	7,381
Share of profit from associates, net	12	9,329	2,697
Income from Takaful operations, net	25	3,773	-
Other income	26	2,024	462
Total operating income		155,388	109,744
Finance expense on placements from financial institutions		(4,955)	(4,154)
Finance expense on murabaha term financing		(6,046)	(2,876)
Return on equity of investment accountholders before Group's share as a mudarib and wakil		(110,403)	(71,664)
Group's share as a mudarib and wakil		62,412	35,687
Share of profit of investment accountholders	17	(47,991)	(35,977)
Net operating income		96,396	66,737
Operating Expenses			
Staff cost	27	23,564	17,033
Premises cost		1,987	1,866
Depreciation and amortization		2,293	1,283
Other operating expenses	28	22,799	12,817
Total operating expenses		50,643	32,999
Profit Before Impairment Allowances		45,753	33,738
Net impairment charge on financing assets and investment	8	(12,683)	(12,514)
Net Profit for the Year		33,070	21,224
Attributable To:			
- Shareholders of the bank		31,593	21,367
- Non-controlling interest		1,477	(143)
		33,070	21,224
Basic and diluted earnings per share (fils)	20	13.5	8.8

H.E. Shaikh Khalid bin Mustahil Al Mashani
Chairman

Matar Mohamed Al Blooshi
Deputy Chairman

Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 47 form part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

Year ended 31 December 2022

Amounts in BD '000s

	Attributable to shareholders of the bank												
				Reserves									
	Share capital	Treasury stock	Share premium	Retained earnings	Statutory reserve	Share grant scheme	Investment fair value reserve	Real estate fair value reserve	Foreign exchange translation reserve	Total reserves	Total owners' equity	Non-controlling interest	Total equity
Balance as of 1 January 2022	241,972	(12,473)	209	19,531	18,600	-	9,532	22,865	(3,985)	47,012	296,251	508	296,759
Net profit for the year	-	-	-	31,593	-	-	-	-	-	-	31,593	1,477	33,070
Movement in fair value, net	-	-	-	-	-	-	(6,137)	(66)	-	(6,203)	(6,203)	-	(6,203)
Reclassified to amortized cost	-	-	-	-	-	-	(4,627)	-	-	(4,627)	(4,627)	-	(4,627)
Associate share of changes	-	-	-	-	-	-	(7,411)	-	-	(7,411)	(7,411)	-	(7,411)
Foreign currency re-translation	-	-	-	-	-	-	-	-	277	277	277	-	277
Total recognised income and expense	-	-	-	31,593	-	-	(18,175)	(66)	277	(17,964)	13,629	1,477	15,106
Bonus shares issued	7,259	-	-	(7,259)	-	-	-	-	-	-	-	-	-
Cash dividend for the year 2021	-	-	-	(9,121)	-	-	-	-	-	-	(9,121)	-	(9,121)
Share grant scheme	-	-	-	-	-	1,934	-	-	-	1,934	1,934	-	1,934
Transfer to statutory reserve	-	-	-	(3,159)	3,159	-	-	-	-	3,159	-	-	-
Movement of treasury shares, net	-	452	-	106	-	-	-	-	-	-	558	-	558
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	32,119	32,119
Balance at 31 December 2022	**249,231**	**(12,021)**	**209**	**31,691**	**21,759**	**1,934**	**(8,643)**	**22,799**	**(3,708)**	**34,141**	**303,251**	**34,104**	**337,355**
Balance as of 1 January 2021	230,450	(7,530)	12,209	(5,549)	21,778	-	9,844	23,348	(3,784)	51,186	280,766	401	281,167
Impact of adopting FAS 32	-	-	-	57	-	-	-	-	-	-	57	-	57
Balance as at 1 January 2021 (restated)	230,450	(7,530)	12,209	(5,492)	21,778	-	9,844	23,348	(3,784)	51,186	280,823	401	281,224
Net profit for the year	-	-	-	21,367	-	-	-	-	-	-	21,367	(143)	21,224
Movement in fair value, net	-	-	-	-	-	-	(312)	-	-	(312)	(312)	-	(312)
Movement from reserve													
to income statement	-	-	-	-	-	-	-	(483)	-	(483)	(483)	-	(483)
Foreign currency re-translation	-	-	-	-	-	-	-	-	(201)	(201)	(201)	-	(201)
Total recognised income and expense	-	-	-	21,367	-	-	(312)	(483)	(201)	(996)	20,371	(143)	20,228
Bonus shares issued	11,522	-	-	(11,522)	-	-	-	-	-	-	-	-	-
Transfer to retained earnings (note 18.2)	-	-	(12,000)	17,315	(5,315)	-	-	-	-	(5,315)	-	-	-
Transfer to statutory reserve	-	-	-	(2,137)	2,137	-	-	-	-	2,137	-	-	-
Purchase of treasury shares	-	(4,943)	-	-	-	-	-	-	-	-	(4,943)	-	(4,943)
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	250	250
Balance at 31 December 2021	241,972	(12,473)	209	19,531	18,600	-	9,532	22,865	(3,985)	47,012	296,251	508	296,759

The attached notes 1 to 47 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	2022 BD '000	2021 BD '000
Operating Activities		
Net profit for the year	33,070	21,224
Adjustments:		
Depreciation	2,293	1,283
Amortisation of premium on sukuk - net	1,333	1,016
Loss from non-trading investments and properties	929	155
Net impairment charge	12,683	12,514
Share of results from associates	(9,329)	(2,697)
Operating income before changes in operating assets and liabilities	40,979	33,495
Changes in operating assets and liabilities:		
Mandatory reserve with central bank	(57,129)	(10,530)
Murabaha and Wakala receivables from banks with original maturities of 90 days or more	-	(2,019)
Financing assets	(161,698)	(88,095)
Takaful and related assets	12,713	-
Other assets	(28,139)	(9,415)
Placements from financial institutions and customers	46,465	10,100
Customers' current accounts	32,270	118,769
Takaful and related liabilities	55,402	-
Other liabilities	57,128	2,864
Equity of investment accountholders	(46,359)	398,797
Net cash (used in) / from operating activities	(48,368)	453,966
Investing Activities		
Acquisition of sukuk	(209,888)	(231,391)
Cash acquired as part of business combination	71,711	-
Disposal of non-trading investments and real estate	(21,010)	12,079
Purchase of premises and equipment	(17,070)	(2,815)
Net cash used in investing activities	(176,257)	(222,127)
Financing Activities		
Drawdown / (repayment) of murabaha term financing	220,773	(121,455)
Dividends paid	(9,121)	(1,139)
Purchase of treasury shares	558	(4,943)
Net cash from / (used in) financing activities	212,210	(127,537)
Net Change in Cash and Cash Equivalents	(12,415)	104,302
Cash and cash equivalents at 1 January	395,947	291,645
Cash and Cash Equivalents At 31 December	383,532	395,947
Cash and cash equivalents comprise of:*		
Cash and other balances with central bank	91,728	79,458
Balances with other banks **	178,634	184,648
Placements with financial institutions with original maturities of less than 90 days	113,170	131,841
	383,532	395,947

* Cash and cash equivalents is gross of the expected credit loss of BD 207 thousand (2021: BD 87 thousand).

** Balances with other banks is net of restricted cash of BD 5,013 thousand which is not available for day to day operations (2021: BD 9,746 thousand).

The attached notes 1 to 47 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2022

1 REPORTING ENTITY

Al Salam Bank B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and registered with Ministry of Industry and Commerce ("MOIC") under Commercial Registration number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and operates under Islamic principles in accordance with all relevant regulatory guidelines for Islamic banks issued by the Central Bank of Bahrain ("CBB").

The Bank's registered office is at Building 935, Road 1015, Block 410, Sanabis, Kingdom of Bahrain. The Bank's ordinary shares are listed in Bahrain Bourse and Dubai Financial Market.

In the first quarter of 2022, the Bank entered into definitive discussions in relation to the acquisition of certain group of assets from Ithmaar Holding's group of companies consisting of the consumer banking business of Ithmaar Bank, 26.19% shareholding in Bank of Bahrain and Kuwait B.S.C. (BBK) and 55.91% holding in Solidarity Group Holding, subject to the requisite approvals and signing of definitive agreements. The acquisition was completed on 7 July 2022 after obtaining required regulatory and corporate approvals.

The Bank's effective holding in below principal subsidiaries are as follows:

			% Holding	
Name of entity	**Country of incorporation**	**Principal activities**	2022	2021
Al Salam Bank- Seychelles (ASBS)	Seychelles	Provide Banking services	70%	70%
Solidarity Group Holding BSC (c)	Bahrain	Holding Company	55.91%	-

The Bank operates through 23 branches (2021: 9 branches) in the Kingdom of Bahrain and the subsidiary has 1 branch (2021: 1 branch) in Seychelles, which 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.

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 9 February 2023.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION AND PRESENTATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries together ("the Group") as at 31 December 2022 and are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Sharia' rules and Principles as determined by the Sharia' Supervisory Board of the Bank and in conformity with the Bahrain Commercial Companies Law and the guidelines of CBB and Financial Institutions Law.

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2020 and 31 December 2021 were in accordance with FAS as modified by CBB (refer to the Group's audited financial statements for the year ended 31 December 2021 for the details of the COVID- 19 related modifications applied). Since the CBB modifications were specific to the financial year 2020 and no longer apply to both the current and comparative periods presented, the Group's financial statements for the year ended 31 December 2022 has been prepared in accordance with FAS issued by AAOIFI (without any modifications).

The consolidated financial statements of the Group are prepared on a historical cost basis, except for certain investment in sovereign and corporate sukuk, non-trading investments, investments properties and certain tahawwut financial instruments, which are carried at fair value.

These consolidated financial statements are presented in Bahraini Dinars, being the functional and presentation currency of the Bank, rounded to the nearest thousand [BD '000], except where otherwise indicated.

In line with the requirements of AAOIFI and the CBB rule book, for matters not covered under AAOIFI standards the group takes guidance from the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION

(i) Business combinations

Business combinations are accounted for using the acquisition method when the acquired set of activities meets the definition of a business. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

In a business combination achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition date fair value and recognises the resulting gain or loss, if any, in the consolidated income statement.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests is used to determine the amount of goodwill.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see 2.4 (q)). Any gain on a bargain purchase is recognised in consolidated income statement immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated income statement.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in consolidated income statement.

Investments acquired that do not meet the definition of business combination are recorded as assets acquisitions e.g. financial assets or investment in properties as appropriate. When such investments are acquired, the Group allocates the cost of acquisition between the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. Cost of such assets is the sum of all consideration given and any non-controlling interest recognised. If the non-controlling interest has a present ownership interest and is entitled to a proportionate share of net assets upon liquidation, the Group recognises the non-controlling interest at its proportionate share of net assets.

(ii) Subsidiaries

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2022. The financial statements of the subsidiaries are prepared for the same reporting year. All subsidiaries are using consistent accounting policies of the Bank.

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Control is presumed to exist when the Bank owns majority of the voting rights in the investee.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific financing or investment transaction and usually voting rights are not relevant for the operating of such entities. An investor that has decision-making power over an investee and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is a linkage between power and returns. When the decision maker is an agent, the link between power and returns is absent and the decision maker's delegated power does not lead to a control conclusion. Where the Group's voluntary actions, such as finance amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 37.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.2 BASIS OF CONSOLIDATION (continued)

(iii) Non-controlling interests

Non-controlling interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as income attributable to non-controlling interests. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group.

(iv) Loss of control

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in equity in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other equity are reclassified to the consolidated income statement.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity accounted associates are eliminated to the extent of the Group's profit in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(vi) Foreign currency

(a) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Bahraini Dinars, which is the Bank's functional and presentation currency.

(b) Foreign currencies

Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as "fair value through equity" are included in consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as "fair value through consolidated income statement" are directly recognised in the consolidated income statement as part of fair value changes.

(c) Translation of foreign operations

Assets and liabilities of foreign subsidiaries and associates whose functional currency is not Bahraini Dinars are translated into Bahraini Dinars at the rates of exchange prevailing at the reporting date. Income and expense items are translated at average exchange rates prevailing for the reporting year. Any exchange differences arising on translation are included in foreign exchange translation reserve forming part of equity except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in foreign exchange translation reserve are recognised in the consolidated statement of changes in equity.

2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgments and estimates also affect the revenues and expenses and the resultant allowance for losses as well as fair value changes reported in equity.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimating uncertainty at the date of the consolidated statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Impairment assessment of financial contracts subject to credit risk

In determining expected credit losses ('ECL') on financial contracts subject to credit risk, significant estimates are made in determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information. Refer to notes 2.4 (d) and 32.2 for further details.

Impairment of goodwill

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The recoverable amount of the cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by the Board of Directors, extrapolated for three years projection using nominal projected growth rate. The determination of projected growth rate and discount rate involves judgment whereas, preparation of cash flow projections requires various management assumptions.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates based on the actual loss experience. Refer note 14 for further details.

Impairment of fair value through equity investments

The Group determines that investments carried at fair value through equity are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. In the case of quoted equity securities in active markets, the Group generally considers a decline in value below cost of 30%, or a decline that persists for more than 9 months as an indicator of impairment. In the case where markets for the investment are assessed to be inactive, the Group determines impairment based on its assessment of fair value and the investee companies' financial health, industry and sector performance.

Fair value of unquoted equity

The Group determines fair value of equity investments that are not quoted in active markets by using valuation techniques such as discounted cash flows, income approaches and market approaches. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of investee companies and based on the latest available audited and un-audited financial statements. The basis of valuation has been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements.

Valuation of investments in private equity and joint ventures in real estate measured at fair value through profit and loss involve judgment and is normally based on one of the following:

- valuation by independent external valuers for underlying properties / projects;
- recent arm's length market transactions;
- current fair value of another contract that is substantially similar;
- present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- application of other valuation models.

Estimating fair value of investment property and net realisable value of development property

Investment properties are carried at their fair values. Development property is stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses.

The Group appoints experienced external valuers under A category approved by Real Estate Regulatory Authority to determine the market value of the investment and development properties at the statement of financial position date. For large development projects, a residual value approach is adopted which forecasts future cost to completion and use of the expected development. The management has forecasted the cost of completion of development property and has engaged independent valuers to estimate the residual value of the development property based on estimated / forecasted market selling prices for similar properties. Net realisable value estimates are made at a specific point in time, based on market conditions and information about the expected use of development property.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimating fair value of investment property and net realisable value of development property (continued)

The Group calibrates the valuation techniques yearly and tests these for validity using either prices from observable current market transactions in the same contract or other available observable market data.

Judgments

Going concern

The management has made an assessment of the Group's ability to continue on a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Control over special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group's intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Investment classification

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments carried at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

Significant judgement is involved in assessment of the business model within which the investments are managed and assessment of whether the contractual terms of the investment represents either a debt-type instrument or other investment instrument having reasonably determinable effective yield.

Impairment on equity-type investments classified as fair value through equity

In the case of equity-type investments classified as fair value through equity and measured at fair value, a significant or prolonged decline in the fair value of an investment below its cost is considered in determining whether the investments are impaired. If any such evidence exists for equity-type investments classified as fair value through equity, the cumulative loss previously recognised in the consolidated statement of changes in equity is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity-type investments are subsequently reversed through equity.

In the extra-ordinary market conditions, for the purpose of determination of what constitutes significant or prolonged decline in fair value of investments, the management takes into account the following additional factors:

- Their intention relating to the respective holding years of such investments i.e. for trading purposes, or with intention for strategic investment, or for long-term dividends and capital gains etc.;
- As to whether the decline in value of investment is in line with the overall trend of decline in the relevant or local market corresponding to the uncertain economic condition;
- Forecasts of expected recovery of market values within the expected holding years; and/ or
- Forecasts of the expected recovery of the core business of the investee entity within the expected holding years and consequential cash flows to the institution.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

Financial assets consist of balances with banks and the Central Bank, Sovereign Sukuk, Corporate Sukuk, placements with financial institutions, Murabaha financing (net of deferred profits), Mudaraba financing, Musharaka financing, receivable under finance lease assets contracts, asset under conversion, non-trading investments in equity securities, tahawwut used for risk management and other receivables.

Financial liabilities contracts consist of placement from financial institutions, placements from customers, customers' current accounts, murabaha term financing and other payables.

Except for sukuks carried at FVTE , non-trading investments and tahawwut used for risk management instruments, all financial assets and financial liabilities are carried at amortised cost.

A financial asset or financial liability is measured initially at fair value plus, for an item not at Fair Value Through Profit and Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

Amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus the capital repayments, plus or minus the cumulative amortization using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability. The calculation of the effective profit rate includes all fees paid or received that are an integral part of the effective profit rate.

The Group segregates its investment into following categories:

i) *Equity-type instruments*

Instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities and quasi-equity balances, including ordinary equity instruments and such other structured investment instruments that classify as equity instrument in line with the requirements of FAS 29 "Sukuk in the books of the originator".

ii) *Debt-type instruments:*

Monetary debt-type instruments - instruments whereby the transaction structure results in creation of a financial liability / debt such as Murabaha payable.

Non-monetary debt-type instruments - instruments whereby the transaction structure results in creation of a non-financial liability, such as goods (Salam or Istisna'a) or usufruct (Ijarah Mawsufah fi al-Dhimmah) or services (service Ijarah) to be delivered in future.

iii) *Other investment instruments*

The Group classifies its investments on initial recognition as measured at: (a) amortised cost, (b) fair value through equity ("FVTE") or (c) fair value through income statement ("FVIS").

b) Trade and settlement date accounting

The Group recognises financing, investments, deposits and equity of investment accountholders on the date on which they are originated. Purchases and sale of all other financial assets and liabilities are recognised on the trade date, i.e. the date that the Group contracts to purchase or sell the asset or liability.

c) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

Financial liabilities are derecognised when the obligation specified in the contract is legally discharged, cancelled, or expired.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Impairment assessment

Impairment of financial assets and commitments

The Group applies three-stage approach to measure ECL on financial assets carried at amortised cost which include assets migrated through the following three stages based on the change in credit quality since initial recognition.

Stage 1: Twelve months ECL

For exposures where there has not been a Significant Increase in Credit Risk ("SICR"), since initial recognition, a portion of the lifetime ECL associated with the probability of default events occurring within next twelve months is recognised.

Twelve-month ECL (Stage 1) is the portion of ECL that results from probable default events on a financial contract within twelve months after the reporting date.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a SICR since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Lifetime ECL (Stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Group and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

Stage 3: Lifetime ECL – credit impaired

Financial contracts are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

For Stage 3 financial contracts, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial contract.

Credit-impaired financial assets and assets acquired for leasing

At each reporting date, the Group assesses whether financial assets carried at amortised cost and finance lease assets are credit impaired. A financial asset and finance lease assets is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset and finance lease asset is credit-impaired includes the following observable data:

- significant financial difficulty of the customer or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the customer will enter bankruptcy or other financial re-organization; or
- the disappearance of an active market for a security because of financial difficulties.

Write-offs

Financial assets are written-off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the customer does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Presentation of allowance for credit losses in the consolidated statement of financial position

Allowance for credit losses are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost, as a deduction from the gross carrying amount of the assets;
- financing commitments and financial guarantee contracts: generally as a provision under other liabilities; and
- where a financial contract includes both a drawn and undrawn component, and the Group has identified the ECL on the financing commitments / off-balance sheet component separately from those on the drawn component, the Group presents allowance for credit losses for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Allowance for credit losses for the undrawn component is presented as a provision in other liabilities.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Cash and cash equivalents

For the purpose of the consolidated cash flows statement, "cash and cash equivalents" consist of cash on hand, balances with the Central Bank of Bahrain excluding mandatory reserve deposits, balances with banks and other financial institutions (excluding restricted balances) and placements with financial institutions with original maturities of 90 days or less when acquired.

f) Financing assets

Financing assets comprise of Sharia'a complaint financing contracts with fixed or determinable payments. These include financing provided through Murabaha, Musharaka, Mudaraba contracts and credit card-based receivables. Financing assets are recognised on the date they are originated and are carried at their amortised cost less allowance for expected credit losses, if any.

Modification of financing assets

If the terms of the financing asset are modified, then the Group evaluates whether the cashflows of the modified asset are substantially different. If the cashflows are substantially different, then the contractual rights to cashflows from the original financing asset are deemed to have expired. In this case, the original financing asset is derecognised and a new financing asset is recognised at fair value plus any eligible transaction cost.

If the modification of a financing asset measured at amortized cost does not result in the derecognition of the financing asset, then the Group first recalculates the gross carrying amount of the financing asset using the original effective profit rate of the asset and recognises the resulting adjustment as a modification gain or loss in consolidated income statement.

All Sharia compliant contracts are interpreted for accounting purposes in its entirety and all linked -contracts or promissory note arrangements are considered together with the main financing contract to reflect the single economic outcome and purpose of the contracts.

f-i) Murabaha financing

Murabaha is a contract whereby one party ("Seller") sells an asset to the other party ("Purchaser") at cost plus profit and on a deferred payment basis, after the Seller has purchased the asset based on the Purchaser's promise to purchase the same on such Murabaha basis. The sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on installment basis over the agreed finance tenure. Under the Murabaha contract, the Group may act either as a Seller or a Purchaser, as the case may be.

The Group considers the promise to purchase made by the Purchaser in a Murabaha transaction in favor of the Seller to be binding.

f-ii) Mudaraba financing

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide certain amount of funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal. Under the Mudaraba contract, the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

f-iii) Musharaka

Musharaka is used to provide venture or project finance. The Group and customer contribute towards the capital of the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio, but losses are borne by the partners according to the capital contributions of each partner. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

f-iv) POCI financial assets

Purchased or Originated Credit Impaired (POCI) financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective profit rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognized as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Finance lease assets

Finance lease assets (also called Ijarah Mutahia Bitamleek contracts) is an agreement with the customers whereby the Group ("Lessor") leases an asset to the customer ("Lessee") after purchasing / acquiring a specified asset, either from a third-party seller or from the customer, according to the customer's request and promise to lease against certain rental payments for a specific lease term / years, payable on fixed and / or variable rental basis.

The finance lease agreement specifies the leased asset, duration of the lease term, as well as the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The Lessee provides the Lessor with an undertaking to renew the lease years and pay the relevant rental payment amounts as per the agreed schedule throughout the lease term.

The Lessor retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the finance lease agreement, the Lessor will sell the leased asset to the Lessee for a nominal value based on sale undertaking given by the Lessor. Leased assets are usually in the type of residential properties and commercial real estate.

