بنك السلام
Al Salam Bank

AL SALAM BANK B.S.C.

BASEL III - PILLAR III
Disclosures

30 June 2023

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1 Introduction

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

The Basel III accord is built on three pillars:

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

The disclosures in this document are in addition to the disclosures included in the condensed consolidated interim financial information 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 had 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 was completed on 7 July 2022 after obtaining required regulatory and corporate approvals.

During the period, the Group has increased its legal shareholding in Al Salam Bank Algeria ("ASBA") to 53.13%, thereby establishing control. Furthermore, the Group has firm commitments at agreed pricing terms from other selling shareholders to increase its shareholding by another 14.90%, which is currently under a regulatory approval process. Accordingly, the Bank has present access to 68.03% of the interest in ASBA. For further details refer note 18 of the condensed consolidated interim financial information for the period ended 30 June 2023.

The Bank and its principal banking subsidiaries operates through 16 branches in the Kingdom of Bahrain, 1 branch in Seychelles and 23 branches in Algeria and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offers 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 condensed consolidated interim financial information and capital adequacy regulatory disclosures of the Group have been prepared on a consistent basis where applicable.

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

(BD '000s)

	Jun-2023	Dec-2022	Dec-2021	Dec-2020	Dec-2019	Dec-2018
Net operating income	70,192	96,396	66,737	57,420	53,527	56,719
Net profit	21,868	33,070	21,224	9,118	21,130	18,520
Total assets	4,870,811	3,899,361	2,684,571	2,261,353	2,042,803	1,710,310
Total equity	384,078	337,355	296,759	281,167	320,074	304,822
Key Ratios	**Jun-2023**	**Dec-2022**	**Dec-2021**	**Dec-2020**	**Dec-2019**	**Dec-2018**
Earnings per share (fils)	8.0	13.5	8.8	4.3	9.7	8.7
Return on average assets (%)	1.0	1.0	0.9	0.4	1.1	1.1
Return on average equity (%)	13.2	11.0	7.4	3.0	6.8	6.1
Cost to Net operating income (%)	45.5	52.5	49.4	52.3	55.6	48.9
Dividend payout ratio (%)	N/A	37.4	42.80	0.0	41.9	40.5
Dividend yield ratio (%)	N/A	5.0	4.04	0.0	4.0	3.5
Net profit margin on average Islamic assets (%)	2.4	2.9	2.9	3.4	2.7	2.9

2 Financial Performance and Position (continued)

Table 2.2 Financial Summary

(BD '000s)

Consolidated Financial Position	Jun-2023	Dec-2022	Dec-2021	Dec-2020	Dec-2019	Dec-2018
Cash and balances with banks and Central Bank	572,912	367,747	309,149	288,266	219,456	82,587
Placements with financial institutions	178,262	113,096	133,860	37,965	114,803	163,305
Investment in sukuk	932,591	837,381	639,688	409,503	367,467	363,437
Financing assets	2,559,021	1,986,465	1,364,452	1,283,812	1,075,498	825,797
Non-trading investments	110,654	106,796	91,591	98,034	108,991	107,508
Takaful and related assets	53,309	51,690	-	-	-	-
Investment in real estate	75,925	62,462	60,904	70,529	75,717	80,551
Investment in associates	221,406	254,006	14,533	12,036	10,640	15,972
Other assets	91,184	67,720	44,423	35,237	44,260	45,182
Goodwill and other intangible assets	75,547	51,998	25,971	25,971	25,971	25,971
Placements from financial institutions and customers	175,457	187,724	126,891	116,883	211,459	850,049
Customers' current accounts	960,976	550,281	482,739	363,970	289,456	251,842
Murabaha term financing	418,317	320,989	100,216	221,671	145,590	155,543
Takaful and related liabilities	92,225	91,741	-	-	-	-
Other liabilities	105,896	78,798	53,789	52,282	41,481	48,293
Equity of Investment Accountholders (EIAH)	2,733,862	2,332,473	1,624,177	1,225,380	1,034,743	99,761
of which: Wakala from financial institutions	310,231	319,339	299,607	264,784	210,887	-
of which: Wakala and mudaraba from customers	2,423,631	2,013,134	1,324,570	960,596	823,856	-
Capital	**Jun-2023**	**Dec-2022**	**Dec-2021**	**Dec-2020**	**Dec-2019**	**Dec-2018**
Capital adequacy (%)	20.6	21.9	28.5	26.5	21.2	20.6
Equity / Total assets (%)	7.9	8.7	11.1	12.4	15.7	17.8
Total customer deposits / Equity (times)	8.8x	7.6x	6.1x	4.7x	3.5x	3.5x
Liquidity and Other Ratios	**Jun-2023**	**Dec-2022**	**Dec-2021**	**Dec-2020**	**Dec-2019**	**Dec-2018**
Islamic financing contracts / Total assets (%)	52.5	50.9	50.8	56.8	52.6	48.3
Investments / Total assets (%)	27.5	32.3	30.1	26.1	27.6	33.2
Liquid assets / Total assets (%)	22.8	20.1	32.7	18.3	22.7	23.2
Liquid assets / Current and URIA deposits (%)	30.1	27.2	41.7	26.0	35.0	112.8
Customer Deposits / Total assets (%)	69.5	66.0	67.3	58.6	54.5	61.8
Due from banks and financial institutions/ Total Assets (%)	3.7	2.9	5.0	1.7	5.6	9.5
Interbank Assets / Interbank Liabilities (%)	101.6	63.9	105.5	32.5	54.3	113.3
Islamic financing contracts / Customer deposits (%)	75.6	77.2	75.4	96.9	96.6	78.1
Number of employees	522	577	376	363	355	341

3 Group and Capital Structure

3.1 Group Structure

The Condensed consolidated interim financial information for the period comprise of the financial statements of the Bank and its subsidiaries (together referred to as "the Group")

The principal subsidiaries and associates as at 30 June 2023 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
Al Salam Bank Algeria	Banking subsidiary	Consolidation of risk weighted assets
Kenaz Al Kadam Real Estate Investment W.L.L.	Commercial entity	Risk weighting using look- through approach
Wahat Al Muharraq Real Estate Investment W.L.L.		
Solidarity Group Holding BSC (c)	Insurance Subsidiary	Risk weighting of investment exposure
Associates		
Gulf African Bank	Financial entity	Risk weighting of investment exposure
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 323,811 thousand 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 261,692 thousand at 30 June 2023, comprising of 2,616,920 thousand shares of BD 0.100 each. (PD 1.3.11)

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

Table 3.1 Breakdown of the Bank's Capital Base **(PD 1.3.12, 13, 14, 15, 16, 20)**

(BD '000s)

	CET1	AT1	T2
Issued and fully paid up ordinary shares	261,692		
Treasury shares	(9,878)		
General Reserves	1,631		
Legal/statutory reserves	21,759		
Share premium	209		
Retained earnings	20,524		
Current interim cumulative net income / losses	19,691		
Unrealized gains and losses on available for sale financial instruments	(6,581)		
Gains and loss resulting from converting foreign currency subsidiaries to the parent currency	(941)		
Total Minority Interest in banking subsidiaries given recognition in CET1 capital	8,422		
Total CET1 capital prior to regulatory adjustments	**316,528**		
Less:			
Goodwill & Intangibles	(50,156)		
Total Common Equity Tier 1 capital after regulatory adjustments above	**266,372**		
Instruments issued by banking subsidiaries to third parties		2,807	3,743
Asset revaluation reserve - Property, plant, and equipment		-	22,799
General financing loss provisions		-	28,090
Total Available AT1 & T2 Capital		**2,807**	**54,632**
Total Tier 1		**269,179**	
Total Capital (PD 1.3.20 a)			**323,811**