Depreciation is provided on a systematic basis on all Finance lease assets other than land (which is deemed to have an indefinite useful life), at rates calculated to write off the cost of each asset over the shorter of either the lease term or economic life of the asset.

The Group measures at each reporting date whether there is objective evidence that finance lease assets are impaired. Impairment loss is recognised when the carrying amount of assets exceeds its recoverable amount. The estimates of future cashflows, when dependent on a single customer, takes into consideration the credit evaluation of the customer in addition to other factors. Impairment losses, if any, are recognised in the income statement.

Modification of finance lease assets

If the terms of the finance lease assets are modified, then the Group evaluates whether the cashflows of the modified asset are substantially different. If the cashflows are substantially different, then the contractual rights to cashflows from the original finance lease assets are deemed to have expired. In this case, the original finance lease assets is derecognised and a new finance lease assets is recognised at fair value plus any eligible transaction cost.

If the modification of a finance lease assets measured at amortized cost does not result in the derecognition of the finance lease assets then the Group first recalculates the gross carrying amount of the finance lease assets using the original effective profit rate of the asset and recognises the resulting adjustment as a modification gain or loss in consolidated income statement.

h) Placements with financial institutions

Placements with financial institutions comprise of short-term treasury contracts with financial institutions in the form of Commodity Murabaha receivables and Wakala investments. These placements are stated at amortised cost net of deferred profits and allowance for credit losses, if any.

i) Sovereign Sukuk and Corporate Sukuk

These investments are in the nature of debt-type instruments that provide fixed or determinable payments of profits and capital. Sukuk that are assessed under two distinct business models:

- Held-to-collect business model – This portfolio includes short-term and long-term Sukuk and treasury instruments that are held to meet core liquidity requirements and consist of high-quality liquid assets that are typically held to their contractual maturity. Assets under this model are classified and measured at amortised cost. Although management considers fair value information, it does so from a liquidity perspective, and the main focus of its review of financial information under this business model is on the credit quality and contractual returns.
- Both held-to-collect and for sale business model: The remaining treasury portfolio will be held under active treasury management to collect both contract cash flows and for sale. The key management personnel consider both of these activities as integral in achieving the objectives set for the Treasury business unit. This portfolio, while generating returns primarily through yield, is also held to meet expected or unexpected commitments, or to fund anticipated acquisitions or growth in other business units. Assets under this model are classified and measured at fair value through equity.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Assets and liabilities under conversion

Assets under conversion:

Loans and advances

At amortised cost less any amounts written off and allowance for credit losses, if any.

Non-trading investments

These are classified as fair value through equity investments and are fair valued based on criteria set out in note 2.4 (k).

k) Non-trading investments

Equity-type investments

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual profit in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories: 1) at fair value through income statement ('FVTPL') or 2) at fair value through equity ('FVTE'), consistent with its investment strategy.

Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given. For FVTE investments, transaction costs are expensed in the consolidated income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

Subsequent to initial recognition, equity-type investments carried at FVTPL and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of instruments carried at FVTPL are recognised in the income statement in the year which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the consolidated income statement.

l) Investments in associates and joint ventures

The Group's investments in associates and joint ventures, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates and joint ventures (note 2.4 (k)) are accounted for as fair value through consolidated income statement by availing the scope exemption under FAS 24, Investments in Associates. An associate is an entity over which the Group has significant influence, and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other manner. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Under the equity method, investment in associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Losses in excess of the cost of the investment in associates are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of results of operations of the associates. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the Group's associates are identical with the Group and the associates accounting policy conform to those used by the Group for like transactions and events in similar transactions.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Investments in associates and joint ventures (continued)

Profit and losses resulting from transactions between the Group and the associates are eliminated to the extent of the profit in associates.

Foreign exchange translation gains / losses arising out of the translation of net assets of investment in associates are included in the consolidated statement of changes in equity.

m) Investment properties

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments in real estate. The investment in real estate is initially recognised at cost and subsequently measured based on intention whether the investments in real estate is held-for-use or held-for-sale. The Group has adopted the fair value model for its investments in real estate. Under the fair value model, any unrealized gains are recognised directly in owners' equity under the Real Estate Fair Value Reserve. Any unrealized losses are adjusted in equity to the extent of the available credit balance. Where unrealized losses exceed the available balance in owners' equity, these are recognised in the consolidated income statement. In case there are unrealized losses relating to investments in real estate that have been recognised in the consolidated income statement in a previous financial year, the unrealized gains relating to the current financial year is recognised to the extent of crediting back such previous losses in the consolidated income statement. Investments in real estate held-for-sale is carried at lower of its carrying value and expected fair value less costs to sell. Investments in real estate carried at fair value shall continue to be measured at fair value.

n) Development properties

Properties acquired exclusively for development are classified as development properties and are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimates costs of completion and the estimated costs necessary to make the sale.

o) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is changed on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land and capital work-in-progress.

- Computer hardware	3 to 5 years
- Computer software	3 to 5 years
- Furniture and office equipment	3 to 5 years
- Motor vehicle	4 to 5 years
- Leasehold improvements	Over the lease year

The assets residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date.

p) Subsidiaries acquired with a view to sell

A subsidiary acquired with a view to subsequent disposal within twelve months is classified as "held-for-sale" when the sale is highly probable. Related assets and liabilities of the subsidiary are shown separately on the consolidated statement of financial position as "assets held-for-sale" and "liabilities relating to assets classified as held-for-sale" respectively. Assets that are classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the assets. Assets that are classified as held-for-sale are not depreciated.

q) Goodwill and other intangible assets

(a) Goodwill

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests is used to determine the amount of goodwill. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement. Goodwill is allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment exists when carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Goodwill and other intangible assets (continued)

(a) Goodwill (continued)

Impairment of goodwill is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGU, or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is / are not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format.

(b) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of the intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in consolidated income statement in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. All acquired intangible assets carried on the reporting date have a finite useful life such as the Core Deposits ("CD") and the Purchased Customer Relationships ("PCR") will be amortized over a period of 7 to 15 years.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income

r) Offsetting

Financial assets and financial liabilities can only be offset with the net amount being reported in the consolidated statement of financial position when there is a religious or legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis or intends to realise the asset and settle the liability simultaneously.

s) Customers' current accounts

Customers' current accounts balances are in non-investment accounts and are recognised when received by the Bank. The transaction is measured at the cash equivalent amount received by the Bank at the time of contracting. At the end of the accounting year, the accounts are measured at their book value, which represents the settlement value to the customers.

t) Equity of investment accountholders

Equity of investment accountholders ("IAH") are funds held by the Group in one common pool of unrestricted investment account, which is invested by the Group's ('Mudarib') in its own discretion. These include funds raised under Mudaraba contracts and Wakala contracts under multi-level investment arrangements. The funds received under the Wakala arrangement is invested in the Mudaraba investment pool and is considered as investment made by an investment account holder. Under both the Mudaraba and a comingled Wakala arrangement, the investment accountholder authorizes the Group to invest the accountholder's funds in a manner which the Group deems appropriate without laying down any restrictions as to the purpose the funds should be invested. The Group charges management fee (Mudarib fees) to investment accountholders. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms agreed with IAH. Administrative expenses incurred in connection with the management of the fund are borne directly by the Group and are not charged to investment accounts. Only profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Equity of investment accountholders (continued)

The basis applied by the Group in arriving at the equity of investment accountholder's share of income is total investment income less shareholders' income. In case of Wakala contracts, the Bank does not act as both an investment agent and Mudarib of the same fund at one time. Therefore, in case of comingling of Wakala investment funds with the Mudaraba pool, the investment agent will only charge Wakala Fee and will not share profits from the Mudaraba investment pool in the capacity of Mudarib.

Under FAS 30, ECL is allocated to the assets invested using funds from unrestricted investment accounts.

u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

v) Employees' end-of-service benefits

Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage of salaries basis. Contributions by the Bank are recognised as an expense in income statement when they are due.

Eligible employees on fixed contracts are entitled to leaving indemnities payable under the Bahraini Labour Law, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the reporting date.

Share based payment

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

Deferred share-based annual incentives

In line with its variable remuneration policy, the Group awards a component of its annual bonuses for certain covered employees (material risk-takers and approved persons) in the form of deferred incentives that are released proportionately over a period of three years. The deferred incentives include a cash component and a share component. The share component is converted to phantom shares of the Bank based on the book value per share at the award date. The deferred incentives are cash-settled on each release date based on the most recent book value per share of the Bank. The deferred incentive liability is carried at their settlement amounts at each reporting date and any changes in the carrying value of the liability is recognized as an expense or release in the income statement of the reporting period. All deferred incentives are subject to malus and clawback provisions.

w) Revenue recognition

Financing assets

As the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on effective yield basis over the contract term. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or when the payments of installments are overdue by 90 days, whichever is earlier.

Sukuk

Income on debt-type sukuk is recognised on a time-proportionate basis based on underlying rate of return of the respective type of Sukuk.

Income on equity-type sukuk is recognized when the group's right to receive dividends is established.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Revenue recognition (continued)

Dividend

Dividend income is recognised when the Group's right to receive the dividend is established.

Finance lease assets

Finance lease income is recognised on a time-proportionate basis over the lease term. Income related to non-performing finance lease is suspended. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the rental payments are overdue by 90 days, whichever is earlier.

Fees and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following main categories:

- Fee income on financing transactions: Fee earned on financing transactions including up-front fees and early settlement fees are recognised when earned. To the extent the fees are deemed yield enhancement they are recognised over the year of the financing contracts.
- Fee income from transaction services: Fee arising from corporate finance, corporate advisory, arranging the sale of assets and wealth management are recognised when earned or on a time proportionate basis when the fee is linked to delivery of services over the term of the contract.
- Other fee income: This is recognised when services are rendered.

x) Fair value of financial assets

For investments that are actively traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to valuation by independent external valuers or based on recent arm's length market transactions. Alternatively, the estimate would also be based on current market value of another contract, which is substantially the same, or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group by calculating the present value of future cash flows at current profit rates for contracts with similar terms and risk characteristics.

For assets having fixed or determinable payments, fair value is based on available active broker quotes or the net present value of estimated future cash flows determined by the Group using current market profit rates for contracts with similar terms and risk characteristics.

y) Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group and are accordingly not included in the consolidated statement of financial position. These include assets under management and custodial assets.

z) Dividend on ordinary shares

Dividend payable on ordinary issued and fully paid shares of the Bank is recognised as a liability and deducted from equity when it is approved by the Group's shareholders.

aa) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable.

ab) Treasury shares

Own equity contracts that are re-acquired, are recognised at cost and deducted from equity. No gain or loss is recognised in consolidated income statement on the purchase, sale, issue or cancellation of the Bank's own equity contracts. Any difference between the carrying amount and the consideration, if re-issued, is recognised in share premium in consolidated statement of changes in equity.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

ac) Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 Zakah using the net assets method. Zakah is calculated based on the eligible reserve and retained earnings balances at the end of the year . The Bank calculates and notifies the shareholders of their pro-rata share of the Zakah payable annually. The calculation of Zakah is approved by the Sharia'a Supervisory Board. Payment of Zakah on the unrestricted investment and other accounts is the responsibility of the investment accountholders.

ad) Repossessed assets

In certain circumstances, properties are repossessed following the foreclosure of financial facilities that are in default. Repossessed properties that are held for immediate sale, are measured at the lower of the carrying value on closure and fair value less cost to sell. Other repossessed properties are classified as investment property.

ae) Earnings prohibited by Shari'a

The Group is committed to contributing to charity any income generated from non-Shari'a sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

af) Takaful and retakaful contracts

Takaful contracts

As an Islamic insurance provider, the Group issues contracts that are based on cooperative activity by risk sharing. The Group classifies all its contracts individually as takaful contracts.

Takaful contracts are those contracts where the takaful operator accepts significant takaful risk from the participant by agreeing to compensate the participant if a specified uncertain future event adversely affects the participant. Such contracts may also transfer financial risk. As a general guideline, the Group defines significant takaful risk as the possibility of having to pay benefits on the occurrence of a takaful event. Takaful risk is risk other than financial risk that is transferred from the holder of a contract to the issuer.

Financial risk is the risk of a possible future change in one or more of a security price, index of prices or rates or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Takaful risk is significant if, and only if, a takaful event could cause the Group to pay significant additional benefits. Once a contract is classified as a takaful contract it remains classified as a takaful contract until all rights and obligations are extinguished or expired.

Retakaful contracts

Retakaful contracts are contracts entered into by the Group with retakaful operators for the purpose of limiting its net loss potential through the diversification of its risks, under which the Group is compensated for losses on takaful contracts issued.

Assets, liabilities, income and expense arising under ceded retakaful contracts are presented separately from the assets, liabilities, income and expense from the related takaful contracts because the retakaful arrangements do not relieve the Group from its direct obligations to its participants.

The benefits to which the Group is entitled under its retakaful contracts held are recognised as retakaful assets. These assets consist of balances due from retakaful operators on settlement of claims and other receivables such as profit commissions and retakaful operator's share of outstanding claims that are dependent on the expected claims and benefits arising under the takaful contracts covered under retakaful contracts. Amounts recoverable from or due to retakaful operators are recognised consistently with the amounts associated with the underlying takaful contracts and in accordance with the terms of each retakaful contract. Retakaful liabilities are primarily contributions payable for retakaful contracts and are recognised as an expense when due.

The participants' takaful funds comprises of general takaful and family takaful fund which represent the accumulated undistributed surplus or deficit in respect of contracts in force at the reporting date. It also includes fair value reserves of investments at fair value through equity.

Gross contributions

Gross contributions comprise the total contributions receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy incepts. Contributions include any adjustments arising in the accounting period for contributions receivable in respect of business written in prior accounting periods. Contributions collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in contributions written. The unexpired portion of such contributions is included under "Unearned contributions" in the statement of financial position. The earned proportion of contributions is recognised as revenue in the participants' statement of revenues and expenses.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

af) Takaful and retakaful contracts (continued)

Retakaful contributions

Retakaful contributions are amounts paid to retakaful operators in accordance with the retakaful contracts of the Group. In respect of proportional and non-proportional retakaful contracts, the amounts are recognised in the participants' statement of revenues and expenses as per the terms of these contracts.

Unearned contributions

Unearned contributions represent contributions under takaful contracts which are to be earned in the following or subsequent financial periods, for the unexpired period of takaful content as at the reporting date.

Gross claims

Gross claims are recognised in the participants' statement of revenues and expenses when the claim amount payable to participants and third parties is determined as per the terms of the takaful contracts. Gross claims include all claims occurring during the year, whether reported or not, related claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims recovered

Claims recovered include amounts recovered from retakaful operators and other insurance companies in respect of the gross claims paid by the Group, in accordance with the retakaful contracts held by the Group and also includes salvage and other claims recoveries. Claims recovered from retakaful and other parties are recognised when the related gross claims settled are recognised according to the terms of the relevant contracts.

Outstanding claims

Outstanding claims are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with the related claims handling costs and reduction for salvage and other recoveries. Provisions for outstanding claims reported is based on estimates of the loss, which will eventually be payable on each unpaid claim, established by management based on currently available information and past experience modified for changes reflected in current conditions, increased exposure, rising claims costs and the severity and frequency of recent claims, as appropriate. Outstanding claims are not discounted for time value of money. The methods used, and the estimates made, are reviewed regularly.

The provision for claims incurred but not reported ('IBNR') is made per the actuarial valuation which is updated on the basis of the latest valuation reports.

Any difference between the provisions for outstanding claims at the statement of financial position date and settlements and provisions for the following year is included in the participants' statement of revenues and expenses for that year.

Takaful and insurance receivables

Takaful and insurance receivables are recognised when due and are measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of takaful and insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of income.

I) New standards, amendments, and interpretations effective for annual periods beginning on or after 1 January 2022

1) FAS 38 Wa'ad, Khiyar and Tahawwut

AAOIFI has issued FAS 38 Wa'ad, Khiyar and Tahawwut in 2020. The objective of this standard is to prescribe the accounting and reporting principles for recognition, measurement and disclosures in relation to shariah compliant Wa'ad (promise), Khiyar (option) and Tahawwut (hedging) arrangements for Islamic financial institutions. This standard is effective for the financial reporting periods beginning on or after 1 January 2022 with an option to early adopt.

This standard classifies Wa'ad and Khiyar arrangements into two categories as follows:

a) "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah Muntahia Bittamleek, etc.; and

b) "product Wa'ad and Khiyar" which is used as a stand-alone Shariah compliant arrangement.

Further, the standard prescribes accounting for constructive obligations and constructive rights arising from the stand-alone Wa'ad and Khiyar products and accounting for Tahawwut (hedging) arrangements based on a series of Wa'ad and Khiyar contracts.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

The Group does not expect any significant impact on adoption this standard.

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

II) New standards, amendments, and interpretations issued but not yet effective

2) FAS 39 Financial Reporting for Zakah

AAOIFI has issued FAS 39 Financial Reporting for Zakah in 2021. The objective of this standard is to establish principles of financial reporting related to Zakah attributable to different stakeholders of an Islamic financial Institution. This standard supersedes FAS 9 Zakah and is effective for the financial reporting periods beginning on or after 1 January 2023 with an option to early adopt.

This standard shall apply to institution with regard to the recognition, presentation and disclosure of Zakah attributable to relevant stakeholders. While computation of Zakah shall be applicable individually to each institution within the Group, this standard shall be applicable on all consolidated and separate / standalone financial statements of an institution.

This standard does not prescribe the method for determining the Zakah base and measuring Zakah due for a period. An institution shall refer to relevant authoritative guidance for determination of Zakah base and to measure Zakah due for the period. (for example: AAOIFI Shari'a standard 35 Zakah, regulatory requirements or guidance from Shari'a supervisory board, as applicable).

The Group does not expect any significant impact on adoption of this standard.

3) FAS 1 General Presentation and Disclosures in the Financial Statements

AAOIFI has issued the revised FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. This standard describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable to all the Islamic Financial Institutions and other institutions following AAOIFI FAS's. This standard is effective for the financial reporting periods beginning on or after 1 January 2024 with an option to early adopt.

The revision of FAS 1 is in line with the modifications made to the AAOIFI conceptual framework for financial reporting.

Some of the significant revisions to the standard are as follows:

a) Revised conceptual framework is now integral part of the AAOIFI FAS's;

b) Definition of Quassi equity is introduced;

c) Definitions have been modified and improved;

d) Concept of comprehensive income has been introduced;

e) Institutions other than Banking institutions are allowed to classify assets and liabilities as current and non-current;

f) Disclosure of Zakah and Charity have been relocated to the notes;

g) True and fair override has been introduced;

h) Treatment for change in accounting policies, change in estimates and correction of errors has been introduced;

i) Disclosures of related parties, subsequent events and going concern have been improved;

j) Improvement in reporting for foreign currency, segment reporting;

k) Presentation and disclosure requirements have been divided into three parts. First part is applicable to all institutions, second part is applicable only to banks and similar IFI's and third part prescribes the authoritative status, effective date an amendments to other AAOIFI FAS's; and

l) The illustrative financial statements are not part of this standard and will be issued separately.

The Group is assessing the impact of adoption of this standard and expects changes in certain presentation and disclosures in its consolidated financial statement in line with the wider market practice.

4) FAS 41 Interim financial reporting

This standard prescribes the principles for the preparation of condensed interim financial information and the relevant presentation and disclosure requirements, emphasizing the minimum disclosures specific to Islamic financial institutions in line with various financial accounting standards issued by AAOIFI. This standard also provides an option for the institution to prepare a complete set of financial statements at interim reporting dates in line with the respective FAS's.

This standard will be effective for financial statements for the period beginning on or after 1 January 2023 and is not expected to have any significant impact on the Group's interim financial information.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

5) FAS 42 Presentation and Disclosures in the Financial Statements of Takaful Institutions

This standard sets out the principles for the presentation and disclosure in the financial statements of Takaful Institutions and prescribes the set of financial statements that the institutions should periodically publish to satisfy the common information needs of users of financial statements. Further this standard also establishes the general principles of presentation of information and adequately reflecting the rights and obligations of different stakeholders within the Takaful business model. This standard should be read in conjunction with FAS 43 – Accounting for Takaful Recognition and Measurement.

This standard supersedes the existing FAS 12 General presentation and disclosures in the financial statements of Islamic Insurance Companies and introduces following key changes:

a) the standard is aligned with the AAOIFI Conceptual Framework for Financial Reporting (Revised 2020) and FAS 1 General Presentation and Disclosures in the Financial Statements;

b) the presentation and disclosure in the standard have been amended to be aligned with the Sharia principles and rules relating to Takaful, whereby the Takaful operator is distinct from the participants' funds (including participants' Takaful fund (PTF) and participants' investment fund (PIF));

c) the PTF and PIF are considered to be off-balance sheet assets under management, therefore, separate from the Takaful Operator;

d) statements for the managed PTF and managed PIF have been introduced, including separate statements for financial position and financial activities of the managed PTF;

e) disclosures of Zakah, Charity and Qard funds have been relocated to the notes to the financial statements in line with FAS 1; and

f) new definitions of Takaful, Takaful institution, Takaful operator, PIF and PTF have been introduced.

This standard is applicable to all Takaful institutions regardless of their legal form or size, including Takaful window operations and is effective for the financial reporting periods beginning on or after 1 January 2025 with an option to early adopt.

Based on management assessment for the insurance portfolio of the insurance subsidiary, this standard is not expected to have a material impact on the consolidated financial statements of the Group.

6) FAS 43 Accounting for Takaful Recognition and Measurement

This standard supersedes the following FAS; FAS 13 – Disclosure of Bases for Determining and Allocation Surplus or Deficit in Islamic Insurance Companies; FAS 15 – Provisions and Reserves in Islamic Insurance Companies and FAS 19 – Contributions in Islamic Insurance Companies introduces following key changes:

a) the standard is aligned with the AAOIFI Conceptual Framework for Financial Reporting (Revised 2020) and FAS 1 General Presentation and Disclosures in the Financial Statements;

b) the principal accounting treatments in respect of Takaful arrangements have been aligned with the globally generally accepted accounting principles and newer regulatory requirements (where applicable);

c) new accounting treatments have been introduced in respect of matters which were not addressed or superseded standards or were not in line with the global best practices, particularly with regard to the accounting for provisions (or liability, as appropriate) for Takaful arrangements and accounting treatment and presentation for the investment component;

d) accounting treatments mapped in the standard are mapped to the Sharia principles and rules relating to Takaful, including the rights and obligations of respective stakeholders of Takaful arrangements;

e) new definitions for the accounting terms in respect of the newly introduced accounting treatments, as well as, improved definitions for earlier used terms, have been incorporated; and

f) accounting treatments respect to ancillary transactions have been introduced, particularly the transactions and balances between various stakeholders of Takaful institutions, eg. Accounting for Wakala fees an Qard Hassan.