Table 3.2 (BD '000s)

	Risk Weighted Exposures		
	Credit	Operational	Market
Risk Weighted Exposures (self-financed)	1,035,036	136,786	983
Risk Weighted Exposures (URIA)	385,823	-	-
Aggregation of Risk Weighted Exposures	8,858	824	-
Risk Weighted Exposures after Aggregation *	**1,429,717**	**137,610**	**983**
Total Risk Weighted Exposures			**1,568,310**

	CET 1	T1	Total Capital
% of Total Risk Weighted Exposures (CAR) (PD 1.3.20 a)	**16.98%**	**17.16%**	**20.65%**
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%**

(PD 1.3.20 b)

Capital Adequacy Ratio of the group's significant subsidiaries**	CET 1	T1	Total Capital
Al Salam Bank Algeria*	12.44%	12.44%	13.40%

* Calculated in accordance with the Capital Adequacy requirements issued by the foreign subsidiary's respective Cenral bank.
**ASBS has not been considered as a significant subsidiary as the regulatory capital is less than 5% of the Group's consolidated capital base.

4 Capital Adequacy Ratios (CAR)

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

4.1 Capital Management

Internal Capital Adequacy Assessment Process (ICAAP)

The Group's capital management aims to maintain an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always maintaining minimum regulatory ratio requirements 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 period ended 30 June 2023.

5 Profile of Risk-Weighted Assets and Capital Charge

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

5.1 Credit Risk

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

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

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

a. Claims on sovereigns

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

b. Claims on public sector entities (PSEs)

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

c. Claims on banks

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

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

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

d. Claims on corporate portfolio, including insurance companies

Claims on corporate portfolio including insurance companies are risk weighted based on credit ratings. Risk weightings for unrated corporate claims are assigned at 100%.

e. Claims on regulatory retail portfolio

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

f. Mortgages

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

5 Profile of Risk-Weighted Assets and Capital Charge

5.1 Credit Risk (continued)

Table 5.1 Funded and Unfunded Exposures

(BD '000s)

Exposure type	Self Financed Gross Credit Exposure	CRM	Net Credit Exposure	Risk-Weighted Assets (RWA)	Minimum Capital Charge
Cash and balances with banks and Central Bank	471,601	-	471,601	20,641	2,580
Sovereign Sukuk	870,550	-	870,550	14,309	1,789
Placements with financial institutions	1,387	-	1,387	694	87
Corporate Sukuk	39,364	-	39,364	30,454	3,807
Murabaha financing	86,239	19,601	66,638	72,066	9,008
Mudaraba financing	40,954	2,836	38,118	37,454	4,682
Finance lease assets	83,313	34,506	48,807	45,931	5,741
Salam financing	113,416	33,395	80,021	80,278	10,035
Istisna financing	18,973	3,521	15,452	15,566	1,946
Musharaka	5,037	1,112	3,925	3,925	491
Credit Cards	327	-	327	258	32
Non-trading investments	86,044	-	86,044	338,919	42,365
Investment in real estate	70,100	-	70,100	140,201	17,525
Investment in associates	4,036	-	4,036	10,090	1,261
Other assets	72,374	-	72,374	61,721	7,715
Goodwill and other intangible assets*	17,833	-	17,833	8,917	1,115
Total funded exposures	**1,981,548**	**94,971**	**1,886,577**	**881,424**	**110,179**
Contingent Liabilities & Commitments	243,348	21,370	221,978	153,611	19,201
Total unfunded exposures	**243,348**	**21,370**	**221,978**	**153,611**	**19,201**
Aggregation of Risk Weighted Exposures for AlSalam Bank Seychelles Limited	**-**	**-**	**-**	8,858	1,107
Total exposures	**2,224,896**	**116,341**	**2,108,555**	**1,043,893**	**130,487**

* Gross exposure excludes goodwill and other intangibles amounting to BD 50,156 thousand which is subject to dedcuction from regulatory capital.

Exposure Type	Funded by EAIH Gross Credit Exposure	CRM	Net Credit Exposure	Risk-Weighted Assets (RWA)*30%	Minimum Capital Charge
Cash and balances with banks and Central Bank	92,242	-	92,242	-	-
Placements with financial institutions	150,026	-	150,026	18,306	2,288
Murabaha financing	637,416	35,580	601,836	107,715	13,464
Mudaraba financing	588,939	135,495	453,444	74,881	9,360
Finance lease assets	764,910	125,587	639,323	74,606	9,326
Salam financing	175,708	-	175,708	52,712	6,589
Istisna financing	27,154	-	27,154	8,146	1,018
Musharaka	27,195	-	27,195	8,111	1,014
Credit Cards	13,467	-	13,467	3,210	401
Investment in an associate	217,042	-	217,042	32,556	4,070
Investment in Subsidiary	37,200	-	37,200	5,580	698
Total funded exposures	**2,731,299**	**296,662**	**2,434,637**	**385,823**	**48,228**
Contingent Liabilities & Commitments	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**
Total exposures	**2,731,299**	**296,662**	**2,434,637**	**385,823**	**48,228**

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

Note b: The gross credit exposure is arrived at after considering the following:
- inclusion of unfunded exposure (after CCF); and

- deduction of excess amount over maximum permitted large exposure limit.

Note c: The unfunded exposure before (CCF) as of 30 June 2023 is BD 601,344 thousand.

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

5.1 Credit Risk (continued)

Excessive risk concentration (PD 1.3.26 a)

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

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

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

Table 5.2 Gross Credit Exposures (PD 1.3.26 b)

(BD '000s)

Current Credit Exposure by Type of Islamic Financing Contracts	Gross Positive Fair Value (Net of specific provision)	Netting Benefits	Netted Current Credit Exposures	Eligible Collaterals Held (after appropriate haircuts) *				
				Cash	Govt. Securities	Guarantees	Real Estate	Total
Murabaha financing	723,655	-	723,655	63,240	31,686	-	-	**94,926**
Mudaraba financing	629,893	-	629,893	155,735	-	-	-	**155,735**
Finance lease assets (Ijarah Muntahia Bittamleek)	848,223	-	848,223	17,674	-	-	373,276	**390,950**
Salam financing	289,124	-	289,124	43,005	-			**43,005**
Istisna financing	46,127	-	46,127	3,974	-			**3,974**
Musharaka	32,232	-	32,232	1,112	-	-	-	**1,112**
Credit Cards	13,794	-	13,794	-	-	-	-	**-**
Total	**2,583,048**	**-**	**2,583,048**	**284,740**	**31,686**	**-**	**373,276**	**689,702**

* 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 30 June 2023, the Group's exposures in excess of 15% of the obligor limits to individual counterparties, excluding Central Bank and exempt exposures by CBB were BHD nil.

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	475,678	384,546
Placements with financial institutions	24,753	24,753
Investment in sukuk	932,591	912,318
Financing assets	310,982	215,568
Non-trading investments	110,654	108,755
Takaful and related assets	53,309	56,325
Investment in real estate	75,925	69,151
Investment in associates	4,364	21,331
Other assets	91,184	74,388
Goodwill and other intangible assets	75,547	63,614
Total funded exposures	**2,154,987**	**1,930,749**
Contingent Liabilities & Commitments	601,344	421,560
Total unfunded exposures	**601,344**	**421,560**
Total exposures	**2,756,331**	**2,352,309**

Funded by EAIH		
Exposure Type	**Gross Credit Exposure***	**Average Gross Credit Exposure ****
Cash and balances with banks and Central Bank	97,234	107,221
Placements with financial institutions	153,509	123,581
Financing assets	2,248,039	2,099,012
Investment in associates	217,042	224,350
Total funded exposures	**2,715,824**	**2,554,164**
Contingent Liabilities & Commitments	-	-
Total unfunded exposures	**-**	**-**
Total exposures	**2,715,824**	**2,554,164**

* 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 30 June 2023, the collaterals eligible for CRM (after applying regulatory haircuts) amounted to BD 689,702 thousand.