Under the transitional provisions of this standard, following approaches are prescribed upon first time adoption:

1) A full retrospective approach – whereby the effects of transition shall be incorporated from the beginning of the earliest period presented in the financial statements; however, the disclosure of the effect of such adoption in each line item and to the basic and diluted earnings per share shall not be mandatory; or

Notes to the Consolidated Financial Statements (continued)

31 December 2022

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING POLICIES (continued)

6) FAS 43 Accounting for Takaful Recognition and Measurement (continued)

2) A modified retrospective approach – whereby effects of transition shall be taken to retained earnings, as well as accumulated surplus or deficit in the respective Takaful funds at the beginning of the current financial period; or

3) A fair value option – whereby the Takaful residual margin or loss component of the provision for the remaining entitlement period, at the transition date (beginning of the current period) shall be determined as the difference between fair value of Takaful arrangements at that date and the fair value of the fulfilment cashflows measured at that date, and the corresponding effects shall be adjusted in the retained earnings of Takaful institution, as well as accumulated surplus or deficit in the respective Takaful funds.

This standard shall apply to Takaful institutions (including in their capacity of being Takaful operators) and their managed participants' Takaful fund (PTF) and managed participants investment funds (PIF) in respect of the following, a) Takaful arrangements, including re-Takaful arrangements issued; b) re-Takaful arrangements held; c) investment contracts with or without discretionary features that are issued along with, and part of, the Takaful arrangements; and d) ancillary transactions related to Takaful operations. This standard is effective for the financial reporting periods beginning on or after 1 January 2025 with an option to early adopt.

Based on management assessment for the insurance portfolio of the insurance subsidiary, this standard is not expected to have a material impact on the consolidated financial statements of the Group.

3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

	2022			
	At fair value through consolidated income statement BD '000	At fair value through equity BD '000	At amortised cost / others BD '000	Total BD '000
ASSETS				
Cash and balances with banks and central bank	-	-	367,747	367,747
Placements with financial institutions	-	-	113,096	113,096
Investment in sukuk	-	228,479	608,902	837,381
Financing assets	-	-	1,986,465	1,986,465
Non-trading investments	94,871	11,925	-	106,796
Takaful and related assets	-	-	51,690	51,690
Investment in real estate	-	62,462	-	62,462
Investment in associates	-	-	254,006	254,006
Other assets	1,247	163	66,310	67,720
Goodwill and other intangible assets	-	-	51,998	51,998
	96,118	303,029	3,500,214	3,899,361
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Placements from financial institutions and customers	-	-	187,724	187,724
Customers' current accounts	-	-	550,281	550,281
Murabaha term financing	-	-	320,989	320,989
Takaful and related liabilities			91,741	91,741
Other liabilities	440	-	78,358	78,798
Equity of investment accountholders	-	-	2,332,473	2,332,473
	440	-	3,561,566	3,562,006

Notes to the Consolidated Financial Statements (continued)

31 December 2022

3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

	2021			
	At fair value through consolidated income statement	At fair value through equity	At amortised cost / others	Total
	BD '000	BD '000	BD '000	BD '000
ASSETS				
Cash and balances with banks and central bank	-	-	309,149	309,149
Placements with financial institutions	-	-	133,860	133,860
Investment in sukuk	-	639,688	-	639,688
Financing assets	-	-	1,364,452	1,364,452
Non-trading investments	91,241	350	-	91,591
Investment in real estate	-	57,961	2,943	60,904
Investment in associates	-	-	14,533	14,533
Other assets	619	192	43,612	44,423
Goodwill and other intangible assets	-	-	25,971	25,971
	91,860	698,191	1,894,520	2,684,571
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Placements from financial institutions and customers	-	-	126,891	126,891
Customers' current accounts	-	-	482,739	482,739
Murabaha term financing	-	-	100,216	100,216
Other liabilities	402	-	53,387	53,789
Equity of investment accountholders	-	-	1,624,177	1,624,177
	402	-	2,387,410	2,387,812

4 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2022	2021
	BD '000	BD '000
Mandatory reserve with Central Bank*	92,507	35,378
Cash and other balances with Central Bank	91,728	79,458
Balances with other banks**	183,512	194,313
	367,747	309,149

* This balance is not available for use in the day-to-day operations of the Group.

** This balance is net of BD 134 thousand (2021: BD 81 thousand) amount of allowance for credit losses.

5 PLACEMENTS WITH / FROM FINANCIAL INSTITUTIONS AND CUSTOMERS

These represent short-term interbank placements with and from financial institutions and customers in the form of Murabaha and Wakala contracts.

	2022	2021
	BD '000	BD '000
Placements with financial institutions		
Wakala asset	67,018	93,584
Commodity murabaha asset	46,151	40,282
Allowance for credit losses	(73)	(6)
	113,096	133,860
Placements from financial institutions and customers		
Commodity murabaha liability	187,724	126,891
	187,724	126,891

Notes to the Consolidated Financial Statements (continued)

31 December 2022

6 INVESTMENT IN SUKUK

Reclassification of Sukuk portfolio

In anticipation of the short-term and long-term liquidity needs arising from the combined banking business and the wider transaction, during the year, the Bank has re-assessed the objective of its treasury portfolio wherein it would manage the underlying assets under two distinct business models:

- Held-to-collect business model – This portfolio includes short-term and long-term Sukuk and treasury instruments that are held to meet core liquidity requirements and consist of high-quality liquid assets that are typically held to their contractual maturity. Assets under this model are classified and measured at amortised cost. Although management considers fair value information, it does so from a liquidity perspective, and the main focus of its review of financial information under this business model is on the credit quality and contractual returns.
- Both held-to-collect and for sale business model: The remaining treasury portfolio will be held under active treasury management to collect both contract cash flows and for sale. The key management personnel consider both of these activities as integral in achieving the objectives set for the Treasury business unit. This portfolio, while generating returns primarily through yield, is also held to meet expected or unexpected commitments, or to fund anticipated acquisitions or growth in other business units. Assets under this model are classified and measured at fair value through equity.

Until 31 March 2022, the Bank classified its entire Sukuk portfolio as FVTE only under a 'both held-to-collect and for sale' business model. The Board of Directors have assessed that the business combination has significantly changed the liquidity profile and strategy within the Bank and the above reclassification of the treasury portfolio best reflects the way the assets will be managed in order to meet the objectives of the new business model and information is provided to management. Due to the above change in the business model, the Bank has reclassified its treasury portfolio as at 1 April 2022 as follows:

Assets subject to reclassification	Fair value through equity (FVTE) BD '000	Reversal of amounts recognized in investment fair value reserve BD '000	Reclassified to Amortised cost BD '000
Sovereign Sukuk	437,040	(4,519)	432,521
Corporate Sukuk	12,032	(108)	11,924

In line with the requirements of FAS 33 'Investments in Sukuk, shares and similar instruments', the investment is reclassified at the reclassification date, considering as if it was always measured at amortised cost. The cumulative gain or loss previously recognized in equity is removed from equity and adjusted against the fair value of the investment at the reclassification date.

	31 December 2022		
	Sovereign Sukuk BD '000	Corporate Sukuk BD '000	Total BD '000
Carried at FVTE			
At 1 January 2022	613,403	26,285	639,688
Profit received	(6,489)	(57)	(6,546)
Reclassification to amortised cost	(437,040)	(12,032)	(449,072)
Purchases	127,313	4,055	131,368
Sale/ redemption	(82,177)	(1,884)	(84,061)
Fair value movement	(5,470)	(674)	(6,144)
Profit accrual / Dividend	3,166	80	3,246
Closing balance	212,706	15,773	228,479

This includes sukuk with carrying value of BD 76,360 thousand (2021: BD 169,634 thousand) which are pledged against murabaha term financing.

Carried at Amortised cost			
At 1 January 2022	-	-	-
Reclassification from FVTE	437,040	12,032	449,072
Reclassification of cumulative reserve	(4,519)	(108)	(4,627)
Purchases	154,835	42,271	197,106
Acquired through business combination (note 46)	18,817	-	18,817
Transfer/ redemption	(28,245)	(29,898)	(58,143)
Impairment / reversal	207	39	246
Amortisation	(531)	-	(531)
Profit accrual / Dividend	6,867	95	6,962
Closing balance	584,471	24,431	608,902

Notes to the Consolidated Financial Statements (continued)

31 December 2022

6 INVESTMENT IN SUKUK (continued)

Investment in sukuk

	2022 BD'000	2021 BD'000
Sovereign Sukuk	797,177	613,403
Corporate Sukuk	40,204	26,285
Closing balance	837,381	639,688

This includes sukuk with carrying value of BD 332,242 thousand (2021: nil) which are pledged against murabaha term financing.

Sukuk with carrying value of BD 16,182 thousand (2021: BD 6,807 thousand) are treated as equity sukuk.

The rating of corporate sukuk are as follows:

	2022 BD '000	2021 BD '000
Investment grade (AAA - BBB+)	22,712	10,756
High Yielding (Below BBB-)	840	-
Un-rated Sukuk	16,759	15,543
Allowance for credit losses	(107)	(14)
	40,204	26,285

7 FINANCING ASSETS

a. Financing assets

	2022				
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	POCI BD '000	Total BD '000
Finance lease assets (note b)	703,638	42,296	10,843	4,151	760,928
Murabaha financing	629,700	35,664	18,708	5,774	689,846
Mudaraba financing	507,456	23,699	8,555	-	539,710
Musharaka financing	14,725	14,921	276	-	29,922
Credit cards	13,075	456	1,464	-	14,995
Total financing assets	1,868,594	117,036	39,846	9,925	2,035,401
Allowance for credit losses (note 8)	(17,309)	(12,290)	(19,337)	-	(48,936)
	1,851,285	104,746	20,509	9,925	1,986,465

	2021				
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	POCI BD '000	Total BD '000
Finance lease assets	522,917	33,178	9,288	-	565,383
Murabaha financing	359,470	27,008	7,613	-	394,091
Mudaraba financing	382,005	15,525	6,264	-	403,794
Musharaka financing	32,950	-	277	-	33,227
Credit cards	3,566	34	571	-	4,171
Total financing assets	1,300,908	75,745	24,013	-	1,400,666
Allowance for credit losses (note 8)	(15,028)	(7,279)	(13,907)	-	(36,214)
	1,285,880	68,466	10,106	-	1,364,452

The POCI assets are currently carried at 55% compared to their original contractual outstanding amounts. On a cumulative basis, the impaired assets (Stage 3 and POCI) have an effective loss coverage of 55% compared to their original contractual outstanding amounts.

Murabaha financing is reported net of deferred profits of BD 71,281 thousand (2021: BD 29,007 thousand).

During the year, Group acquired financing assets of BD 456,979 thousand through business combination (note 46).

Notes to the Consolidated Financial Statements (continued)

31 December 2022

7 FINANCING ASSETS (continued)

b. Finance lease assets

This represents net investment in assets leased (land and buildings) under a finance lease arrangement with customers of the Bank. Lease documentations states that the lessor undertakes to transfer the leased assets to the lessee at the end of the lease term upon the lessee fulfilling all the obligations under the lease agreement.

	2022 BD '000	2021 BD '000
Finance lease assets	760,928	565,383
Allowance for impairment	(9,555)	(9,474)
At 31 December	751,373	555,909

The future minimum lease receivable (excluding future profits) in aggregate are as follows:

	2022 BD '000	2021 BD '000
Due within one year	83,775	54,045
Due in one to five years	147,883	129,023
Due after five years	519,715	372,841
	751,373	555,909

The accumulated depreciation / amortisation netted from finance lease assets amounted to BD 104,513 thousand (2021: BD 75,914 thousand).

8 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

The balance of allowance for credit losses in the below table includes all financial assets, finance lease assets and off-balance sheet exposures.

	2022				
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	POCI BD '000	Total BD '000
Balance at the beginning of the year	15,627	7,332	21,525	-	44,484
Changes due to receivables recognised					
in opening balance that have:					
- transferred to Stage 1: 12 month ECL	1,055	(1,050)	(5)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(1,728)	2,761	(1,033)	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(829)	(642)	1,471	-	-
Net remeasurement of loss allowance	5,549	3,926	5,721	(5,478)	9,718
Recoveries / write-backs	-	-	(749)	-	(749)
Allowance for credit losses	4,047	4,995	5,405	(5,478)	8,969
Exchange adjustments and other transfers	(1,417)	-	(3)	(73)	(1,493)
Adjustment on repayment or derecognition	-	-	-	5,551	5,551
Amounts written back during the year - net	-	-	224	-	224
Balance at the end of the year	18,257	12,327	27,151	-	57,735

Notes to the Consolidated Financial Statements (continued)

31 December 2022

8 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

	2022				
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	POCI BD '000	Total BD '000
Cash and balances with banks and central bank	134	-	-	-	134
Placements with financial institutions	73	-	-	-	73
Investment in sukuk	246	-	-	-	246
Financing assets	17,309	12,290	19,337	-	48,936
Loans and advances to customers					
- Assets under conversion	1	-	1,646	-	1,647
- Other receivables	359	12	5,855	-	6,226
Financing commitments and financial guarantee contracts	135	25	313	-	473
	18,257	12,327	27,151	-	57,735

Net impairment charge on financing assets and investment

	2022 BD '000	2021 BD '000
Net impairment charge on investment	(3,714)	(3,351)
- Day 1 expected credit loss ("ECL") on acquired portfolio	(3,000)	-
- Remeasurement of ECL	(5,969)	(9,163)
Net impairment charge on financing assets	(8,969)	(9,163)
	(12,683)	(12,514)

	2021				
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	POCI BD '000	Total BD '000
Balance at the beginning of the year	14,546	6,035	26,719	-	47,300
Changes due to receivables recognised					
in opening balance that have:					
- transferred to Stage 1: 12 month ECL	2,420	(2,365)	(55)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(449)	3,856	(3,407)	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(87)	(696)	783	-	-
Net remeasurement of loss allowance	(803)	660	10,866	-	10,723
Recoveries / write-backs	-	(158)	(1,402)	-	(1,560)
Allowance for credit losses	1,081	1,297	6,785	-	9,163
Exchange adjustments and other transfers	-	-	(18)	-	(18)
Amounts written back during the year - net	-	-	(11,961)	-	(11,961)
Balance at the end of the year	15,627	7,332	21,525	-	44,484

Notes to the Consolidated Financial Statements (continued)

31 December 2022

8 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT (continued)

	2021				
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	POCI BD '000	Total BD '000
Cash and balances with banks and central bank	81	-	-	-	81
Placements with financial institutions	6	-	-	-	6
Investment in sukuk	157	-	-	-	157
Financing assets	15,028	7,279	13,907	-	36,214
Loans and advances to customers					
- Assets under conversion	1	1	3,896	-	3,898
- Other receivables	63	-	3,443	-	3,506
Financing commitments and financial guarantee contracts	291	52	279	-	622
	15,627	7,332	21,525	-	44,484

9 NON-TRADING INVESTMENTS

	2022 BD '000	2021 BD '000
At fair value through profit or loss:		
Equity securities	86,618	90,939
Funds	8,253	302
At fair value through equity	11,925	350
Balance at the end of the year	106,796	91,591

The Group has 40% stake (2021: 40%) in Manara Developments Company B.S.C.(c) ("Manara") & Bareeq Al Retaj Real Estate Services WLL ("Bareeq"), incorporated in Bahrain and engaged in the business of property development. The investments are being fair valued through income statement using the fair value scope exemption of FAS 24. As part of restructuring, net assets of Manara will be novated to Bareeq, which is pending legal formalities.

During the year, non-trading investments of BD 19,620 thousand were assumed as part of the business combination (note 46).

10 TAKAFUL ASSETS AND LIABILITIES

	2022 BD '000
Retakaful share of outstanding claims	6,837
Retakaful share of unearned contribution	16,275
Takaful and other receivables	28,578
Takaful assets	51,690
Outstanding claims	23,600
Unearned contributions and other reserves	39,614
Unearned commission	636
Takaful and other payable	27,891
Takaful liabilities	91,741

Notes to the Consolidated Financial Statements (continued)

31 December 2022

10 TAKAFUL ASSETS AND LIABILITIES (continued)

Movement in Retakaful share of outstanding claims

	Gross BD '000	Reinsurance BD '000	Net BD '000
Reported claims	15,769	(6,410)	9,359
Incurred But Not Reported (IBNR)	9,577	(1,120)	8,457
At 1 July 2022	25,345	(7,531)	17,814
Change in liabilities	(1,795)	694	(1,101)
At 31 December 2022	23,550	(6,837)	16,713
Reported claims	15,115	(5,725)	9,390
IBNR	8,436	(1,112)	7,324
At 31 December 2022	23,550	(6,837)	16,713

Movement in Retakaful, share of unearned contribution

	Gross BD '000	Reinsurance BD '000	Net BD '000
At 1 January 2022	39,983	(15,727)	24,256
Net movement	(368)	(548)	(916)
At 31 December 2022	39,614	(16,275)	23,339

Takaful related receivables

	2022 BD '000
Outstanding claims – Gross	23,550
Unearned contributions, commission and other reserves	39,614

11 INVESTMENT IN REAL ESTATE

	2022 BD '000	2021 BD '000
Land	60,124	57,351
Buildings	2,338	610
Development properties	-	2,943
	62,462	60,904

The movements in investment properties classified in Level 3 of the fair value hierarchy are as follows:

	Fair value measurement using significant unobservable inputs Level 3	
	2022 BD '000	2021 BD '000
At 1 January	57,961	67,586
Fair value changes through income statement	(200)	(109)
Additions from acquisition of Subsidiary (Refer note 46)	5,982	-
Additions during the year*	-	2,669
Disposals during the year	(1,281)	(12,136)
Others	-	(49)
At 31 December	62,462	57,961

* Additions of investment properties during the year resulted from the Bank obtaining possession of properties held as collateral against financing.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

11 INVESTMENT IN REAL ESTATE (continued)

The fair value of the investment properties are derived based on the valuations carried out by independent external valuers using adjusted comparable method.

For sensitivity analysis of the investment properties, an increase of 5% in value of properties will impact equity by BD 787 thousand (2021: BD 533 thousand) and decrease of 5% in value of properties will impact income statement by BD 405 thousand (2021: BD 127 thousand).

Development properties represent properties acquired and held through investment vehicles exclusively for development and sale in the United Kingdom. The carrying amount include land price and related construction costs. The subject investment has been exited during the year.

12 INVESTMENT IN ASSOCIATES, NET

The Group has a 37.43% (2021: 14.42%) stake in Al Salam Bank Algeria ("ASBA"), an Islamic commercial bank incorporated in Algeria. During the year, the Bank has recognised additional equity stake in ASBA, after obtaining necessary regulatory and legal approval.

The Group has a 20.94% (2021: 20.94%) stake in Gulf African Bank ("GAB"), an Islamic commercial bank incorporated as the first Islamic bank in Kenya on August 2006, licensed by the Central Bank of Kenya.

Further, during the year, as part of its acquisition of the retail business of Ithmaar Holding (refer note 1), the Group acquired economic interests in a sharia compliant financing arrangement provided to FINCORP W.L.L (formerly Al Salam International W.L.L. ("ASI")), who is the holder of 26.19% stake in Bank of Bahrain and Kuwait B.S.C. ("BBK"), a retail bank incorporated in Bahrain and licensed by the Central Bank of Bahrain (note 46). FINCORP W.L.L's investment in BBK forms part of a security package assigned to the Bank under a shariah compliant financing structure. The Bank or its investment accountholders do not directly participate in the underlying business activities of FINCORP W.L.L and are not legal owners of its underlying assets. The returns generated by the Bank are to the extent of the profit and the respective repayment, if any, generated from the sharia compliant financing arrangement only. As per the requirements of the financial accounting standards, the effective economic interest of this arrangement is recognized in these financial statements.

The Group applies the equity method for measuring these associates in the consolidated financial statements. The Group uses the most recent available financial statements of the associates in applying the equity method of accounting. In general, for listed and overseas associates that do not prepare financials under the same reporting framework, the Bank uses reported results of associates of the previous quarter for the purpose of its equity accounting.

	2022 BD '000	2021 BD '000
Balance at the beginning of the year	14,533	12,036
Acquisitions during the year (Refer note 46)	217,820	-
Additional stake acquired during the year	19,897	-
Share of profits	9,329	2,697
Share of other changes is equity	(7,412)	-
Foreign exchange differences	(161)	(200)
Balance at end of the year	254,006	14,533

The following table summarises financial information of the Group's material investment in associates as reported by the respective associates, adjusted for fair value adjustments on acquisition and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interests.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

12 INVESTMENT IN ASSOCIATES, NET (continued)

Financial information as of 30 September 2022	Indirect exposure BBK BD '000
Group's holding	26.19%
Total assets	3,823,947
Total liabilities	3,242,400
Net assets (100%)	581,547
Group's share of recognised net assets	152,307
Acquisition accounting related adjustments	65,202
Carrying amount of interest in associate	217,509
	BBK BD '000
Revenue	97,600
Profit (100%)	28,179
Other change in equity (comprehensive income)	(28,300)
Total comprehensive income (100%)	41,121
Group's share of profits	7,380
Groups share of other changes in equity	-

The market value of listed associates stood at BD 215.8 million as at 31 December 2022. The values for disclosure purposes were determined using market value per share and were not adjusted for any block holdings or unit of account related adjustments.

For other associates based on the summarized financial statements the revenue, profit and Group's share of profit were BD 21,068 thousand, BD 9,831 thousand and BD 1,949 thousand, respectively.

13 OTHER ASSETS

	2022 BD '000	2021 BD '000
Assets under conversion (a)		
Loans and advances to customers	234	1,396
Non-trading investments - fair value through equity (b)	163	192
	397	1,588
Other receivables and advances (c)	36,344	32,186
Prepayments	11,616	1,682
Premises and equipment including right of use assets	19,363	3,609
Assets held- for- sale (d)	-	5,358
	67,720	44,423

(a) These represent non-Shari'a compliant assets resulting from the acquisition of ASBS, BMI B.S.C. (c) and Bahraini Saudi Bank B.S.C. Income derived from these assets are transferred to charity payable and as such are not recognised as revenue in the consolidated income statement. During the year, Shari'a prohibited income amounting to BD 450 thousand (2021: BD 291 thousand) has been transferred to charity, which has been included under "Accounts payable and accruals" (note 16).