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.

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	Others	Total
Cash and balances with banks and Central Bank	137,225	338,453	**475,678**
Sovereign Sukuk	832,005	52,523	**884,528**
Placements with financial institutions	14,596	10,157	**24,753**
Corporate Sukuk	41,890	6,173	**48,063**
Murabaha financing	37,774	38,596	**76,370**
Mudaraba financing	12,824	17,895	**30,719**
Finance lease assets	35,246	41,851	**77,097**
Salam financing	-	108,414	**108,414**
Istisna financing	-	18,245	**18,245**
Credit Cards	100	37	**137**
Non-trading investments	101,597	9,057	**110,654**
Takaful and related assets	33,867	19,442	**53,309**
Investment in real estate	60,146	15,779	**75,925**
Investment in associates	-	4,364	**4,364**
Other assets	57,252	33,932	**91,184**
Goodwill and other intangible assets	51,362	24,185	**75,547**
Total funded exposures	**1,415,884**	**739,103**	**2,154,987**
Contingent Liabilities & Commitments	274,982	326,362	**601,344**
Total unfunded exposures	**274,982**	**326,362**	**601,344**
Total exposures	**1,690,866**	**1,065,465**	**2,756,331**

Table 5.5 (PD 1.3.23 b)

(BD '000s)

	Funded by EIAH		
Exposure type	GCC Countries	Others	Total
Cash and balances with banks and Central Bank	95,044	2,190	**97,234**
Placements with financial institutions	153,509	-	**153,509**
Murabaha financing	602,210	52,339	**654,549**
Mudaraba financing	575,677	8,747	**584,424**
Finance lease assets	731,673	37,224	**768,897**
Salam financing	-	173,075	**173,075**
Istisna financing	-	26,749	**26,749**
Musharaka	27,195	-	**27,195**
Credit Cards	13,150	-	**13,150**
Investment in associates	217,042	-	**217,042**
Total funded exposures	**2,415,500**	**300,324**	**2,715,824**
Contingent Liabilities & Commitments	-	-	-
Total unfunded exposures	**-**	**-**	**-**
Total exposures	**2,415,500**	**300,324**	**2,715,824**

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	44,565	(2,973)	72,129	(34,548)
Others	83,072	(1,244)	3,494	-
Total	**127,637**	**(4,217)**	**75,623**	**(34,548)**

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

5.1 Credit Risk (continued)

5.1.2 Exposure by Industry

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

(BD '000s)

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	-	392,341	-	-	83,337	-	**475,678**
Sovereign Sukuk	-	-	-	-	884,528	-	**884,528**
Placements with financial institutions	-	24,753	-	-	-	-	**24,753**
Corporate Sukuk	-	8,762	39,301	-	-	-	**48,063**
Murabaha financing	29,841	12,405	114	27,513	-	6,497	**76,370**
Mudaraba financing	10,450	503	10,382	-	-	9,384	**30,719**
Finance lease assets	4,578	-	16,655	39,858	-	16,006	**77,097**
Salam financing	101,867	-	-	1,494	-	5,053	**108,414**
Istisna financing	18,245	-	-	-	-	-	**18,245**
Credit Cards	-	-	-	137	-	-	**137**
Non-trading investments	-	25,154	85,500	-	-	-	**110,654**
Takaful and related assets	-	53,309	-	-	-	-	**53,309**
Investment in real estate	-	-	75,925	-	-	-	**75,925**
Investment in associates	-	4,078	-	-	-	286	**4,364**
Other assets	396	31,680	14,919	30,139	10,971	3,079	**91,184**
Goodwill and other intangible assets	-	75,547	-	-	-	-	**75,547**
Total funded exposures	**165,377**	**628,532**	**242,796**	**99,141**	**978,836**	**40,305**	**2,154,987**
Contingent Liabilities & Commitments	339,915	56,462	50,483	31,229	56,886	66,369	**601,344**
Total unfunded exposures	**339,915**	**56,462**	**50,483**	**31,229**	**56,886**	**66,369**	**601,344**
Total exposures	**505,292**	**684,994**	**293,279**	**130,370**	**1,035,722**	**106,674**	**2,756,331**