(b) The above fair value through equity investments are classified as Level 3 in the fair value hierarchy. Movements in fair value through equity investments are as follows:

	Fair value measurement using significant unobservable inputs Level 3	
	2022 BD '000	2021 BD '000
At 1 January	192	900
Sales during the year	-	(708)
Write down during the year	(29)	-
At 31 December	163	192

Notes to the Consolidated Financial Statements (continued)

31 December 2022

13 OTHER ASSETS (continued)

Loans and advances to customers - Assets under conversion

	2022			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Loans and advances to customers	154	-	1,727	1,881
Allowance for credit losses (note 8)	(1)	-	(1,646)	(1,647)
	153	-	81	234

	2021			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Loans and advances to customers	427	138	4,729	5,294
Allowance for credit losses (note 8)	(1)	(1)	(3,896)	(3,898)
	426	137	833	1,396

(c) Includes advances towards investment of BD 5,249 thousand (2021: BD 14,647 thousand).

(d) During the year, the Group has sold and exited in full from its investment in subsidiary ASB Biodiesel (Hong Kong) Limited.

14 GOODWILL AND OTHER INTANGIBLE ASSETS

On 7 July 2022, the Group completed acquisition of portfolio of assets from Ithmaar holding BSC, as result of this transaction BD 19,105 thousand was recognized as intangible assets. Refer note 46.

In 30 March 2014, the Bank acquired 100% of the paid-up capital of BMI. Goodwill of BD 25,971 thousand (2021: BD 25,971 thousand) arose from the business combination and is associated with the banking segment of the Group.

The recoverable amount of goodwill is based on value-in-use, calculated through cash flow projections from financial forecasts approved by the Board of Directors extrapolated for three years projection to arrive at the terminal value. A steady growth rate of 1% and discount rate of 14.4% is applied to the estimated cash flows.

The bank assesses, on annual basis, whether there is an indication, based on either internal or external source of information, that the goodwill may be impaired in accordance to IAS 36 ('impairment of non-financial assets'). As of 31 December 2022, there are no indication of impairment of the CGU associated with the goodwill.

A sensitivity analysis was conducted to assess the impact of recoverable amount as compared to the carrying value of the CGU. Two variable factors are considered in the analysis, an increase of discount rate by 1% and a reduction of earnings by 0.5%, the recoverable amount is greater than the carrying value of goodwill in the sensitivity analysis and did not result in any impairment.

Particulars	Goodwill BD '000	Core deposits BD '000	Customer Relationship BD '000	Total BD '000
Opening balance	25,971	-	-	25,971
Acquired during the year	7,558	15,390	3,715	26,663
Amortised during the year	-	(512)	(124)	(636)
Total	33,529	14,878	3,591	51,998

15 MURABAHA TERM FINANCING

These represent short-term to long-term financings obtained from various financial institutions and are collateralised by corporate and sovereign sukuk with total carrying value BD 408,602 thousand (2021: BD 169,634 thousand).

Notes to the Consolidated Financial Statements (continued)

31 December 2022

16 OTHER LIABILITIES

	2022 BD '000	2021 BD '000
Accounts payable	36,854	17,419
Accrued expenses	21,436	11,313
Manager cheques	5,696	5,154
LC margin deposit	8,898	12,643
Project payables	2,817	69
End of service benefits and other employee related accruals	2,624	2,088
Allowance for credit losses relating to financing commitments and financial guarantee contracts	473	622
Liabilities held- for- sale (a)	-	4,481
	78,798	53,789

(a) During the year, the Group has sold and exited in full from its investment in subsidiary ASB Biodiesel (Hong Kong) Limited.

17 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH)

Equity of investment accountholders comprise:

	2022 BD '000	2021 BD '000
Wakala from financial institutions	319,339	299,607
Wakala and Mudaraba from customers	2,013,134	1,324,570
The Group utilizes the funds from EIAH to finance assets.	2,332,473	1,624,177

The assets in which EIAH funds are invested are as follows:

Assets	2022 BD '000	2021 BD '000
Mandatory reserve with central bank	92,507	35,378
Cash and other balances with central bank	40,693	154,025
Investment in associate	217,509	-
Placements with financial institutions	113,170	133,866
Financing assets	1,868,594	1,300,908
	2,332,473	1,624,177

Equity of investment accountholder's fund is commingled with Group's mudaraba and wakala funds to form one general mudaraba pool. The pooled fund are used to fund and invest in income generating assets including investments in Banking associate, 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 up to 85% is retained by the Group as mudarib share. During the year, the Bank has sacrificed portion of its share of mudarib, in order to maintain a competitive profit distribution to the EIAH. The Group did not charge any administration expenses to investment account holders. The average profit rate attributed to the equity of investment accountholders based on the above ratio for the year ended 31 December 2022 was 2.4% (2021: 2.47%).

Notes to the Consolidated Financial Statements (continued)

31 December 2022

18 SHARE CAPITAL

	2022 BD '000	2021 BD '000
Authorised:		
5,000,000,000 ordinary shares (2021: 2,500,000,000 shares) of BD 0.100 each	500,000	250,000
Issued and fully paid: (BD 0.100 per share)		
Number of shares 2,492,314,429 (2021: 2,419,722,746)	249,231	241,972

Names and nationalities of the major shareholders and the number of equity shares held in which they have an profit of 5% or more of outstanding share as of 31 December 2022 is as follows:

Investor Name	Nationality	No. of Shares	% of the outstanding shares
Bank Muscat (S.A.O.G.)	Omani	367,275,880	14.74
Overseas Investment S.P.C.	Bahraini	238,360,460	9.56
Sayacorp B.S.C (c)	Bahraini	156,440,101	6.28

A distribution schedule of equity shares, setting out the number of holders and the percentages as of 31 December 2022 is presented below:

Categories	No. of Shares	No. of the shareholders	% of the outstanding shares
Less than 1%	965,938,470	22,910	38.75
1% up to less than 5%	619,299,518	9	24.85
5% up to less than 10%	539,800,561	3	21.66
10% up to less than 20%	367,275,880	1	14.74
Total	2,492,314,429	22,923	100

18.1 Appropriation

The Board of Directors proposed a cash dividend of 5 fils per share or 5% (2021: 4%) of the par value of BD 0.100 per share excluding treasury shares and 5% of the paid up capital to be paid by issue of bonus shares (1 share for every 20 shares held). This amounts to BD 24,820 thousand (2021: BD 16,353 thousand).

18.2. This represents partial transfer of share premium and statutory reserves balances to retained earnings in order to offset accumulated losses during 2021.

18.3. Treasury shares

Total number of treasury shares outstanding as of 31 December 2022 was 145,000,000 shares (2021: 146,300,000 shares).

These include 124,615,721 shares granted to employees under a long-term incentive plan that are subject to future service and performance conditions (Refer note 27).

19 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital of the Bank. The reserve is not distributable except in such circumstances as stipulated in the Commercial Companies Law and approval of the CBB. Refer note 18.2 on utilisation of statutory reserve.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

20 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year. There were no dilutive instruments issued by the Bank.

	2022	2021
Net profit attributable to Shareholders of the Bank (BD '000)	31,593	21,367
Weighted average number of shares (thousand)	2,346,473	2,427,756
Basic and diluted earnings per share (fils)	13.5	8.8

21 FINANCE INCOME

	2022 BD '000	2021 BD '000
Murabaha financing	28,614	19,305
Mudaraba financing	25,086	23,386
Finance lease income, net*	36,469	30,359
Musharaka	1,867	1,994
Placements with financial institutions	3,122	1,313
	95,158	76,357

* Finance lease income is net of depreciation of BD 17,415 thousand (2021: BD 32,109 thousand).

22 INCOME FROM NON-TRADING INVESTMENTS, NET

	2022 BD '000	2021 BD '000
Fair value changes on investments	(729)	(46)
Dividend income	213	70
Gain on acquisition and other investment, net	3,236	346
	2,720	370

23 (LOSS) / INCOME FROM PROPERTIES, NET

	2022 BD '000	2021 BD '000
(Loss) / Gain on sale of investment properties	(22)	165
Fair value loss on investment properties	(200)	(109)
	(222)	56

24 FEES AND COMMISSION, NET

	2022 BD '000	2021 BD '000
Transaction related fees and income	2,728	2,237
Arrangement fees	1,727	1,524
LC and LG commission	1,206	1,318
Card income and others	2,167	2,302
	7,828	7,381

Notes to the Consolidated Financial Statements (continued)

31 December 2022

25 INCOME FROM TAKAFUL OPERATIONS, NET

	1 July to 31 December 2022 BD '000
Net premium earned	20,782
Net commission earned	1,147
	21,929
Less: Net claims incurred	(14,398)
Less: General and administrative expenses – Takaful operations	(3,758)
Income from Takaful operations, net	3,773

26 OTHER INCOME

	2022 BD '000	2021 BD '000
Recoveries	2,330	946
Foreign exchange (loss) / gain	(482)	144
Others	176	(628)
	2,024	462

27 STAFF COST

	2022 BD '000	2021 BD '000
Salaries and short term benefits	21,748	15,638
Employees' social insurance expenses	1,727	1,289
Other staff expenses	89	106
	23,564	17,033

During the year, under the future performance awards structure of the Bank, an LTIP scheme was introduced where the employees are compensated in form of shares as a percentage on achievement of certain pre-determined performance conditions. The LTIP sets performance and service conditions and has a rateable vesting schedule over a period of five years. Accelerated vesting may occur on exceeding performance conditions leading to true up of share- based payment charges. The issue price is determined based on a defined adjustment to market price on the date of the award. The LTIP shares include financing features and are entitled to dividends, if any, released along with the vested shares.

28 OTHER OPERATING EXPENSES

	2022 BD '000	2021 BD '000
Business related expenses	5,119	5,186
Information Technology expenses	2,864	2,253
Professional expenses	2,261	1,687
Board of directors related expenses	1,372	1,307
Other expenses	11,183	2,384
	22,799	12,817

Notes to the Consolidated Financial Statements (continued)

31 December 2022

29 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, Directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership with that of the Bank. The transactions with these parties were approved by the Board of Directors.

The balances with related parties at 31 December 2022 and 31 December 2021 were as follows:

	2022				
	Associates and joint ventures BD '000	Major shareholders BD '000	Directors and related entities BD '000	Senior management BD '000	Total BD '000
Assets:					
Cash and balances with banks and central bank	-	120	-	-	120
Financing assets	19,279	8,371	2,079	1,681	31,410
Non-trading investments	71,639	-	-	-	71,639
Investment in associates	254,006	-	-	-	254,006
Other assets	6,789	-	-	-	6,789
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	1,240	-	-	1,240
Customers' current accounts	2,907	2,208	3,466	865	9,446
Equity of investment accountholders	300	4,913	7,119	2,917	15,249
Other liabilities	19	-	27	12	58
Contingent liabilities and commitments	-	-	148	-	148

	2021				
	Associates, and joint ventures BD '000	Major shareholders BD '000	Directors and related entities BD '000	Senior management BD '000	Total BD '000
Assets:					
Cash and balances with banks and central bank	-	76	-	-	76
Financing assets	12,828	7,413	3,166	1,618	25,025
Non trading investments	74,352	-	612	-	74,964
Investment in associates	14,533	-	-	-	14,533
Other assets	16,187	-	-	-	16,187
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	6,400	-	-	6,400
Customers' current accounts	2,150	978	2,776	707	6,611
Equity of investment accountholders	4,459	12,660	12,978	2,498	32,595
Other liabilities	10	-	26	8	44
Contingent liabilities and commitments	-	-	151	-	151

Notes to the Consolidated Financial Statements (continued)

31 December 2022

29 RELATED PARTY TRANSACTIONS (continued)

Income and expenses in respect of related parties included in the consolidated income statement are as follows:

	2022				
	Associates and joint ventures BD '000	Major shareholders BD '000	Directors and related entities BD '000	Senior management BD '000	Total BD '000
Income:					
Finance income	1,066	378	177	190	1,811
Fees and commission, net	18	63	9	8	98
Provision (charge) / release for investments & PPE	(2,713)	-	(612)	-	(3,325)
Loss from properties, net	-	-	-	(12)	(12)
Share of profit from associates	9,329	-	-	-	9,329
Expenses:					
Finance expense on placements from financial institutions	-	147	-	-	147
Share of profits on equity of investment accountholders	13	267	253	65	598
Other operating expenses	-	-	1,320	-	1,320

	2021				
	Associates and joint ventures BD '000	Major shareholders BD '000	Directors and related entities BD '000	Senior management BD '000	Total BD '000
Income:					
Finance income	927	217	198	77	1,419
Fees and commission, net	31	49	12	10	102
Provision (charge) / release for investments & PPE	(2,010)	-	(612)	-	(2,622)
Loss from properties, net	-	-	-	-	-
Share of profit from associates	2,697	-	-	-	2,697
Expenses:					
Finance expense on placements from financial institutions	-	232	-	-	232
Share of profits on equity of investment accountholders	140	109	237	66	552
Other operating expenses	-	-	1,215	-	1,215

Key management personnel compensation

Board of Directors' remuneration for the year 2022 amounted to BD 780 thousand (2021: BD 690 thousand) and sitting fees for the year 2022 amounted to BD 498 thousand (2021: BD 478 thousand).

Sharia Supervisory Boards' remuneration for the year 2022 amounted to BD 52 thousand (2021: BD 44 thousand).

Key management personnel of the Bank comprise key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. Compensation of key management personnel for the year 2022 includes salaries and other benefits of BD 4,427 thousand (2021: BD 3,090 thousand).

Notes to the Consolidated Financial Statements (continued)

31 December 2022

30 CONTINGENT LIABILITIES AND COMMITMENTS

	2022 BD '000	2021 BD '000
Contingent liabilities on behalf of customers		
Guarantees	60,217	44,749
Letters of credit	12,611	13,117
Acceptances	1,254	1,862
	74,082	59,728
Unutilised commitments		
Unutilised financing commitments	196,652	121,501
Unutilised non-funded commitments	4,912	7,384
	201,564	128,885

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

31 WA'AD BASED FX TRANSACTIONS FOR RISK MANAGEMENT

The Group entered into Wa'ad based FX transactions to manage its exposures to foreign currency risk. The fair values of FX Wa'ad instruments is as follows;

	2022		2021	
	Notional Amount BD '000	Fair Value BD '000	Notional Amount BD '000	Fair Value BD '000
FX Wa'ad instruments				
Assets position	62,926	1,247	57,163	619
Liabilities position	14,509	440	19,488	402

32 RISK MANAGEMENT

32.1 Introduction - Risk management of Banking operations

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk appetite limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, operational risk, information security risk and market risk. It is also subject to early settlement risk.

The Group's risk function is independent of lines of business and the Chief Risk Officer reports to the Audit and Risk Committee with access to the Group Chief Executive Officer.

The independent risk control process does not include business risks such as changes in the environment, technology and industry as they are monitored through the Group's strategic planning process.

Board of Directors

The Board of Directors is responsible for setting the overall risk management framework and appetite encompassing the risk strategies and policies.

Shari'a Supervisory Board

The Group's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

Credit Risk Committee

Risk Committee exercises its authority to review and approve proposals within its delegated limits. The Committee recommends the risk policies and framework to the Board. The Committee has a primary role in selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to the Board, Board Committees, Regulators and Executive Management. The Committee discharges its authority after adequate due diligence.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

32 RISK MANAGEMENT (continued)

Asset and Liability Committee

The Asset and Liability Committee (ALCO) establishes policy and objectives for the asset and liability management of the Group's financial position in terms of ICAAP, Stress Testing, Step-in Risk, Recovery Plan, Risk and Return and its impact on profitability. It also monitors the cash flow, tenor and cost / yield profiles of assets and liabilities and evaluates the Group's financial position both from profit rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions.

Operational Risk Committee

The Operational Risk Committee establishes the Bank's Operational Risk Policies which must be consistent with the corporate values and strategy of the Bank. The Committee shall be responsible for the design, implementation and supervision of the Operational Risk framework of the Bank.

Information Security Committee

Information Security Committee is an advisory committee appointed by the Management Executive Committee of the Bank to develop, review and execute a comprehensive Information Security Management System for the Bank. The Committee will regularly review the information security risk exposure of the Bank.

Audit and Risk Committee

The Audit and Risk Committee is appointed by the Board of Directors who are non-executive directors of the Group. The Audit and Risk Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, reviewing and monitoring the overall risk framework and profile of the Group as well as its adherence to stipulated policies and limits, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

The Audit and Risk Committee reviews Group's accounting and financial practices, risk management reports, integrity of the Group's financial and internal controls and consolidated financial statements. It also reviews the Group's compliance with legal requirements, recommends the appointment, compensation and oversight of the Group's external and internal auditors. The Committee has the responsibility to review and recommend to the Board for approval the overall risk process and policies within the Bank.

Internal Audit

Risk management processes throughout the Group are audited by the internal audit function that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit and Risk Committee.

Risk measurement and reporting systems

The Group's risk management policies aim to identify, measure, analyse and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. The Group's risk management department is also responsible for identifying risk characteristics inherent in new and existing products, activities and setting exposure limits to mitigate these risks.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across respective risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Audit and Risk Committee, Credit Risk Management Committee, Operational Risk Management Committee, Information Security Committee and ALCO, whenever required. The reports include aggregate credit quality and exposures, market risk exposures, operational risk metrics, Information Security updates, limit exceptions, liquidity ratios, stress testing, and risk profile changes. A detailed report is produced on a quarterly basis with simplified reports produced on a monthly basis. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Audit and Risk Committee of the Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. Briefing is given to all relevant members of the Group on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

32 RISK MANAGEMENT (continued)

32.1 Introduction - Risk management of Banking operations (continued)

Risk measurement and reporting systems (continued)

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 maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

32.2 Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposures by entering into collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of the exposure.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of customer. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Each exposure is allocated to a credit risk grade at initial recognition based on available information about the customer. Exposures are subject to ongoing monitoring which may result in an exposure being moved to a different credit risk grade.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown net of provision, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2022 BD '000	Gross maximum exposure 2021 BD '000
ASSETS		
Balances with other banks	**183,646**	194,394
Placements with financial institutions	**113,169**	133,866
Corporate Sukuk	**40,311**	26,299
Financing assets	**2,035,401**	1,400,666
Financing contracts under other assets	**1,881**	5,294
Total	**2,374,408**	1,760,519
Contingent liabilities and commitments	**275,646**	188,613
Total credit risk exposure	**2,650,054**	1,949,132

Where financial contracts are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Type of credit risk

Various contracts entered into by the Group comprise Murabaha financing, Mudaraba financing, Musharaka, Credit card receivables, Corporate Sukuk and finance lease contracts. Murabaha contracts cover financing of land, buildings, commodities, motor vehicles and others non-financial assets. Mudaraba financing consist of financing transactions entered through other Islamic banks and financial institutions. Mudaraba is a partnership agreement in which the Islamic bank acts as the provider of funds (the Rabalmal) while the recipient of the funds (the Mudarib or the manager) provides the professional, managerial and technical know-how towards carrying out the venture, trade or service with an aim of earning profit.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

Type of credit risk (continued)

The Group follows an internal rating mechanism for grading relationships for financial assets. All financial assets are assigned a rating in accordance with the defined criteria. The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 7 denoting performing grades and 8 to 10 denoting non-performing grades. Ratings 1 to 4 represent good credit grade, 5 to 7 represents a satisfactory credit grade and 8 to 10 represents default grade.

For externally rated exposures, credit risk ratings of an authorised Credit Rating Agency such as S&P, etc, are converted into internal ratings which are calibrated with the risk appetite of the Bank. Conversion of an external credit risk rating to an internal risk rating is done to ensure consistency across publicly rated and unrated entities.

The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group.

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective profit rate of the financial asset.

The key parameters into the measurement of ECL are the following variables:

- Probability of Default (PD);
- Loss Given Default (LGD); and
- Exposure At Default (EAD).

These parameters are generally derived from internally developed models, historical and projected data. These are further adjusted to reflect forward-looking scenarios as described below.

Definition of default

The Group considers a financial asset to be in default when the customer is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as liquidating collateral; or the customer is past due more than 90 days on any credit obligation to the Group. In assessing whether a customer is in default, the Group considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Group.

Probability of default

PDs estimates are estimated at a certain date, which are calculated based on the Bank's default experience, and assessed using rating tools tailored to the segment of counterparties and exposures. These estimations are based on internally compiled data comprising both quantitative and qualitative factors. In case of lack of default history, market data may also be used to derive the PD for selected segment of counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

Generating the term structure PD

Credit risk grades are a primary parameters into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio. The Group employs credit risk estimation models for analysing the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time.

Incorporation of forward - looking information

The Group uses industry recognized models to estimate impact of macro-economic factors on historical observed default rates. In case the results of forecasted PDs are significantly different from the expected default rates that may be observed for the forecasted economic conditions, conservative and discretionary overlays shall be used by the management after analyzing the portfolio and impact. The key macro-economic indicators include gross domestic product (GDP) growth and oil prices. The key macro-economic indicators include gross domestic product (GDP) growth and oil prices.

Incorporating forward-looking information requires continuous assessment as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed yearly.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

Loss Given Default

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors. The LGD is estimated using below factors:

Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing accounts.

Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.

In case of non-availability of recovery data, the Bank uses LGD estimate based on market practice.

Discounting Rate: Defined as the opportunity cost of the recovery value not being realized on the day of default adjusted for time value. Where the Group does not have stable or adequate internal loss or recovery experience, an expert judgement measure using market benchmarks as inputs is considered.

Exposure At Default

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty. The EAD of a financial asset is its gross carrying amount. For financing commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Significant Increase in Credit Risk

A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument. In the measurement of ECL, judgement is involved in setting the rules and trigger points to determine whether there has been a SICR since initial recognition of a financing facility, which would result in the financial asset moving from 'stage 1' to 'stage 2'.

When determining whether the risk of default on financial contracts has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment including forward-looking information.

The criteria for determining whether credit risk has increased significantly vary on a portfolio level and include quantitative and qualitative factors, including days past due, restructured status and relative migration in risk rating. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk grade deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 4 and 5.

The Group continues to assess customer for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of Covid-19 or longer term.

During the year, in accordance with CBB instructions the Group has granted payment holidays to its eligible/impacted customers by deferring up to six months instalments (2021: deferrals up to twelve months). These deferrals are considered as market-wide short-term liquidity relief to address customer cash flow issues and not necessarily indicative of deterioration in credit risk. The Group believes that the extension of these payment reliefs does not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist customer affected by the Covid-19 outbreak to resume regular payments. Accordingly, the Group has made risk based assessments on the affected portfolio to determine a range of possible outcomes for its ECL determination process.

Management overlays are applied to the model outputs consistent with the objective of identifying a significant increase in credit risk.

Renegotiated financial assets

The contractual terms of a financing may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in a derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

Renegotiated financial assets (continued)

The Group renegotiates financing to customers in financial difficulties to maximize collection opportunities and minimize the risk of default. This may involve extending the payment arrangements and documenting the agreement of new conditions for providing finance. Management continuously reviews renegotiated facilities to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are performing prior to restructuring but restructured due to financial difficulty are categorised under stage 2. The accounts that are non-performing or meet any criteria for classifying as non-performing (prior to restructuring), then such restructured accounts are categorized under stage 3.

The Group believes that the extension of payment holidays due to COVID-19 related concessionary measures of CBB did not automatically trigger a SICR and a stage migration for the purposes of calculating ECL.

Backward transition

FAS 30 staging model is of symmetrical nature as exposures may migrate from lifetime ECL measurement (Stage 2 and Stage 3) to 12 month ECL measurement (Stage 1). However, movement across stages are not immediate once SICR indicators are no longer triggered. Once such indicators are no longer triggered, movement back to Stage 1 or Stage 2 has to be calibrated and cannot be automatic or immediate. Certain criteria like cooling off year, SICR indicators and payment history are considered for migrating customers to Stage 2 or Stage 1.

Credit Conversion Factor

The estimation of EAD takes into account any unexpected changes in the exposure after the assessment date, including expected drawdowns on committed facilities through the application of a credit conversion factor (CCF). The EAD is estimated using the outstanding exposure adjusted by CCF times for undrawn portion of the facilities.

The outstanding exposure is calculated as principal plus profit less expected prepayments. The undrawn portion refers to the portion of the unutilized credit limit. CCF applied to the facilities would be the higher of average behavioral utilization over the last five years or the CCF considered for capital charge.

The Bank applies regulatory CCF as defined by the Central Bank of Bahrain.

Expected credit Losses

During 2021, The economic uncertainties caused by COVID-19, required the Group to update the inputs and assumptions used for the determination of expected credit losses ("ECLs") considering that the regulatory has relaxed the concessions from 30 Jun 2022 onwards, accordingly the assumption were updated for the year of 31 December 2022. ECLs were estimated based on a range of forecast economic conditions as at that date the Group has considered the impact of volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

The following table summarizes the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs during the current year.

Key model inputs	Model assumptions
Probability of default (PD's)	Point-in-time PD's updated using latest available macro-economic forecasts by using historical correlation to Volume of imports of goods and services; Inflation average consumer prices; Domestic credit growth (%); Unemployment rate and Gross national savings as percentage of GDP
Probability weighted outcomes	Probability weights - Base 65, Stressed 25, Improved 10
Loss Given Default (LGD)	Unsecured LGD is 65% and it is consistent with those used in 2021.

The Group had also stressed financing exposures with regards to specific industries which were expected to be most impacted due to Covid-19 and considered for ECL in its probability weighted scenarios. However, the staging of these exposures reported in the tables below reflect their account position on the reporting date. The Group continues to individually assess significant corporate exposures to adequately safeguard against any adverse movements due to Covid-19.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

Expected credit Losses (continued)

The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio and expert judgement has also been applied in this process. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

Judgement is involved in determining which forward looking information variables are relevant for particular financing portfolios and for determining the sensitivity of the parameters to movements in these forward-looking variables. As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

a) The credit quality of balances with banks and placements with financial institutions subject to credit risk is as follows:

	2022			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	238,035	-	-	238,035
Satisfactory (R5-R7)	58,780	-	-	58,780
Allowance for credit losses	(207)	-	-	(207)
	296,608	-	-	296,608

	2021			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	230,380	-	-	230,380
Satisfactory (R5-R7)	97,880	-	-	97,880
Allowance for credit losses	(87)	-	-	(87)
	328,173	-	-	328,173

b) The following tables sets out information about the credit quality of financial assets. For financing commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed.

i) Corporate Sukuk

	2022			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	26,876	-	-	26,876
Satisfactory (R5-R7)	13,435	-	-	13,435
Allowance for credit losses	(107)	-	-	(107)
	40,204	-	-	40,204

	2021			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	10,759	-	-	10,759
Satisfactory (R5-R7)	15,540	-	-	15,540
Allowance for credit losses	(14)	-	-	(14)
	26,285	-	-	26,285

Notes to the Consolidated Financial Statements (continued)

31 December 2022

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

ii) Financing assets

	2022			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	1,804,731	38,538	-	1,843,269
Satisfactory (R5-R7)	63,863	78,498	-	142,361
Default (D8-D10)	-	-	49,771	49,771
Allowance for credit losses and impairment	(17,309)	(12,290)	(19,337)	(48,936)
	1,851,285	104,746	30,434	1,986,465

	2021			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	1,223,636	37,622	-	1,261,258
Satisfactory (R5-R7)	77,272	38,123	-	115,395
Default (D8-D10)	-	-	24,013	24,013
Allowance for credit losses and impairment	(15,028)	(7,279)	(13,907)	(36,214)
	1,285,880	68,466	10,106	1,364,452

As 31 December 2022, profit in suspense amounted to BD 43,333 thousand (2021: 41,799 thousand).

iv) Financial contracts under other assets

	2022			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	154	-	-	154
Satisfactory (R5-R7)	-	-	-	-
Default (D8-D10)	-	-	1,727	1,727
Allowance for credit losses	(1)	-	(1,646)	(1,647)
	153	-	81	234

	2021			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	407	138	-	545
Satisfactory (R5-R7)	20	-	-	20
Default (D8-D10)	-	-	4,729	4,729
Allowance for credit losses	(1)	(1)	(3,896)	(3,898)
	426	137	833	1,396

Notes to the Consolidated Financial Statements (continued)

31 December 2022

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

v) Financing commitments and financial guarantee contracts

	2022			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	262,631	7,192	752	270,575
Satisfactory (R5-R7)	260	2,713	2,098	5,071
Default (D8-D10)	-	-	-	-
Allowance for credit losses	(135)	(25)	(313)	(473)
	262,756	9,880	2,537	275,173

	2021			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	169,063	1	-	169,064
Satisfactory (R5-R7)	14,910	1,946	-	16,856
Default (D8-D10)	-	-	2,693	2,693
Allowance for credit losses	(291)	(52)	(279)	(622)
	183,682	1,895	2,414	187,991

The aging analysis of Financing Assets:

	2022			
	Stage 1 BD '000	Stage 2 BD '000	Stage 3 / POCI BD '000	Total BD '000
Current	1,744,892	92,147	16,520	1,853,559
< 30 days	122,667	3,773	1,796	128,236
30 to 90 Days	1,189	21,116	28,710	51,015
> 90 days	-	-	4,472	4,472
	1,868,748	117,036	51,498	2,037,282

	2021			
	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000
Current	1,261,656	73,462	1,938	1,337,056
< 30 days	36,336	542	-	36,878
30 to 90 Days	3,343	1,879	111	5,333
> 90 days	-	-	26,693	26,693
	1,301,335	75,883	28,742	1,405,960

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the consolidated statement of financial position plus commitments to customers disclosed in note 30 except capital commitments.

During the year BD 25,630 thousand (2021: BD 41,889 thousand) of financing facilities were renegotiated. Most of the renegotiated facilities are performing and are secured.

Write-off policy

The Group writes off an asset/security balance (net of any related allowances for impairment losses) when it determines that the asset/security are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that they can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the year, the Group has written back net financing facilities amounting to BD 224 thousand (2021: BD 11,961 thousand) which were fully impaired.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

32 RISK MANAGEMENT (continued)

32.2 Credit risk (continued)

Collateral held and other credit enhancements

The Group accepts the following type of collateral, as defined in CBB rule book. The collateral can be in Bahraini Dinars or other Foreign Currencies-in such cases, haircut as appropriate as per the credit risk policy shall be effected.

- Cash Margin and deposits
- Sukuk-Long Term – rated & unrated
- Equities listed and not listed in main index
- Units in collective investment schemes
- Other physical assets including real estate

The Group holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	Principal type ofcollateral held	2022 BD '000	2021 BD '000
Financing assets to corporates	Cash, Property, Shares and Sukuk	1,380,953	986,300
Financing assets to retail customers	Cash, Property, Shares and Sukuk	1,181,410	785,478

FTV ratio

Financing to value (FTV) is calculated as the ratio of the gross amount of the financing or the amount committed for financing commitments to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

	2022 BD '000	2021 BD '000
Less than 50%	990,692	613,792
51-70%	229,424	165,835
71-90%	273,392	217,989
91-100%	160,682	118,983
More than 100%	383,092	289,361
	2,037,282	1,405,960

Key drivers of credit risk and credit losses

Credit risk arises from all transactions that give rise to actual, contingent or potential claims against any counterparty, obligor or client (which is referred to collectively as "counterparties"). This is the most frequent and substantial risk faced by any financing Bank.

Credit risk may have the following consequences leading to credit losses:

- Delayed fulfilment of a payment obligation
- Partial loss of the credit exposure
- Complete loss of the credit exposure

The various types of credit risk are defined as follows:

- Default Risk
- Country Risk
- Settlement Risk
- Replacement cost-risk
- Concentration risk
- Residual risk (e.g. legal risk, documentation risk, or liquidity risk)

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used included the key indicators for Bahrain such as the oil price, net financing, population, GDP growth and government expenditure.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

32 RISK MANAGEMENT (continued)

32.3 Legal risk and claims

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimised.

As at 31 December 2022, legal suits amounting to BD 1,302 thousand (2021: BD 3,203 thousand) 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.

32.4 Operational risk management

During the year, the Group has acquired retail banking portfolio from Ithmaar Holding BSC (refer note 1 and note 46), this transaction was completed effective 7 July 2022. The Group is going through the process of migration and integration of rewards and transactions and this process has increased the operational risk of the Group. The Group has formed a committee to oversee this migration and integration. Subsequent to the year end system migration was completed.

The BCP was thoroughly tested during the year, including the implemented measures like working from the BCP site and from home. The measures continued to work satisfactorily.

As of 31 December 2022, the Group did not have any significant issues relating to operational risks.

32.5 Risk Management for Takaful operations of the Group

The activity of Solidarity Group Holding BSC (c), one of the principal subsidiaries of the Group is to issue takaful contracts of its personal and corporate clients. The risk under Takaful contract is the possibility that on event occurs and the uncertainty of the amount payable under the Takaful contract resulting from such occurrence referred to as the claim. By the very nature of takaful contract, this risk is fortuitous, random and therefore unpredictable. The principal risks that the Group faces in writing a portfolio of takaful contracts are the frequency of occurrence of the events and the severity of resulting claims. The Group's risk profile is improved by having sufficient large numbers, diversification by nature of risk and geographical spread of these risks. This reduces the vulnerability of the Group's financial position and profits to large losses or a high frequency as there will be a larger income to sustain such impacts. The exposure of high frequency and severe large losses are also protected contract provides by a comprehensive retakaful program placed with highly reputable international retakaful contract provider.

(i) Underwriting Policy

The Group principally issues takaful contracts marine (cargo and hull), motor (own damage and third-party liability), property (material damage and business interruption), liability and general accident. These policies usually cover twelve months duration. For the above general takaful contracts, the most significant risks arise from accidents including motor or other incidents causing fire and accidental damage, negligence resulting in accidents or liabilities against third parties, natural disasters and other activities causing damage by riots, civil commotion and terrorist acts. The level of risks vary in relation to the location of the risk covered and type of risk covered and by industry.

(i) Retakaful Policy

As part of the underwriting process the next risk control measure in respect of the takaful risk is the transfer of the risks to third parties through a retakaful contract or facility. The Group has in place proportional facilities, referred to as treaties, which are used to transfer a proportion of the risks automatically subject to pre-agreed conditions with the retakaful contracts provider. The portion of the risk retained by the Group is also guided by a strict retention policy adopted by the Group. Any claim will be recovered in the same proportion. Furthermore, the Group also has in place non-proportional treaties which pay a proportion of losses above a pre-agreed priority level for each loss or an aggregation of losses arising out of one event. The placements of retakaful contracts are diversified with a panel of internationally reputed reinsurers so that the Group is not dependent on a single retakaful contracts provider or a retakaful contract. The Group also transfers risk on a case-by-case basis referred to as facultative retakaful. This is used in cases when the risk under consideration is either too large for the treaty capacities or else has risks which are excluded from the treaties. In this case the Group seeks internationally rated retakaful contracts providers but also places some small shares in the local markets as exchange of business.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

33 CONCENTRATIONS

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 geographic location. The Group manages its exposure through diversification of financing activities to avoid undue concentrations of risks with customers in specific locations or businesses.

The distribution of assets, liabilities and equity of investment accountholders by geographic region and industry sector was as follows:

	2022			2021		
	Assets BD '000	Liabilities and equity of investment account holders BD '000	Contingent liabilities and Commitments BD '000	Assets BD '000	Liabilities, and equity of investment account holders BD '000	Contingent liabilities and Commitments BD '000
Geographic region						
GCC	3,652,878	3,071,611	266,346	2,524,872	2,092,615	178,700
Middle East and North Africa	80,126	216,848	7,504	17,423	154,736	9,129
Europe	65,514	196,728	18	33,045	84,018	45
Asia	8,794	32,140	738	8,509	28,846	739
America	81,480	20,492	1,040	82,420	6,980	-
Others	10,569	24,187	-	18,302	20,617	-
	3,899,361	3,562,006	275,646	2,684,571	2,387,812	188,613

	2022			2021		
	Assets BD '000	Liabilities and equity of investment account holders BD '000	Contingent liabilities and Commitments BD '000	Assets BD '000	Liabilities, and equity of investment account holders BD '000	Contingent liabilities and Commitments BD '000
Industry sector						
Government and public sector	1,273,552	301,168	41,390	620,052	136,382	17,603
Banks and financial institutions	102,058	690,306	61,071	719,341	689,120	14,018
Real estate	394,200	101,511	48,096	350,537	165,382	42,395
Trading and manufacturing	131,925	109,239	64,208	296,316	320,734	102,159
Individuals	1,370,883	1,595,041	32,867	629,780	718,962	6,752
Others	626,743	764,741	28,014	68,545	357,232	5,686
	3,899,361	3,562,006	275,646	2,684,571	2,387,812	188,613

Notes to the Consolidated Financial Statements (continued)

31 December 2022

34 MARKET RISK

Market risk arises from fluctuations in global yields on financial contracts and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

34.1 Equity price risk

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the overall investment exposure of the Bank. This is monitored on an ongoing basis by the Group's Investment Committee and Risk Management.

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and fair value through equity investments) solely due to reasonably possible changes in equity indexes, is as follows:

	2022			
	10% increase		10% decrease	
	Effect on net profit BD '000	Effect on equity BD '000	Effect on net profit BD '000	Effect on equity BD '000
Quoted investment	1,189	888	(1,189)	(888)

	2021			
	10% increase		10% decrease	
	Effect on net profit BD '000	Effect on equity BD '000	Effect on net profit BD '000	Effect on equity BD '000
Quoted investment	412	-	(412)	-

34.2 Profit return risk

Profit rate risk arises from the possibility that changes in profit rates will affect the future profitability or the fair values of financial assets. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

The Group manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities less than one year are as follows:

	2022			
	Change in rate %	Effect on net profit BD '000	Change in rate %	Effect on net profit BD '000
Bahraini dinars	0.10	(10,725)	(0.10)	10,725

	2021			
	Change in rate %	Effect on net profit BD '000	Change in rate %	Effect on net profit BD '000
Bahraini dinars	0.10	(9,254)	(0.10)	9,254

Profit rate benchmark reform (PBOR)

The Group has implemented a tool to enable it to adopt the recommendations of the Alternative Reference Rate Committee, The Central Bank, ISDA IIFM regarding the new conventions for profit rate accrual for new exposures and/or legacy contracts in line with the market practice.

34.3 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 yearly 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 31 December 2022 and 2021.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

34 MARKET RISK (continued)

34.3 Currency risk (continued)

The Group's net exposure for denominated in foreign currencies as at 31 December for its financial instruments are as follows:

	Long (short) 2022 BD '000	Long (short) 2021 BD '000
Sterling Pounds	(19)	(33)
Euro	(46,827)	(36,175)
Algerian Dinar	-	14,647
Others	1,897	199

Standard scenarios that are considered include a 10% increase or decrease in exchange rates other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables primarily profit rates, remain constant) is as follows:

	Change in currency rate %	Effect on profit 2022 BD '000	Effect on equity 2022 BD '000	Change in currency rate %	Effect on profit 2021 BD '000	Effect on equity 2021 BD '000
Sterling Pounds	10	(2)	-	10	(3)	-
Euro	10	(4,683)	-	10	(3,618)	-
Algerian Dinar	10	-	-	10	-	1,465
Others	10	190	-	10	20	-
Total		(4,495)	-		(3,601)	1,465

35 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily convertible marketable securities. Liquidity position is monitored on an ongoing basis by the Risk and Audit Committee as well as ALCO of the Group.

The Bank has computed the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as per the requirements of the CBB rulebook. The LCR at the Group level as at 31 December 2022 is 165.30% and the simple average of the daily consolidated LCRs of the last three months is 251.40%. The NSFR as at 31 December 2022 is 108.33%.

The maturity profile of sukuk, placements with or from financial institutions, financing assets and murabaha term financing has been presented using the contractual maturity year. For other balances, maturity profile is based on expected cash flows / settlement profile of the respective assets and liabilities.

The management of the Group has enhanced its monitoring of the liquidity and funding requirements. ALCO meetings are convened more frequently in order to carryout granular assessment of funding requirements with the objective to explore available sources of funding and to drawdown the existing funding sources as and when necessary to maintain enough liquidity at a reasonable cost of funding.

As at the reporting date the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption. Further information on the regulatory liquidity and capital ratios as at 31 December 2022 have been disclosed in note 45 to the consolidated financial statement.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

35 LIQUIDITY RISK (continued)

	2022				
	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
ASSETS					
Cash and balances with banks and central bank	367,747	-	-	-	367,747
Placements with financial institutions	84,488	28,608	-	-	113,096
Investment in sukuk	37,793	58,238	467,328	274,022	837,381
Financing assets	208,458	271,127	674,069	832,811	1,986,465
Non-trading investments	-	-	-	106,796	106,796
Takaful and related assets	-	51,690	-	-	51,690
Investment in real estate	-	-	-	62,462	62,462
Investment in associates	-	-	-	254,006	254,006
Other assets	35,436	10,494	2,083	19,707	67,720
Goodwill and other intangible assets	-	-	-	51,998	51,998
	733,922	420,157	1,143,480	1,601,802	3,899,361
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Placements from financial institutions and customers	145,111	42,613	-	-	187,724
Customers' current accounts	550,281	-	-	-	550,281
Murabaha term financing	203,651	89,399	22,557	5,382	320,989
Takaful and related liabilities	-	91,741	-	-	91,741
Other liabilities	38,321	2,249	512	37,716	78,798
Equity of investment accountholders	1,109,264	822,348	310,064	90,797	2,332,473
	2,046,628	1,048,350	333,133	133,895	3,562,006

	2021				
	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
ASSETS					
Cash and balances with banks and central bank	309,149	-	-	-	309,149
Placements with financial institutions	129,189	4,671	-	-	133,860
Investment in sukuk	23,980	68,600	307,479	239,629	639,688
Financing assets	179,648	217,492	501,788	465,524	1,364,452
Non-trading investments	-	-	-	91,591	91,591
Takaful and related assets	-	-	-	-	-
Investment in real estate	-	-	-	60,904	60,904
Investment in associates	-	-	-	14,533	14,533
Other assets	10,145	135	535	33,608	44,423
Goodwill and other intangible assets	-	-	-	25,971	25,971
	652,111	290,898	809,802	931,760	2,684,571
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Placements from financial institutions	69,763	56,726	402	-	126,891
Customers' current accounts	482,739	-	-	-	482,739
Murabaha term financing	55,240	27,518	2,211	15,247	100,216
Other liabilities	24,976	-	-	28,813	53,789
Equity of investment accountholders	977,655	538,919	101,411	6,192	1,624,177
	1,610,373	623,163	104,024	50,252	2,387,812

Notes to the Consolidated Financial Statements (continued)

31 December 2022

35 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2022 and 2021 based on contractual undiscounted payment obligation:

	2022					
	On demand BD '000	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Placements from financial institutions	-	145,802	43,690	-	-	189,492
Customers' current accounts	550,281	-	-	-	-	550,281
Murabaha term financing	-	204,807	90,281	22,557	5,382	323,027
Equity of investment accountholders	247,908	861,623	838,363	322,813	90,886	2,361,593
Contingent liabilities and commitments	-	67,199	114,109	70,827	23,511	275,646
Other financial liabilities	20,863	-	-	-	-	20,863
	819,052	1,279,431	1,086,443	416,197	119,779	3,720,902

	2021					
	On demand BD '000	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Placements from financial institutions	-	69,955	57,552	419	-	127,926
Customers' current accounts	482,739	-	-	-	-	482,739
Murabaha term financing	-	55,722	28,136	3,685	15,418	102,961
Equity of investment accountholders	435,663	543,223	546,893	109,188	7,476	1,642,443
Contingent liabilities and commitments	-	35,431	58,904	13,113	81,165	188,613
Other financial liabilities	13,654	-	-	-	-	13,654
	932,056	704,331	691,485	126,405	104,059	2,558,336

36 SEGMENT INFORMATION

Primary segment information

For management purposes, after completion of the recent acqusitions (refer note 46), the Group is organised into the following primary business segments:

Banking	Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking, private banking and wealth management in Bahrain and through the Bank's subsidiary in Seychelles. Banking segment also includes the Group's investments in banking associates which are allocated as assets attributable to the jointly financed pool of investment accountholders. Other overseas associate investments form part of the investment segment.
Treasury	Principally handling Shari'a compliant money market, trading, fixed income products and treasury services including short-term commodity murabaha.
Investments	Principally the Group's proprietary portfolio and asset management services to clients with a range of investment products, funds and alternative investments. These also include the Group's investmet in certain associates and joint ventures.
Takaful	Represents the Group's investment in Solidarity Group Holding BSC (c) which is pimarily involved in the business of offering Shari'a compliant takaful contracts. These comprise motor, non-motor, medical, group life and family takaful products. All activities of this business including its investment activities are reported under this segment as they are managed together along with the Takaful business.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

36 SEGMENT INFORMATION (continued)

Transactions between banking and other segments are conducted at estimated allocated internal rates. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	2022					
	Banking BD '000	Treasury BD '000	Investments BD '000	Takaful	Unallocated BD '000	Total BD '000
Finance income	90,161	3,848	626	523	-	95,158
Income from sukuk	-	34,395	-	383	-	34,778
Fees and commission, net	4,336	2,590	902	-	-	7,828
Income from non-trading investments, net	-	-	2,667	(169)	-	2,498
Share of profit from associates	7,380	-	1,937	12	-	9,329
Income from Takaful operations, net	-	-	-	3,773	-	3,773
Other income	2,212	(374)	158	28	-	2,024
Finance expense on placements from financial institutions	(334)	(4,621)	-	-	-	(4,955)
Finance expense on murabaha term financing	-	(6,046)	-	-	-	(6,046)
Return on equity of investment accountholders	(33,599)	(6,848)	(7,544)	-	-	(47,991)
Net operating income	70,156	22,944	(1,254)	4,550	-	96,396
Staff cost	15,463	4,520	3,581	-	-	23,564
Premises cost & depreciation	2,586	993	701	-	-	4,280
Other operating expenses	13,981	4,409	4,409	-	-	22,799
Operating income before impairment allowances	38,126	13,022	(9,945)	4,550	-	45,753

	2022					
	Banking BD '000	Treasury BD '000	Investments BD '000	Takaful	Unallocated BD '000	Total BD '000
Net impairment charge	(8,747)	(13)	(3,923)	-	-	(12,683)
Segment result	34,023	8,901	(12,000)	2,146	-	33,070
Segment assets	2,224,708	1,286,557	229,699	51,738	106,659	3,899,361
Segment liabilities	2,415,880	937,770	21,971	91,791	94,594	3,562,006

Goodwill and other intangibles include BD 44,441 thousand (2021: BD 25,971 thousand) allocated from prior acquisitions within the banking segment and BD 7,557 thousand (2021: Nil) attributable to the takaful segment.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

36 SEGMENT INFORMATION (continued)

Segment information for the year ended 31 December 2021 was as follows:

	2021					
	Banking BD '000	Treasury BD '000	Investments BD '000	Takaful BD '000	Unallocated BD '000	Total BD '000
Finance income	73,089	2,282	986	-	-	76,357
Income from sukuk	-	22,421	-	-	-	22,421
Fees and commission, net	4,819	2,438	124	-	-	7,381
Income from non-trading investments, net	-	-	426	-	-	426
Share of profit from associates	2,697	-	-	-	-	2,697
Income from Takaful operations, net	-	-	-	-	-	-
Other income	1,137	16	(691)	-	-	462
Finance expense on placements from financial institutions	-	(4,154)	-	-	-	(4,154)
Finance expense on murabaha term financing	-	(2,876)	-	-	-	(2,876)
Return on equity of investment accountholders	(31,403)	(3,893)	(681)	-	-	(35,977)
Net operating income	50,339	16,234	164	-	-	66,737
Staff cost	12,877	2,823	1,333	-	-	17,033
Premises cost & depreciation	2,476	400	273	-	-	3,149
Other operating expenses	9,652	2,213	952	-	-	12,817
Operating income before impairment allowances	25,334	10,798	(2,394)	-	-	33,738
Net impairment charge	(8,830)	605	(4,289)	-	-	(12,514)
Segment result	16,823	8,763	(4,362)	-	-	21,224
Segment assets	1,419,859	1,075,488	185,799	-	3,425	2,684,571
Segment liabilities	1,899,701	480,239	7,617	-	255	2,387,812

Goodwill resulting from BMI acquisition is allocated to banking segment.