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	-	-	-	-	97,234	-	**97,234**
Placements with financial institutions	-	153,509	-	-	-	-	**153,509**
Murabaha financing	42,013	23,203	32,792	422,490	124,004	10,047	**654,549**
Mudaraba financing	38,041	70,286	97,243	146,225	142,775	89,854	**584,424**
Finance lease assets	39,991	2,145	53,870	584,113	67,030	21,748	**768,897**
Salam financing	166,931	-	-	-	-	6,144	**173,075**
Istisna financing	19,860	-	-	-	-	6,889	**26,749**
Musharaka	-	-	21,523	5,672	-	-	**27,195**
Credit Cards	-	-	-	13,150	-	-	**13,150**
Investment in associates	-	217,042	-	-	-	-	**217,042**
Total funded exposures	**306,836**	**466,185**	**205,428**	**1,171,650**	**431,043**	**134,682**	**2,715,824**
Contingent Liabilities & Commitments	-	-	-	-	-	-	**-**
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**306,836**	**466,185**	**205,428**	**1,171,650**	**431,043**	**134,682**	**2,715,824**

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	69,115	(1,226)	12,458	(8,039)
Banks and Financial Institutions	-	-	13,726	(5,184)
Real Estate	179	(5)	6,099	(5,560)
Individuals	49,984	(2,867)	33,572	(13,561)
Government and public sector entities	1,223	(2)	-	-
Others	7,136	(117)	9,769	(2,204)
Total	**127,637**	**(4,217)**	**75,624**	**(34,548)**

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

5.1 Credit Risk (continued)

5.1.2 Exposure by Industry (continued)

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 1 Year	Over 1 year up to 3 years	Over 3 years			
Trading and Manufacturing	70,681	7,424	3,468	(9,265)	72,308	57,909
Banks and Financial Institutions	13,726	-	-	(5,184)	8,542	1,639
Real Estate	2,342	3,429	506	(5,565)	712	4,992
Individuals	67,528	7,345	8,682	(16,428)	67,127	70,013
Government and public sector entities	1,223	-	-	(2)	1,221	-
Others	14,871	1,772	263	(2,321)	14,585	8,657
Total	**170,371**	**19,970**	**12,919**	**(38,765)**	**164,495**	**143,210**

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	**18,257**	**12,327**	**27,150**	**-**	**57,734**
- transferred to Stage 1: 12 month ECL	343	(242)	(101)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(1,557)	2,127	(570)	-	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(290)	(3,431)	3,721	-	-
Net remeasurement of loss allowance	5,378	(1,625)	11,693	(1,497)	13,949
Recoveries / write-backs	-	-	(461)	-	(461)
Allowance for credit losses	**3,874**	**(3,171)**	**14,282**	**(1,497)**	**13,488**
Exchange adjustments and other movements	(2)	**(3)**	(80)	1,932	**1,847**
Balance at the end of the period	**22,129**	**9,153**	**41,352**	**435**	**73,069**

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	33,306	-	33,306
Claims on sovereigns	1,356,788	12,706	1,344,082
Claims on banks	259,165	190,297	68,868
Claims on corporate portfolio	1,328,235	-	1,328,235
Regulatory retail portfolio	326,850	-	326,850
Mortgages	1,041,610	-	1,041,610
Past due receivables over 90 days	47,633	-	47,633
Investments in Securities and Sukuk	4,542	-	4,542
Holding of Real Estate	157,993	-	157,993
Other assets and Specialized financing	400,073	-	400,073
Total	**4,956,195**	**203,003**	**4,753,192**