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

37 FIDUCIARY ASSETS

Funds under management at the yearend amounted to BD 111,500 thousand (2021: BD 141,004 thousand). These assets are held in a fiduciary capacity, measured at remaining subscription amounts and are not included in the consolidated statement of financial position. Further, the Group through its SPV's, acts as an agent/custodian on behalf of certain clients to facilitate transactions as per terms and instructions from their customers.

38 SHARI'A SUPERVISORY BOARD

The Bank's Shari'a Supervisory Board ("SSB") consists of four Islamic scholars who review the Bank's compliance with general Shari'a rules and principles, specific fatwas and rulings issued by SSB and the guidelines wof the Central Bank of Bahrain ("CBB") in relation to Shari'a governance and compliance. Their review includes examination and approval of products, documentation, procedure manuals and policies, services and related charges and fees that are presented to it to ensure that the Bank's adopted activities are conducted in accordance with Shari'a rules and principles, and consequently, issue report on the bank's compliance following the review and approval of the financial statements.

39 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year, the Group earned Shari'a prohibited income totalling BD 450 thousand (2021: BD 291 thousand). These include income earned from the conventional financing and investments due to acquiring BMI, ASBS and BSB, penalty charges from customers and interest on balances held with correspondent banks. These funds were allocated to charitable contributions.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

40 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to individuals and organisations which are used for charitable purposes. During the year, the Group paid an amount of BD 478 thousand (2021: 554 thousand) out of which BD 110 thousand (2021: BD 271 thousand) was paid from Sharia prohibited income pool.

41 ZAKAH

Pursuant to a resolution of the shareholders in an Extra-ordinary General Meetings (EGM) held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognised in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2022 has been determined by the Shari'a supervisory board as 2.7 fils (2021: 2.6 fils) per share. Under FAS 9, Zakah payble for the year ended 2022 was calculated at 2.577% of the Zakah base of BD 245,883 thousand (2021: BD 233,146 thousand) which was determined on the Net Invested Funds method.

42 FAIR VALUE HIERARCHY

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; or

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments measured at fair value

The following table shows an analysis of the non-trading investments and sukuk portfolio carried at fair value in the consolidated statement of financial position:

31 December 2022	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Sovereign sukuk at fair value through equity	73,071	139,635	-	212,706
Corporate sukuk at fair value through equity	15,423	350	-	15,773
Investment securities at fair value through income statement	11,898	302	82,915	95,115
Investment securities at fair value through equity	8,881	-	2,800	11,681
FX Wa'ad assets position	-	1,247	-	1,247
	109,273	141,534	85,715	336,522
FX Wa'ad liabilities position	-	440	-	440
	-	440	-	440

Financial instruments measured at amortized cost

	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Sovereign sukuk at amortized cost	496,936	87,535	-	584,471
Corporate sukuk at amortized cost	10,118	-	14,313	24,431
	507,054	87,535	14,313	608,902

The fair value of sukuk carried at amortized cost is BD 579,528 thousand.

31 December 2021	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Sovereign sukuk at fair value through equity	455,723	157,680	-	613,403
Corporate sukuk at fair value through equity	14,132	379	11,774	26,285
Investment securities at fair value through income statement	4,116	302	86,823	91,241
Investment securities at fair value through equity	-	-	350	350
FX Wa'ad assets position	-	619	-	619
	473,971	158,980	98,947	731,898
FX Wa'ad liabilities position	-	402	-	402
	-	402	-	402

Notes to the Consolidated Financial Statements (continued)

31 December 2022

42 FAIR VALUE HIERARCHY (continued)

The movements in fair value of non-trading investments classified in Level 3 of the fair value hierarchy are as follows:

	2022 BD '000	2021 BD '000
At 1 January	87,173	90,559
Transferred from Solidarity	2,805	-
Purchases	49	-
Disposals	(23)	-
Fair value changes	(275)	(35)
Impairment	(4,014)	(3,351)
At end of the year	85,715	87,173

The sensitivity analysis for Level 3 of non-trading investments are summarized below:

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2022 BD'000	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Asset Valuation	Underlying real estate	1,05,042	+/- 5%	5,252 / (5,252)

The movements in fair value of sukuk portfolio classified in Level 3 of the fair value hierarchy are as follows:

	2022 BD '000	2021 BD '000
At 1 January	11,774	10,551
Additions	-	10,994
Disposals	-	(9,771)
Reclassified to amortized cost	(11,774)	-
At end of the year	-	11,774

The movements of sukuk portfolio carried at amortized cost classified in Level 3 of the fair value hierarchy are as follows:

	2022 BD '000	2021 BD '000
At 1 January	-	-
Reclassified from FVTE	11,774	-
Additions	2,539	-
	14,313	-

The estimated fair value of yielding financing assets and financing liabilities approximates their carrying value as their pricing is not materially different to expected market return on such contracts.

The estimated fair values of other financial assets are not expected to be materially different from their carrying values as of 31 December 2022 and 31 December 2021 due to their short term nature.

43 FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the annual consolidated financial statements for the year ended 31 December 2021.

Russia-Ukraine conflict

The current ongoing conflict between Russia-Ukraine has triggered a global economic disruption and has, amongst other impacts, led to increased volatility in financial markets and commodity prices due to disruption of supply chain which may affect a broad range of entities across different jurisdictions and industries.

The management has carried out an assessment of its portfolio and has concluded that it does not have any direct exposures to / from the impacted countries. However, potential for indirect exposures continue to exist. At this stage it is difficult to quantify the full impact of this conflict since it depends largely on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets. The management will continue to closely monitor impact of this evolving situation on its portfolio to assess indirect impact, if any. As at 31 December 2022 the Group does not have any direct material impact of this conflict.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

44 DEPOSIT PROTECTION SCHEME

Certain customers' deposits of the Bank are covered by deposit protection schemes established by the 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 yearly contribution as mandated by the CBB is paid by the Bank under this scheme.

45 REGULATORY RATIOS

1) Liquidity Coverage Ratio (LCR)

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The LCR requirements aim to ensure that a bank has an adequate stock of unencumbered high quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day stressed liquidity year. The stock of unencumbered HQLA should enable the bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis.

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows. The average Consolidated LCR for three months calculated as per the requirements of the CBB rulebook, as of 31 December 2022 and 31 December 2021, is as follows:

	Total weighted value	
	2022 BD '000	2021 BD '000
Stock of HQLA	5,38,323	5,79,523
Net cashflows	2,19,621	1,80,147
LCR %	251.40%	343.93%
Minimum required by CBB	100%	80%

2) Capital Adequacy Ratio

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

45 REGULATORY RATIOS (continued)

The regulatory capital and risk-weighted assets have been calculated in accordance with Basel III as adopted by the CBB.

	As at	
	2022	2021
	BD '000	BD '000
CET 1 Capital before regulatory adjustments	302,173	295,333
Less: regulatory adjustments	34,562	25,971
CET 1 Capital after regulatory adjustments	267,611	269,362
AT 1 Capital	44	36
T 2 Capital adjustments	38,415	34,596
Regulatory Capital	306,070	303,994
Risk weighted exposure:		
Credit Risk Weighted Assets	1,244,559	934,629
Market Risk Weighted Assets	38,237	27,314
Operational Risk Weighted Assets	113,494	103,250
Total Regulatory Risk Weighted Assets	1,396,290	1,065,193
Total Adjusted Risk Weighted Exposures	1,396,290	1,065,193
Capital Adequacy Ratio	21.92%	28.54%
Tier 1 Capital Adequacy Ratio	19.17%	25.29%
Minimum required by CBB	12.50%	12.50%

As of 31 December 2022, aggregate of modification loss of BD 24,768 thousand has been added back to Tier 1 capital.

As per CBB instructions, the above concessional treatment would be followed for three years ending 31 December 2020, 31 December 2021 and 31 December 2022, thereafter this amount will be proportionately deducted from Tier 1 capital over three years starting 1 January 2023.

3) Net Stable Funding Ratio (NSFR)

The objective of the NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivize a more resilient banking sector over a longer time horizon. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

NSFR is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by CBB and its affective from 2019. The minimum NSFR ratio as per CBB is 100%.

Notes to the Consolidated Financial Statements (continued)

31 December 2022

45 REGULATORY RATIOS (continued)

The NSFR (as a percentage) as at 31 December 2022 is calculated as follows:

BD'000	Unweighted Values (before applying relevant factors)				
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Item					
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	279,592	-	-	38,415	318,007
Retail deposits and deposits from small business customers:					
Stable deposits	-	315,809	21,822	15,879	336,629
Less stable deposits	-	936,116	233,070	133,844	1,186,111
Wholesale funding:					
Other wholesale funding	-	1,452,526	184,892	87,198	473,702
Other liabilities:					
All other liabilities not included in the above categories	-	51,422	-	46,593	46,593
Total ASF	279,592	2,755,873	439,784	321,929	2,361,042
Required Stable Funding (RSF):					
Total NSFR high-quality					
liquid assets (HQLA)	-	-	-	-	34,634
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	285,379	-	6,496	49,302
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	357,123	154,489	1,222,473	1,268,029
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	134,393	87,356
Performing residential mortgages, of which:	-	-	-	221,246	143,810
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	221,246	143,810
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	12,236	2,458	12,357	17,850
Other assets:					
All other assets not included in the above categories	557,037	14,025	-	88,124	652,174
OBS items	-	275,333	-	-	13,767
Total RSF	557,037	944,096	156,947	1,550,696	2,179,566
NSFR (%)	-	-	-	-	108.33%

Notes to the Consolidated Financial Statements (continued)

31 December 2022

45 REGULATORY RATIOS (continued)

The NSFR (as a percentage) as at 31 December 2021 is calculated as follows:

BD'000	Unweighted Values (before applying relevant factors)				
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Item					
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	272,744	-	-	34,596	307,340
Retail deposits and deposits from small business customers:					
Stable deposits	-	85,820	3,048	6,445	90,869
Less stable deposits	-	501,988	113,787	80,423	634,621
Wholesale funding:					
Other wholesale funding	-	1,322,106	149,710	56,041	522,229
Other liabilities:					
All other liabilities not included in the above categories	-	67,695	-	-	-
Total ASF	272,744	1,977,609	266,545	177,505	1,555,059
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	29,612
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by non-level 1 HQLA and nsecured performing financing to financial institutions	-	366,087	6,367	5,878	63,974
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	227,810	153,681	756,908	812,050
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	110,335	71,718
Performing residential mortgages, of which:	-	-	-	188,086	122,256
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	188,086	122,256
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	12,743	-	3,151	9,050
Other assets:					
All other assets not included in the above categories	241,383	5,809	-	30,018	274,306
OBS items	-	188,333	-	-	9,417
Total RSF	241,383	800,782	160,048	984,041	1,320,665
NSFR (%)	-	-	-	-	117.75%

Notes to the Consolidated Financial Statements (continued)

31 December 2022

46 BUSINESS COMBINATION

In the first quarter of 2022, the Bank entered into definitive discussions in relation to the acquisition of certain group of assets from Ithmaar Holding's group of companies consisting of the consumer banking business of Ithmaar Bank, the entire 26.19% underlying shareholdings of Ithmaar Holding in Bank of Bahrain and Kuwait B.S.C. (BBK) and 55.91% holdings in Solidarity Group Holding, subject to the requisite approvals and signing of definitive agreements. The acquisition has been completed to on 7 July 2022 after obtaining required regulatory and corporate approvals.

The transaction was structured as a balanced carve out of agreed assets and liabilities of Ithmaar Holding. As consideration for acquisition of the acquired group of assets, the Group has assumed certain liabilities and equity of investment account holders of the consumer banking division of Ithmaar Bank BSC (c) of an equivalent value.

Identifiable assets acquired and liabilities assumed

The transaction includes acquisition of businesses and certain assets. The fair value of assets, liabilities, equity interests will have been reported in these disclosures on a provisional basis and will be finalized within a period of 12 months from the date of acquisition. In line with the provisions of IFRS 3 "Business Combinations", if new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identified adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting will be reflected on a retrospective basis.

The reported amounts below represent the adjusted acquisition carrying values of the acquired assets and liabilities at the acquisition date:

ASSETS ACQUIRED

	BD '000
CONSUMER BANKING BUSINESS	
Cash and bank balances	63,240
Financing portfolio	456,979
Other assets	57
Fixed assets	5,449
Intangible assets	19,105
Total	544,830
TAKAFUL BUSINESS	
Cash and balance with banks	8,480
Commodity and other placements with banks, financial and other institutions	36,078
Sukuks	18,817
Investment securities (non-trading investments)	19,620
Investment in associates	290
Takaful and other receivables	50,320
Fixed assets	7,792
Other assets	12,081
Investment in real estate	5,982
Intangible assets	7,558
Total assets	167,018
Investment securities	
Investment in associates and other equity investments	247,471
Total assets acquired (A)	959,319

Notes to the Consolidated Financial Statements (continued)

31 December 2022

46 BUSINESS COMBINATION (continued)

	BD '000
CONSIDERATION - LIABILITIES ASSUMED	
Consumer business	
Due to banks financial and other institutions	2,211
Customers' current accounts	35,272
Due to customers	14,368
Other liabilities	22,995
Total liabilities	74,846
Equity of investment accountholders	754,655
Total liabilities and equity of investment accountholders	829,501
Takaful business	
Other liabilities	13,658
Takaful related reserves	83,271
Total liabilities	96,929
Total liabilities assumed	926,430
Add: Non-controlling interests associated with the Takaful business recognized	32,889
Total consideration for the acquired assets (B)	959,319

As the transaction was structured as a carve-out of the consumer business alongside a selection of other assets and due to the likely effects of synergies and integration adjustments post the business transfer, it is impracticable to determine the profit or loss of the combined entity for the current reporting period assuming the acquisition-date for the whole business combination occurred at the beginning of the annual reporting date. Had the acquisition occurred on 1 January 2022, management estimates that the Group's total operating income would have been higher by BD 43.55 million.

47 COMPARATIVE FIGURES

Certain of the prior year figures have been regrouped to conform to the current year presentation. Such grouping did not affect .previously reported net profit, total assets, total liabilities and total equity of the Group

Basel III - Pillar III Disclosures

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Basel III - Pillar III - Disclosures

31 December 2022

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.

During 2016, the Bank acquired 70% stake in Al Salam Bank Seychelles Limited ("ASBS"), (previously "BMIO") an offshore bank in Seychelles. 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.

In the first quarter of 2022, the Bank entered into definitive discussions in relation to the acquisition of certain group of assets from Ithmaar Holding's group of companies consisting of the consumer banking business of Ithmaar Bank, the entire 26.19% underlying shareholdings of Ithmaar Holding in Bank of Bahrain and Kuwait B.S.C. (BBK) and 55.91% holdings in Solidarity Group Holding. The acquisition has been completed on 7 July 2022 after obtaining required regulatory and corporate approvals. For further details refer note 46 of the consolidated financial statements for the year ended 31 December 2022.

The Bank and its principal banking subsidiary operates through 23 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.

Basel III - Pillar III - Disclosures (continued)

31 December 2022

2 FINANCIAL PERFORMANCE AND POSITION (continued)

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

(BD '000s)

	Dec-2022	Dec-2021	Dec-2020	Dec-2019	Dec-2018	Dec-2017
Net operating income	96,396	66,737	57,420	53,527	56,719	62,190
Net profit	33,070	21,224	9,118	21,130	18,520	18,055
Total assets	3,899,361	2,684,571	2,261,353	2,042,803	1,710,310	1,589,228
Total equity	337,355	296,759	281,167	320,074	304,822	303,837
Key Ratios	**Dec-2022**	**Dec-2021**	**Dec-2020**	**Dec-2019**	**Dec-2018**	**Dec-2017**
Earnings per share (fils)	13.5	8.8	4.3	9.7	8.7	8.5
Return on average assets (%)	1.0	0.9	0.4	1.1	1.1	1.1
Return on average equity (%)	11.0	7.4	3.0	6.8	6.1	5.7
Cost to Net operating income (%)	52.5	49.4	52.3	55.6	48.9	39.0
Dividend payout ratio (%)*	37.4	42.8	-	41.9	40.5	41.5
Dividend yield ratio (%)	5.0	4.0	-	4.0	3.5	3.1
Net profit margin on average Islamic assets (%)	1.7	2.9	3.4	2.7	2.9	3.2

Table 2.2 Financial Summary

(BD '000s)

Consolidated Financial Position	Dec-2022	Dec-2021	Dec-2020	Dec-2019	Dec-2018	Dec-2017
Cash and balances with banks and Central Bank	367,747	309,149	288,266	219,456	82,587	66,351
Placements with financial institutions	113,096	133,860	37,965	114,803	163,305	141,225
Investment in sukuk	837,381	639,688	409,503	367,467	363,437	373,988
Financing assets	1,986,465	1,364,452	1,283,812	1,075,498	825,797	745,773
Non-trading investments	106,796	91,591	98,034	108,991	107,508	111,325
Takaful and related assets	51,690	-	-	-	-	-
Investment in real estate	62,462	60,904	70,529	75,717	80,551	73,230
Investment in associates	254,006	14,533	12,036	10,640	15,972	16,835
Other assets	67,720	44,423	35,237	44,260	45,182	34,530
Goodwill and other intangible assets	51,998	25,971	25,971	25,971	25,971	25,971
Placements from financial institutions and customers	187,724	126,891	116,883	211,459	850,049	757,549
Customers' current accounts	550,281	482,739	363,970	289,456	251,842	283,886
Murabaha term financing	320,989	100,216	221,671	145,590	155,543	79,986
Takaful and related liabilities	91,741	-	-	-	-	-
Other liabilities	78,798	53,789	52,282	41,481	48,293	45,089
Equity of Investment Accountholders (EIAH)	2,332,473	1,624,177	1,225,380	1,034,743	99,761	118,881
of which: Wakala from financial institutions	319,339	299,607	264,784	210,887	-	-
of which: Wakala and mudaraba from customers	2,013,134	1,324,570	960,596	823,856	-	-
Capital	**Dec-2022**	**Dec-2021**	**Dec-2020**	**Dec-2019**	**Dec-2018**	**Dec-2017**
Capital adequacy (%)	21.9	28.5	26.5	21.2	20.6	21.4
Equity / Total assets (%)	8.7	11.1	12.4	15.7	17.8	19.1
Total customer deposits / Equity (times)	7.6 x	6.1x	4.7x	3.5x	3.5x	3.3x

Basel III - Pillar III - Disclosures (continued)

31 December 2022

2 FINANCIAL PERFORMANCE AND POSITION (continued)

Table 2.2 Financial Summary (continued)

Liquidity and Other Ratios	Dec-2022	Dec-2021	Dec-2020	Dec-2019	Dec-2018	Dec-2017
Islamic financing contracts / Total assets (%)	50.9	50.8	56.8	52.6	48.3	46.9
Investments / Total assets (%)	32.3	30.1	26.1	27.6	33.2	36.2
Liquid assets / Total assets (%)	20.1	32.7	18.3	22.7	23.2	26.9
Liquid assets / Current and URIA deposits (%)	27.2	41.7	26.0	35.0	112.8	106.2
Customer Deposits / Total assets (%)	66.0	67.3	58.6	54.5	61.8	63.3
Due from banks and financial institutions/ Total Assets (%)	2.9	5.0	1.7	5.6	9.5	8.9
Interbank Assets / Interbank Liabilities (%)	63.9	105.5	32.5	54.3	113.3	91.3
Islamic financing contracts / Customer deposits (%)	77.2	75.4	96.9	96.6	78.1	74.2
Number of employees (Bahrain operations)	577	376	363	355	341	322

3 GROUP AND CAPITAL STRUCTURE

3.1 Group Structure

The consolidated financial statements for the year comprise of the financial statements of the Bank and its subsidiaries (together referred to as "the Group")

The principal subsidiaries and associates as at 31 December 2022 and their treatment for capital adequacy purposes are as follows:

	Entity classification as per CA Module	Treatment by the Bank
Subsidiaries		
Al Salam Bank Seychelles	Banking subsidiary	Aggregation of risk weighted assets
Kenaz Al Kadam Real Estate Investment W.L.L.	Commercial entity	Risk weighting using look- through approach
Kenaz Al Hamala Real Estate Investment W.L.L.		
Wahat Al Muharraq Real Estate Investment W.L.L.		
Solidarity Group Holding BSC (c)	Insurance subsidiary	Risk weighting of investment exposure
Associates		
Al Salam Bank Algeria	Financial entity	Risk weighting of investment exposure
Gulf African Bank		
Bank of Bahrain and Kuwait B.S.C.		
Bareeq Al Retaj Real Estate Services W.L.L	Commercial entity	Risk weighting using look-through approach
Manara Development Company BSC (c)		
NS Real Estate Company W.L.L.		
Darari Investment Company W.L.L.		
Burj Al Safwa Property Investment Company W.L.L.		

3.2 Capital Structure

The Group's regulatory total capital of BD 306,070 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 249,231 thousands at 31 December 2022, comprising of 2,492,314 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.

Basel III - Pillar III - Disclosures (continued)

31 December 2022

3 GROUP AND CAPITAL STRUCTURE (continued)

3.2 Capital Structure (continued)

Table 3.1 Breakdown of the Bank's Capital Base (PD 1.3.12, 13, 14, 15, 16, 20)

(BD '000s)

	CET1	AT1	T2
Issued and fully paid up ordinary shares	249,231		
Treasury shares	(12,021)		
General Reserves	1,934		
Legal/statutory reserves	21,759		
Share premium	209		
Retained earnings	22,693		
Current interim cumulative net income / losses	30,909		
Unrealized gains and losses on available for sale financial instruments	(8,643)		
Gains and loss resulting from converting foreign currency subsidiaries to the parent currency	(4,104)		
Total Minority Interest in banking subsidiaries given recognition in CET1 capital	206		
Total CET1 capital prior to regulatory adjustments	**302,173**		
Less:			
Goodwill	(25,971)		
Total CET1a	**276,202**		
Less:			
Significant investments in the common stock of financial entities (amount above 10% of CET1a)	(8,591)		
Total Common Equity Tier 1 capital after regulatory adjustments above	**267,611**		
Instruments issued by banking subsidiaries to third parties		44	59
Asset revaluation reserve - Property, plant, and equipment		-	22,799
General financing loss provisions		-	15,557
Total Available AT1 & T2 Capital		**44**	**38,415**
Total Tier 1		**267,655**	
Total Capital (PD 1.3.20 a)			**306,070**

Table 3.2

(BD '000s)

	Risk Weighted Exposures		
	Credit	Operational	Market
Risk Weighted Exposures (self-financed)	891,831	112,671	38,237
Risk Weighted Exposures (URIA)	343,730	-	-
Aggregation of Risk Weighted Exposures	8,998	823	-
Risk Weighted Exposures after Aggregation*	**1,244,559**	**113,494**	**38,237**
Total Risk Weighted Exposures			**1,396,290**
	CET 1	T1	Total Capital
% of Total Risk Weighted Exposures (CAR) (PD 1.3.20 a)	**19.17%**	**19.17%**	**21.92%**
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.

Basel III - Pillar III - Disclosures (continued)

31 December 2022

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 and for Pillar II risks.

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 year ended 31 December 2022.

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%.

Basel III - Pillar III - Disclosures (continued)

31 December 2022

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

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. Residential mortgage exposures granted under the Social Housing Scheme of the Kingdom of Bahrain is assigned a risk weight of 25%.

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%. Investments in sukuk are risk weighted based on respective counterparty's credit ratings.

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%.

Table 5.1 Funded and Unfunded Exposures

(BD '000s)

	Self Financed				
Exposure type	**Gross Credit Exposure**	**CRM**	**Net Credit Exposure**	**Risk-Weighted Assets (RWA)**	**Minimum Capital Charge**
Cash and balances with banks and Central Bank	227,298	-	227,298	37,978	4,747
Sovereign Sukuk	787,880	-	787,880	10,214	1,277
Corporate Sukuk	26,828	-	26,828	21,700	2,713
Murabaha financing	49,516	282	49,234	52,346	6,543
Mudaraba financing	27,499	303	27,196	27,093	3,387
Musharaka	14,924	-	14,924	51,293	6,412
Credit Cards	1,350	-	1,350	1,127	141
Finance lease assets	52,446	42,263	10,183	9,842	1,230
Non-trading investments	88,033	-	88,033	346,052	43,257
Investment in real estate	56,624	-	56,624	113,248	14,156
Investment in associates	27,620	-	27,620	69,050	8,631
Other assets	50,064	-	50,064	50,104	6,263
Goodwill and other intangible assets	19,105	-	19,105	9,553	1,194
Total funded exposures	**1,429,187**	**42,848**	**1,386,339**	**799,600**	**99,950**
Contingent Liabilities & Commitments	164,289	-	164,289	92,231	11,529
Total unfunded exposures	**164,289**	**-**	**164,289**	**92,231**	**11,529**
Aggregation of Risk Weighted Exposures for AlSalam Bank Seychelles Limited	-	-	-	8,998	1,125
Total exposures	**1,593,476**	**42,848**	**1,550,628**	**900,829**	**112,604**

Basel III - Pillar III - Disclosures (continued)

31 December 2022

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

Table 5.1 Funded and Unfunded Exposures (continued)

(BD '000s)

	Funded by EIAH				
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	130,856	-	130,856	-	-
Placements with financial institutions	83,761	-	83,761	11,043	1,380
Murabaha financing	628,265	50,362	577,903	124,128	15,516
Mudaraba financing	506,280	49,775	456,505	94,671	11,834
Musharaka	14,633	-	14,633	4,339	542
Credit Cards	13,053	-	13,053	3,046	381
Finance lease assets	700,590	110,315	590,275	68,297	8,537
Investment in an associate	217,509	-	217,509	32,626	4,078
Investment in Subsidiary	37,200	-	37,200	5,580	698
Total funded exposures	**2,332,147**	**210,452**	**2,121,695**	**343,730**	**42,966**
Contingent Liabilities & Commitments	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**
Total exposures	**2,332,147**	**210,452**	**2,121,695**	**343,730**	**42,966**

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 31 December 2022 is BD 275,646 thousands.

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)**

Basel III - Pillar III - Disclosures (continued)

31 December 2022

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

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	677,781	-	677,781	32,901	32,491	-	-	**65,392**
Mudaraba financing	533,779	-	533,779	61,333	-	-	-	**61,333**
Finance lease assets (Ijarah Muntahia Bittamleek)	753,036	-	753,036	165	-	-	397,721	**397,886**
Musharaka	29,557	-	29,557	-	-	-	-	**-**
Credit Cards	14,403	-	14,403	-	-	-	-	**-**
Total	**2,008,556**	**-**	**2,008,556**	**94,399**	**32,491**	**-**	**397,721**	**524,611**

* 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 Board. 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 regulatory thresholds prescribed in CBB rulebook.

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.

Exposures in excess of regulatory limits (PD 1.3.23 f)

As at 31 December 2022, the Group's exposures in excess of 15% of the obligor limits to individual counterparties, excluding Central Bank and exempt exposures by CBB were as follows:

(BD '000s)

Single exposure in excess of 15% of Capital Base	% of Capital	Exposure as at 31 December 2022
Counterparty A	16.70%	51,038

Basel III - Pillar III - Disclosures (continued)

31 December 2022

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

Table 5.3 Gross Credit Exposures (PD 1.3.23 a)

(BD '000s)

Self Financed

Exposure Type	Gross Credit Exposure*	Average Gross Credit Exposure**
Cash and balances with banks and Central Bank	234,547	153,124
Placements with financial institutions	-	33,921
Investment in sukuk	837,381	752,135
Financing assets	135,180	113,089
Non-trading investments	106,796	98,598
Takaful and related assets	51,690	52,893
Investment in real estate	62,462	59,883
Investment in associates	36,497	20,507
Other assets	67,720	54,256
Goodwill and other intangible assets	51,998	39,143
Total funded exposures	**1,584,271**	**1,377,549**
Contingent Liabilities & Commitments	275,646	249,440
Total unfunded exposures	**275,646**	**249,440**
Total exposures	**1,859,917**	**1,626,989**

(BD '000s)

Funded by EIAH

Exposure Type	Gross Credit Exposure*	Average Gross Credit Exposure**
Cash and balances with banks and Central Bank	133,200	165,334
Placements with financial institutions	113,096	97,392
Financing assets	1,851,285	1,610,079
Investment in associates	217,509	217,937
Total funded exposures	**2,315,090**	**2,090,741**
Contingent Liabilities & Commitments	-	-
Total unfunded exposures	**-**	**-**
Total exposures	**2,315,090**	**2,090,741**

* Exposures are net of ECL

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

Risk mitigation, collateral and other credit enhancements (PD 1.3.26 a)

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 directors, corporates and high net worth individuals and banks. As at 31 December 2022, the collaterals eligible for CRM (after applying regulatory haircuts) amounted to BD 524,611 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 financing 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, Corporates and Sovereigns which are rated by ECAI's along with personal guarantees of the Board of Directors 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 reviews the situation and a suitable decision is made on the exposure to the said customer.

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 Bank's approved valuators.

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.

Basel III - Pillar III - Disclosures (continued)

31 December 2022

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)

	Self Financed						
Exposure type	**GCC Countries**	**Middle East and North Africa**	**Europe**	**Asia**	**America**	**Others**	**Total**
Cash and balances with banks and Central Bank	144,012	177	17,669	289	72,264	136	**234,547**
Sovereign Sukuk	748,830	-	42,869	2,633	2,845	-	**797,177**
Corporate Sukuk	34,677	-	1,798	-	358	3,371	**40,204**
Murabaha financing	52,541	-	-	-	-	-	**52,541**
Mudaraba financing	12,273	9	-	3,445	-	-	**15,727**
Musharaka	14,925	-	-	-	-	-	**14,925**
Credit Cards	232	-	28	1	18	-	**279**
Finance lease assets	51,586	-	-	-	-	122	**51,708**
Non-trading investments	104,436	-	2,360	-	-	-	**106,796**
Takaful and related assets	51,690	-	-	-	-	-	**51,690**
Investment in real estate	62,462	-	-	-	-	-	**62,462**
Investment in associates	19,815	12,519	-	-	-	4,163	**36,497**
Other assets	3,456	58,016	790	2,426	1,967	1,065	**67,720**
Goodwill and other intangible assets	51,998	-	-	-	-	-	**51,998**
Total funded exposures	**1,352,933**	**70,721**	**65,514**	**8,794**	**77,452**	**8,857**	**1,584,271**
Contingent Liabilities & Commitments	266,346	7,504	18	738	1,040	-	**275,646**
Total unfunded exposures	**266,346**	**7,504**	**18**	**738**	**1,040**	**-**	**275,646**
Total exposures	**1,619,279**	**78,225**	**65,532**	**9,532**	**78,492**	**8,857**	**1,859,917**

Table 5.5 (PD 1.3.23 b)

(BD '000s)

	Funded by EIAH						
Exposure type	**GCC Countries**	**Middle East and North Africa**	**Europe**	**Asia**	**America**	**Others**	**Total**
Cash and balances with banks and Central Bank	133,200	-	-	-	-	-	**133,200**
Placements with financial institutions	109,069	-	-	-	4,027	-	**113,096**
Murabaha financing	610,349	3,864	-	-	-	1,425	**615,638**
Mudaraba financing	502,125	5,541	-	-	-	178	**507,844**
Musharaka	14,629	-	-	-	-	92	**14,721**
Credit Cards	13,400	-	-	-	-	18	**13,418**
Finance lease assets	699,664	-	-	-	-	-	**699,664**
Investment in associates	217,509	-	-	-	-	-	**217,509**
Total funded exposures	**2,299,945**	**9,405**	**-**	**-**	**4,027**	**1,713**	**2,315,090**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**2,299,945**	**9,405**	**-**	**-**	**4,027**	**1,713**	**2,315,090**

Basel III - Pillar III - Disclosures (continued)

31 December 2022

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

5.1.1 Geographical Distribution of Exposures (continued)

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

(BD '000s)

	Gross Financing Contracts - Past Due not impaired	12 month ECL and Lifetime ECL not impaired (Stage 1 & 2)	Gross Impaired Financing Contracts	Life time ECL credit impaired (Stage 3)
GCC Countries	46,932	(956)	51,498	(20,983)
Total	**46,932**	**(956)**	**51,498**	**(20,983)**

5.1.2 Exposure by Industry

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

(BD '000s)

	Self Financed						
Exposure Type	**Trading and Manufacturing**	**Banks and Financial Institutions**	**Real Estate**	**Individuals**	**Government and Public Sector Entities**	**Others**	**Total**
Cash and balances with banks and Central Bank	-	197,001	-	-	37,546	-	**234,547**
Sovereign Sukuk	-	-	-	-	797,177	-	**797,177**
Corporate Sukuk	-	19,259	20,945	-	-	-	**40,204**
Murabaha financing	867	22,430	2,299	11,359	10,621	4,965	**52,541**
Mudaraba financing	4,280	2,339	356	1,907	477	6,368	**15,727**
Musharaka	-	92	14,829	4	-	-	**14,925**
Credit Cards	-	-	-	279	-	-	**279**
Finance lease assets	12,999	3,122	20,947	11,774	952	1,914	**51,708**
Non-trading investments	-	19,534	87,262	-	-	-	**106,796**
Takaful and related assets	-	51,690	-	-	-	-	**51,690**
Investment in real estate	-	-	62,462	-	-	-	**62,462**
Investment in associates	-	36,497	-	-	-	-	**36,497**
Other assets	12,429	30,524	338	9,580	14,715	134	**67,720**
Goodwill and other intangible assets	-	51,998	-	-	-	-	**51,998**
Total funded exposures	**30,575**	**434,486**	**209,438**	**34,903**	**861,488**	**13,381**	**1,584,271**
Contingent Liabilities & Commitments	64,208	61,071	48,096	32,867	41,390	28,014	**275,646**
Total unfunded exposures	**64,208**	**61,071**	**48,096**	**32,867**	**41,390**	**28,014**	**275,646**
Total exposures	**94,783**	**495,557**	**257,534**	**67,770**	**902,878**	**41,395**	**1,859,917**

Basel III - Pillar III - Disclosures (continued)

31 December 2022

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

5.1.2 Exposure by Industry (continued)

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

(BD '000s)

Funded by EIAH

Exposure Type	Trading and Manufacturing	Banks and Financial Institutions	Real Estate	Individuals	Government and Public Sector Entities	Others	Total
Cash and balances with banks and Central Bank	-	-	-	-	133,200	-	**133,200**
Placements with financial institutions	-	113,096	-	-	-	-	**113,096**
Murabaha financing	2,997	30,646	22,658	447,317	95,045	16,975	**615,638**
Mudaraba financing	90,125	22,483	108,070	74,035	131,759	81,372	**507,844**
Musharaka	-	-	8,655	6,066	-	-	**14,721**
Credit Cards	15	8	8	13,344	3	40	**13,418**
Finance lease assets	8,212	1,736	45,371	567,628	52,057	24,660	**699,664**
Investment in associates	-	217,509	-	-	-	-	**217,509**
Total funded exposures	**101,349**	**385,478**	**184,762**	**1,108,390**	**412,064**	**123,047**	**2,315,090**
Contingent Liabilities & Commitments	-	-	-	-	-	-	**-**
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**101,349**	**385,478**	**184,762**	**1,108,390**	**412,064**	**123,047**	**2,315,090**

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 Financing Contracts - Past Due not impaired	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	2,387	(28)	9,387	(3,642)
Banks and Financial Institutions	-	-	485	(485)
Real Estate	4,993	-	6,803	(3,872)
Individuals	38,787	(922)	29,346	(10,926)
Others	765	(6)	5,477	(2,058)
Total	**46,932**	**(956)**	**51,498**	**(20,983)**

Table 5.10 Ageing Analysis (PD 1.3.24 b)

(BD '000s)

	Gross Impaired and Past Due Contracts				Expected Credit Losses (ECL) / Specific Provisions	Net Outstanding	Market Value of Collateral
	Up to 3 months	Over 3 months up to 1 Year	Over 1 year up to 3 years	Over 3 years			
Trading and Manufacturing	2,386	5,739	47	3,599	(3,670)	8,101	11,044
Banks and Financial Institutions	-	-	485	-	(485)	-	-
Real Estate	4,992	1,201	4,040	1,562	(3,872)	7,923	13,128
Individuals	38,787	17,053	3,736	8,557	(11,847)	56,286	61,592
Others	767	5,401	-	78	(2,065)	4,181	14,204
Total	**46,932**	**29,394**	**8,308**	**13,796**	**(21,939)**	**76,491**	**99,968**

Basel III - Pillar III - Disclosures (continued)

31 December 2022

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 Credit Risk (continued)

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

Table 5.11 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	POCI	Total ECL
Balance at the beginning of the year	**15,627**	**7,332**	**21,525**	**-**	**44,484**
- transferred to Stage 1: 12 month ECL	1,055	(1,050)	(5)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(1,728)	2,761	(1,033)	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(829)	(642)	1,471	-	-
Net remeasurement of loss allowance	5,549	3,926	5,721	(5,478)	9,718
Recoveries / write-backs	-	-	(749)	-	(749)
Allowance for credit losses	**4,047**	**4,995**	**5,405**	**(5,478)**	**8,969**
Exchange adjustments and other movements	(1,417)	**-**	(3)	(73)	**(1,493)**
Adjustment on repayment or derecognition				5,551	**5,551**
Amounts charged back during the year - net	-	-	224		**224**
Balance at the end of the year	**18,257**	**12,327**	**27,151**	**-**	**57,735**

5.1.4 Exposure by External Credit Rating

The Group uses public information provided by external rating agencies (accredited External Credit Assessment Institutions – ECAI) such as Standard & Poor's. The lowest of the ratings based on information available to the 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	11,110	-	11,110
Claims on sovereigns	1,053,056	17,097	1,035,959
Claims on banks	272,898	233,200	39,698
Claims on corporate portfolio	520,602	-	520,602
Regulatory retail portfolio	136,349	-	136,349
Mortgages	964,602	-	964,602
Past due receivables over 90 days	29,860	-	29,860
Investments in Securities and Sukuk	332,810	-	332,810
Holding of Real Estate	144,348	-	144,348
Other assets and Specialized financing	459,988	-	459,988
Total	**3,925,623**	**250,297**	**3,675,326**

* 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%.

Basel III - Pillar III - Disclosures (continued)

31 December 2022

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	74,082	58,607
Irrevocable unutilised commitments	201,564	105,682
Total	**275,646**	**164,289**

* 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) (PD 1.3.38)

(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	367,747	-	**367,747**	-	-	-	-	**-**	**367,747**
Sovereign Sukuk	29,539	48,834	**78,373**	445,954	233,664	18,754	20,432	**718,804**	**797,177**
Placements with financial institutions	84,488	28,608	**113,096**	-	-	-	-	**-**	**113,096**
Corporate Sukuk	8,255	9,404	**17,659**	21,374	1,171	-	-	**22,545**	**40,204**
Financing assets and finance lease assets	208,458	271,127	**479,585**	674,069	590,048	197,009	45,754	**1,506,880**	**1,986,465**
Non-trading investments	-	-	**-**	-	106,796	-	-	**106,796**	**106,796**
Takaful and related assets	-	51,690	**51,690**	-	-	-	-	**-**	**51,690**
Investment in real estate	-	-	**-**	-	62,462	-	-	**62,462**	**62,462**
Investment in associates	-	-	**-**	-	254,006	-	-	**254,006**	**254,006**
Other assets	35,436	10,494	**45,930**	2,083	19,707	-	-	**21,790**	**67,720**
Goodwill and other intangible assets	-	-	**-**	-	51,998	-	-	**51,998**	**51,998**
Total	**733,923**	**420,157**	**1,154,080**	**1,143,480**	**1,319,852**	**215,763**	**66,186**	**2,745,281**	**3,899,361**

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	31,309	85,633	**116,942**	61,143	3,845	17,621	2,013	**84,622**	**201,564**
Contingent liabilities	35,892	28,476	**64,368**	9,683	31	-	-	**9,714**	**74,082**
Total	**67,201**	**114,109**	**181,310**	**70,826**	**3,876**	**17,621**	**2,013**	**94,336**	**275,646**

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

Basel III - Pillar III - Disclosures (continued)

31 December 2022

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 (PD 1.3.38)

(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
Placements from financial institutions and customers	145,111	42,613	**187,724**	-	-	-	-	**-**	**187,724**
Customers' current accounts	550,281	-	**550,281**	-	-	-	-	**-**	**550,281**
Murabaha term financing	203,651	89,399	**293,050**	22,557	5,382	-	-	**27,939**	**320,989**
Takaful and related liabilities	-	91,741	**91,741**	-	-	-	-	**-**	**91,741**
Other liabilities	38,321	2,249	**40,570**	512	37,559	157	-	**38,228**	**78,798**
Equity of Investment Accountholders	1,109,264	822,348	**1,931,612**	310,064	8,982	81,815	-	**400,861**	**2,332,473**
Total	**2,046,628**	**1,048,350**	**3,094,978**	**333,133**	**51,923**	**81,972**	**-**	**467,028**	**3,562,006**

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, b)**

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	Year End Capital Charge	Capital Requirement – Minimum*	Capital Requirement – Maximum*
Foreign exchange risk	38,237	4,780	3,059	2,322	3,059
Total market risk	**38,237**	**4,780**	**3,059**	**2,322**	**3,059**

* 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 2022.

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 1.3.21 b) (PD 1.3.27)**

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)**

Basel III - Pillar III - Disclosures (continued)

31 December 2022

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.3 Operational Risk (continued)

The Group's policy and procedures 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. 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.

In accordance with the basic indicator approach methodology of Basel III, the total consolidated minimum capital charge in respect of operational risk was BD 14,187 thousands. This capital charge was computed by multiplying the bank's average gross income for the last three financial years by a predefined beta factor and adding the aggregation of operational risk weighted exposures of ASB Seychelles amounting to BD 823 thousands.

Table 5.17

	(BD '000s) Dec-2022
Average gross income	60,091
Risk weighted exposures	112,671
Minimum capital charge	14,084

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 year ended 31 December 2022 amounted to BD 450 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 ended 2022. (PD 1.3.30 b.ii)

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.

The Group's cautious asset liability strategy avoids funding long term lending facilities from short 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).

Basel III - Pillar III - Disclosures (continued)

31 December 2022

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.4 Rate of Return Risk (PD 1.3.39) (continued)

The below tables provide the asset and liability re-pricing profile on the contractual repricing or maturity dates, whichever is earlier for the year ended 31 December 2022 . **(PD 1.3.27 c) (PD 1.3.40)**

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	367,747	-	-	-	-	-	-	-	367,747
Sovereign Sukuk	797,177	8,699	20,808	22,080	26,714	101,369	126,370	491,137	-
Placements with financial institutions	113,096	83,761	727	28,608	-	-	-	-	-
Corporate Sukuk	40,204	-	8,285	5,567	3,877	3,631	81	18,763	-
Murabaha financing	668,179	4,351	96,084	50,255	30,025	53,057	89,369	345,038	-
Mudaraba financing	523,572	2,293	84,111	26,547	85,106	65,656	72,315	187,544	-
Musharaka	29,645	6	1,005	472	1,501	5,474	16,131	5,056	-
Credit Cards	13,696	13,696	-	-	-	-	-	-	-
Finance lease assets	751,373	1,948	4,847	60,608	16,613	39,243	33,169	594,945	-
Non-trading investments	106,796	-	-	-	-	-	-	-	106,796
Investment in real estate	62,462	-	-	-	-	-	-	-	62,462
Investment in associates	254,006	-	-	-	-	-	-	-	254,006
Takaful and related assets	51,690	-	-	-	-	-	-	-	51,690
Other assets	67,720	-	-	-	67	31	44	299	67,279
Goodwill and other intangible assets	51,998	-	-	-	-	-	-	-	51,998
Total Assets (A)	**3,899,361**	**114,754**	**215,867**	**194,137**	**163,903**	**268,461**	**337,479**	**1,642,782**	**961,978**
Liabilities									
Placements from financial institutions and customers	187,724	56,002	89,109	37,553	5,060	-	-	-	-
Customers' current accounts	550,281	-	-	-	-	-	-	-	550,281
Murabaha term financing	320,989	65,413	138,238	89,399	-	2,211	-	25,728	-
Takaful and related liabilities	91,741	-	-	-	-	-	-	-	91,741
Other liabilities	78,798	-	-	-	-	-	-	-	78,798
Equity of investment accountholders	2,332,473	679,165	414,949	385,184	437,164	223,801	134,777	42,282	15,151
Total Liabilities	**3,562,006**	**800,580**	**642,296**	**512,136**	**442,224**	**226,012**	**134,777**	**68,010**	**735,971**
Shareholders funds	337,355	-	-	-	-	-	-	-	337,355
Total Liabilities & Shareholders Funds	**3,899,361**	**800,580**	**642,296**	**512,136**	**442,224**	**226,012**	**134,777**	**68,010**	**1,073,326**
Off-Balance Sheet Liabilities	275,646	23,796	23,796	47,592	47,592	47,592	-	6,284	78,994
Total liabilities with Off-Balance Sheet Items (B)	**4,175,007**	**824,376**	**666,092**	**559,728**	**489,816**	**273,604**	**134,777**	**74,294**	**1,152,320**
Gap (A - B)		(709,622)	(450,225)	(365,591)	(325,913)	(5,143)	202,702	1,568,488	
Cumulative Gap		**(709,622)**	**(1,159,847)**	**(1,525,438)**	**(1,851,351)**	**(1,856,494)**	**(1,653,792)**	**(85,304)**	

Basel III - Pillar III - Disclosures (continued)

31 December 2022

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.4 Rate of Return Risk (PD 1.3.39) (continued)

Table 5.18 (a)

Profit rate risk in the Banking Book 200bp Profit Rate Shocks	(BD '000s)
Upward rate shocks on net profit	(5,799)
Downward rate shocks on net profit	5,799
Impact on Economic Value of Equity	4.9%

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 risk, 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, segregation 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 Strategy and Planning Department (SPD) are documented in the form of Investment Portfolio Reports and Investment Memorandums and are subject to independent review by the Investment Committee. Responsibility for all deployments and receipt of redemption proceeds vests with the SPD. The SPD 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 SPD operates as an independent department responsible for due diligence of investments and specializes in sourcing deals and performing the initial analysis. Moreover, the Investment Administration Department will perform the investment management duties of monitoring the investments and preparing performance reports along with other required documentation. This set-up helps streamline processes as each unit focuses on specific set of duties at the same time having independence controls.

Basel III - Pillar III - Disclosures (continued)

31 December 2022

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.5 Equity Position Risk (PD 1.3.21 d) (PD 1.3.31) (continued)

Table 5.19 Equity positions in the Banking Book

	Gross Credit Exposure (BD '000s)
Quoted Equities	3,782
Unquoted Equities	103,014
Investment in associates - equity accounted	254,006
Net realized gain during the year	3,236
Net unrealized loss during the period	(729)

(BD '000s)

Asset Categories for Credit Risk	Gross Credit Exposure	Risk-Weighted Assets (RWA)	Minimum Capital Charge
Equity Investments - Unlisted	179	269	34
Investments in unrated funds - Unlisted	302	452	57
Significant investment in the common shares of financial entities >10%	282,329	196,405	24,551
Investment in listed real estate companies	3,782	11,346	1,418
Investment in unlisted real estate companies	83,179	332,715	41,589

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 holders from shareholders funds to cover the profit volatility risk. ASB 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 31 December 2022 was 165.3%.

6 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH) (PD 1.3.32)

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 banking 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 EIAH accountholders. Only the profits earned on pool of assets funded from EIAH and owners' equity 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. The Group did not charge any administration expenses to investment accounts.

Basel III - Pillar III - Disclosures (continued)

31 December 2022

6 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH) (continued)

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. 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 years ended 31 December 2022, 2021, 2020,2019, 2018 and 2017 are as follows: (**PD 1.3.33**) **(PD 1.3.41)**

Table 6.1

(BD '000s)

	Dec-2022	Dec-2021	Dec-2020	Dec-2019	Dec-2018	Dec-2017
Profit earned on the assets funded by EIAH	110,403	68,425	60,186	50,271	492	230
Profit paid for EIAH	47,991	35,977	29,335	28,425	246	119
Balance of:						
PER	-	-	-	-	-	-
IRR	-	-	-	-	-	7
Annual Rate of Return Benchmark	3%	3%	3%	3%	3%	3%
Annual Rate of Return (EIAH) - Profit earned	4.73%	4.21%	4.91%	4.86%	0.53%	0.23%
Annual Rate of Return (EIAH) - Profit paid	2.06%	2.22%	2.39%	2.75%	0.27%	0.12%
PER Amount	-	-	-	-	-	-
PER %	-	-	-	-	-	-
IRR Amount	-	-	-	-	-	7
IRR %	-	-	-	-	-	-
Reconciliation						
Mudaraba Profit Earned	110,403	68,425	60,186	50,271	492	230
Mudarib fees	(62,412)	(32,448)	(30,851)	(21,846)	(246)	(111)
Profit credited to EIAH accounts	**47,991**	**35,977**	**29,335**	**28,425**	**246**	**119**
Mudarib fee as a percentage of total investment profit	57%	47%	51%	43%	50%	48%
EIAH Balance	2,332,473	1,624,177	1,225,380	1,034,743	99,761	118,881
RWA as per PIRI Report	343,730	203,389	170,292	11,469	6,886	18,727

Table 6.2

(BD '000s)

	Dec-2022	Dec-2021	Dec-2020	Dec-2019	Dec-2018	Dec-2017
Rate of Return	2.06%	2.22%	2.39%	2.75%	0.25%	0.10%
Return on average EIAH assets (ROAA)	5.58%	4.80%	5.45%	15.23%	0.49%	0.26%
Return on average equity (Total Owner's Equity) (ROAE)	34.82%	23.68%	20.89%	16.15%	0.16%	0.14%

Basel III - Pillar III - Disclosures (continued)

31 December 2022

6 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH) (continued)

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

Total assets (net of ECL) - Breakdown by EIAH & Self financed

(BD '000s)

	Total Exposures	Funded by EIAH	Self Financed	% of EIAH to Total
Sovereign	1,273,552	412,064	861,488	32%
Financial Institutions	819,964	385,478	434,486	47%
Corporate	662,552	409,158	253,394	62%
Retail	1,143,293	1,108,390	34,903	97%
Total	**3,899,361**	**2,315,090**	**1,584,271**	**59%**

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		Investment in associate		Financing Assets		Finance Lease Assets	
	EIAH	Self Financed	EIAH	Self Financed	EIAH	Self Financed	EIAH	Self Financed	EIAH	Self Financed
Asset Allocation as on 31 December 2022	133,200	234,547	113,096	-	217,509	36,497	1,151,621	83,471	699,664	51,709
Asset Allocation as on 31 December 2021	189,403	119,746	133,860	-	-	-	766,248	42,295	519,632	36,277
Asset Allocation as on 31 December 2020	107,134	181,132	37,965	-	-	-	747,538	66,911	320,029	149,334
Asset Allocation as on 31 December 2019	117,829	101,627	76,660	38,143	-	-	656,985	28,771	183,269	206,473
Asset Allocation as on 31 December 2018	-	-	99,761	63,544	-	-	-	-	-	-
Asset Allocation as on 31 December 2017	-	-	118,881	22,344	-	-	-	-	-	-

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

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 daily basis by the Market Risk department and 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 31 December 2022.

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). The group has an investment in associate denominated in Algerian Dinar and the impact of foreign currency translation is included under Foreign Currency Translation Reserve (FCTR) in equity.

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 29 titled Related Party Transactions in the consolidated financial statements for the year ended 31 December 2022. The intra-group and related party transactions are made at agreed commercial terms and are approved by the board. (PD 1.3.10 e) (PD 1.3.23 d).

Basel III - Pillar III - Disclosures (continued)

31 December 2022

7 OTHER DISCLOSURES (continued)

7.3 Restructured Facilities

As at 31 December 2022, the balance of the renegotiated financing facilities to individuals and corporate was BD 25,631 thousands.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 year ended 31 December 2022. (PD 1.3.23 k)

7.5 Legal Risk and Claims

As at 31 December 2022, legal suits amounting to BD 1,302 thousands (2021: BD 3,203 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 1.3.23 e) (PD 1.3.24 e)**

7.8 CBB Penalties (PD 1.3.44)

During the year ended 31 December 2022 an amount of BD nil was paid as penalty to the Central Bank of Bahrain (CBB) for failure to comply with CBB requirements.

Basel III - Pillar III - Disclosures (continued)

31 December 2022

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, other than Solidarity Group Holding BSC (c), which is not consolidated being a non-banking subsidiary. Furthermore, the Bank has obtained an approval from the CBB to aggregate the risk weighted exposures of Al Salam Bank - Seychelles ("ASBS") instead of the line-by-line consolidation approach. 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	**3,899,361**
Collective provision impairment	30,584
Less: Provision related to Contingent Liabilities and Commitments	(160)
Balance sheet as in Regulatory Return	**3,929,785**

Step 2: Reconcilation of published financial balance sheet to regulatory reporting as at 31 December 2022

BHD '000

	Balance sheet as in published financial statements	Consolidated PIRI data	Reference
Assets			
Cash and balances with banks and Central Bank	**367,747**	**367,881**	
of which Self financed	-	234,681	
of which financed by URIA	-	133,200	
Placements with banks and similar financial institutions	**113,096**	**113,169**	
of which Self financed	-	-	
of which financed by URIA	-	113,169	
Held-to-maturity investments	**608,902**	**608,990**	
of which Sovereign Sukuk	584,471	-	
of which Corporate Sukuk	24,431	-	
Available-for-sale investments	**228,479**	**228,637**	
of which Sovereign Sukuk	212,706	-	
of which Corporate Sukuk	15,773	-	
Financing assets	**1,235,092**	**2,016,064**	
Finance lease assets	**751,373**	-	
of which Self financed	-	147,470	
of which financed by URIA	-	1,868,594	
Investment properties	**62,462**	**62,462**	
of which Investments in real estate	62,462	-	
Investment in associates	**254,006**	**254,006**	
of which Self financed	-	36,497	
of which financed by URIA	-	217,509	
Property, plant, and equipment (PPE)	**6,415**	**6,415**	
Other Assets	**271,789**	**272,161**	
Non-Trading investment	106,796	106,796	
Other receivables and prepayments	61,305	61,677	
Takaful assets	51,690	51,690	
Goodwill	**51,998**	**51,998**	
of which eligible for deduction from CET1	-	25,971	G
of which not eligible for CET1 deduction	-	26,027	
Total Assets	**3,899,361**	**3,929,785**	

Basel III - Pillar III - Disclosures (continued)

31 December 2022

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE (continued)

Appendix PD-2: Reconciliation requirements (continued)

BHD '000

	Balance sheet as in published financial statements	Consolidated PIRI data	Reference
Liabilities			
Customers' current accounts	**550,281**	**550,281**	
Placements from financial institutions	**187,724**	**187,724**	
Funding Liabilities (e.g. reverse commodity murabaha, etc.)	**320,989**	**320,989**	
of which Murabaha Term Financing	320,989	-	
Accruals, deferred income, other liabilities, current and deferred tax liabilities (DTLs)	**170,539**	**170,379**	
of which Other liabilities	78,798	78,638	
of which Takaful Liabilities	91,741	91,741	
Unrestricted Investment Accounts	**2,332,473**	**2,332,473**	
Total Liabilities	**3,562,006**	**3,561,846**	
Owners' Equity			
Total share capital	**237,210**	**237,210**	**A**
Share capital	249,231	249,231	
Treasury stock	(12,021)	(12,021)	
Reserves and retained earnings	**66,041**	**66,041**	
Share premium	209	209	**C-1**
Statutory reserve	21,759	21,759	**C-2**
Retained earnings (excluding profit for the year), of which:	98	98	
Amount eligible for CET1	(2,076)	(2,076)	**B-1**
Amount not eligible for CET1	31	31	
Subsidy from government	2,143	2,143	
Modification Loss	(24,768)	(24,768)	
Modification loss amortization	24,768	24,768	**B-2**
Net profit for the year	31,593	31,593	
of which amount eligible for CET1	30,909	30,909	**B-3**
of which amount not eligible for CET1	684	684	
Fx translation adjustment	(3,708)	(3,708)	
of which amount eligible for CET1	-	(4,104)	**C-3**
of which amount not eligible for CET1	-	396	
Changes in fair value - amount eligible for CET1	(8,643)	(8,643)	**C-4**
Share grant scheme	1,934	1,934	**C-5**
Real estate fair value reserve - amount eligible for T2	22,799	22,799	**D**
Minority interest in subsidiaries' share capital	**34,104**	**34,104**	
of which amount eligible for CET1	-	206	**E-1**
of which amount eligible for AT1	-	44	**E-2**
of which amount eligible for T2	-	59	**E-3**
of which amount not eligible for regulatory capital	-	33,795	
Expected credit losses (Stages 1 & 2)	-	**30,584**	
of which amount eligible for T2	-	15,557	**F**
of which amount not eligible for regulatory capital	-	15,027	
Total Owners' Equity	**337,355**	**367,940**	
Total Liabilities + Owners' Equity	**3,899,361**	**3,929,785**	

Basel III - Pillar III - Disclosures (continued)

31 December 2022

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE (continued)

Appendix PD-1: Reconciliation requirements & Template

Step 3: Composition of Capital Common Template as at 31 December 2022

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	237,210	A
2	Retained earnings	53,601	B1+B2+B3
3	Accumulated other comprehensive income (and other reserves)	11,155	C1+C2+C3+C4+C5
4	Not Applicable		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	206	E1
6	**Common Equity Tier 1 capital before regulatory adjustments**	302,173	
	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)	8,591	
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**	34,562	
29	**Common Equity Tier 1 capital (CET1)**	**267,611**	

Basel III - Pillar III - Disclosures (continued)

31 December 2022

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE (continued)

Appendix PD-1: Reconciliation requirements & Template (continued)

Step 3: Composition of Capital Common Template as at 31 December 2022 (continued)

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
	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)	44	E-2
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	**Additional Tier 1 capital before regulatory adjustments**	**44**	
	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)**	**44**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**267,655**	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	22,799	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)	59	E-3
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	15,557	F
51	**Tier 2 capital before regulatory adjustments**	**38,415**	
	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**	-	

Basel III - Pillar III - Disclosures (continued)

31 December 2022

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE (continued)

Appendix PD-1: Reconciliation requirements & Template (continued)

Step 3: Composition of Capital Common Template as at 31 December 2022 (continued)

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
58	**Tier 2 capital (T2)**	**38,415**	
59	**Total capital (TC = T1 + T2)**	**306,070**	
60	**Total risk weighted assets**	**1,396,290**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	**19.17%**	
62	Tier 1 (as a percentage of risk weighted assets)	**19.17%**	
63	Total capital (as a percentage of risk weighted assets)	**21.92%**	
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)	**19.17%**	
	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)	30,584	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	15,557	
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)	-	

Basel III - Pillar III - Disclosures (continued)

31 December 2022

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE (continued)

Appendix PD-3: Features of regulatory capital

For the year ended 31 December 2022

1	Issuer	Al Salam Bank B.S.C.
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 249.231 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

Basel III - Pillar III - Disclosures (continued)

31 December 2022

APPENDIX II - NET STABLE FUNDING RATIO (NSFR) DISCLOSURE

BACKGROUND:

Al Salam Bank ("ASB") 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. ASB is required to maintain NSFR of at least 100% on an on-going basis.

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 ASB 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.

ASB 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 customer 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 comfortable funding mix for the long-term assets and subsequently healthy NSFR.

The Assets and Labilities Committee (ALCO) regularly reviews 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 31 December 2022, the weighted value of the Available Stable Funding (ASF) stood at BD 2.4 billion, while the total weighted value of the Required Stable Funding (RSF) stood at BD 2.2 billion. The resultant NSFR stood at 108.33%, well above the current 100% 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 13%, 61% and 11% respectively. The bank does not rely on financial market funding sources 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.

ASB'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 2% of the RSF portfolio. Performing financing and Investment exposures accounts for 67% and 20% of the RSF.

At ASB, 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.

Basel III - Pillar III - Disclosures (continued)

31 December 2022

APPENDIX II - NET STABLE FUNDING RATIO (NSFR) REPORT - CONSOLIDATED

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	279,592	-	-	38,415	**318,007**
3	Other Capital Instruments	-	-	-	-	**-**
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	315,809	21,822	15,879	**336,629**
6	Less stable deposits	-	936,116	233,070	133,844	**1,186,111**
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	**-**
9	Other wholesale funding	-	1,452,526	184,892	87,198	**473,702**
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities		-	-	-	
12	All other liabilities not included in the above categories	-	51,422	-	46,593	**46,593**
13	**Total ASF**					**2,361,042**
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	**34,634**
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	-	285,379	-	6,496	**49,303**
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:	-	357,123	154,489	1,222,473	**1,268,029**
20	With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	134,393	**87,356**
21	Performing residential mortgages, of which:	-	-	-	221,246	**143,810**
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	221,246	**143,810**
23	Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	12,236	2,458	12,357	**17,850**
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	557,037	14,025	-	88,124	**652,174**
30	OBS items		275,333	-	-	**13,767**
31	**Total RSF**		-	-	-	**2,179,566**
32	**NSFR (%)**					**108.33%**

Basel III - Pillar III - Disclosures (continued)

31 December 2022

APPENDIX III - LIQUIDITY COVERAGE RATIO (LCR) REPORT - CONSOLIDATED

CBB issued its regulations on Liquidity Risk Management in August 2018. The regulations mandate that banks are required to maintain LCR of at least 100% on a daily basis. The objective of LCR is to manage assets and liabilities to create strong short-term resilience and sufficient liquidity that is enough to fund cash outflow for 30 days.

Below is the bank's average consolidated LCR for the period:

BHD '000

		Q4-2022		Q3-2022	
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets					
1	Total HQLA		**538,323**		**616,856**
Cash outflows					
2	**Retail deposits and deposits from small business customers, of which:**				
3	Stable deposits	90,554	2,717	89,646	2,689
4	Less stable deposits	632,859	63,286	602,940	60,294
5	**Unsecured wholesale funding, of which:**				
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-
7	Non-operational deposits (all counterparties)	766,757	466,370	786,421	460,845
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	81,628	21,670	74,301	20,584
14	**Other contractual funding obligations**	-	**-**	-	-
15	**Other contingent funding obligations**	167,814	6,497	184,958	9,352
16	Total Cash Outflows		**560,540**		**553,764**
Cash inflows					
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	92,981	48,592	73,339	37,302
19	Other cash inflows	298,074	292,326	247,848	247,431
20	Total Cash Inflows	391,055	**340,919**	321,187	**284,733**

		Total adjusted Value	Total adjusted Value
21	**Total HQLA**	**538,323**	**616,856**
22	**Total net cash outflows**	**219,621**	**269,031**
23	**Liquidity Coverage Ratio (%)***	**251.40%**	**233.24%**

*Represents simple average of daily LCR

Basel III - Pillar III - Disclosures (continued)

31 December 2022

APPENDIX IV - LEVERAGE RATIO - CONSOLIDATED

CBB in June 2018 issued guidelines on leverage ratio as part of updates to the Capital Adequacy Module. The ratio measures how well the banks' Tier 1 capital covers its total exposures (self-financed exposures and adjusted exposures funded by EOIA) both on-balance sheet and off-balance sheet. CBB has mandated a minimum consolidated leverage ratio of 3%.

Below is the bank's consolidated financial leverage ratio as at 31 December 2022:

S.No.	Description	BHD '000
1	Total Self Financed Assets	1,440,763
2	Total URIA Financed Assets	2,341,276
3	Off Balance Sheet items - with relevant Credit Conversion Factors	139,371
4	**Leverage ratio exposure [(1) + (2)*30% + (3)]**	**2,282,517**
5	Regulatory Adjustments	34,562
6	**Total exposures for the calculation of the leverage ratio[(4)-(5)]**	**2,247,955**
7	**Tier 1 Capital**	**245,030**
	Leverage Ratio [(7)/(6)]	**10.90%**
	Minimum Leverage Ratio as required by CBB	3%

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