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

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

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

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

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

5.1 Credit Risk (continued)

5.1.5 Maturity Analysis of Exposures

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

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

	Notional Principal	Credit Exposure *
Contingent liabilities on behalf of customers	265,417	113,060
Irrevocable unutilised commitments	335,927	130,288
Total	**601,344**	**243,348**

* 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	572,912	-	**572,912**	-	-	-	-	-	**572,912**
Sovereign Sukuk	66,643	112,595	**179,238**	395,254	272,275	12,464	25,297	**705,290**	**884,528**
Placements with financial institutions	154,243	24,019	**178,262**	-	-	-	-	-	**178,262**
Corporate Sukuk	363	25,900	**26,263**	21,407	393	-	-	**21,800**	**48,063**
Financing assets and finance lease assets	474,456	583,549	**1,058,005**	874,508	294,555	271,855	60,098	**1,501,016**	**2,559,021**
Non-trading investments	-	-	-	2,487	108,167	-	-	**110,654**	**110,654**
Takaful and related assets	-	-	-	-	53,309	-	-	**53,309**	**53,309**
Investment in real estate	-	-	-	-	75,925	-	-	**75,925**	**75,925**
Investment in associates	-	-	-	161,105	60,301	-	-	**221,406**	**221,406**
Other assets	19,614	5,747	**25,361**	2,559	61,074	1,174	1,016	**65,823**	**91,184**
Goodwill and other intangible assets	-	-	-	-	75,547	-	-	**75,547**	**75,547**
Total	**1,288,231**	**751,810**	**2,040,041**	**1,457,320**	**1,001,546**	**285,493**	**86,411**	**2,830,770**	**4,870,811**

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	156,112	102,768	**258,880**	52,595	22,646	1,806	-	**77,047**	**335,927**
Contingent liabilities	164,382	52,280	**216,662**	26,871	21,873	11	-	**48,755**	**265,417**
Total	**320,494**	**155,048**	**475,542**	**79,466**	**44,519**	**1,817**	**-**	**125,802**	**601,344**

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

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

5.1 Credit Risk (continued)

5.1.5 Maturity Analysis of Exposures (continued)

Table 5.15 Contractual maturity analysis by major type of funding **(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	116,819	58,638	**175,457**	-	-	-	-	**-**	**175,457**
Customers' current accounts	960,976	-	**960,976**	-	-	-	-	**-**	**960,976**
Murabaha term financing	285,328	105,049	**390,377**	22,557	5,383	-	-	**27,940**	**418,317**
Takaful and related liabilities	-	-	**-**	-	92,225	-	-	**92,225**	**92,225**
Other liabilities	20,581	23,457	**44,038**	13,297	48,561	-	-	**61,858**	**105,896**
Equity of Investment Accountholders	1,458,534	967,892	**2,426,426**	307,132	292	12	-	**307,436**	**2,733,862**
Total	**2,842,238**	**1,155,036**	**3,997,274**	**342,986**	**146,461**	**12**	**-**	**489,459**	**4,486,733**

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	Period end Capital Charge	Capital Requirement –Minimum*	Capital Requirement –Maximum*
Foreign exchange risk	983	123	79	79	3,151
Total market risk	**983**	**123**	**79**	**79**	**3,151**

* 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 period ended 30 June 2023.

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 a)**

5.3 Operational Risk

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

The Group's policy 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.

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

5.3 Operational Risk (continued)

(PD 1.3.19) (PD 1.3.30 a, b)
In accordance with the basic indicator approach methodology of Basel III, the total consolidated minimum capital charge in respect of operational risk was BD 17,201 thousand. 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 824 thousand.

Table 5.17 **(BD '000s)**

	Jun-2023
Average gross income	72,953
Risk weighted exposures	136,786
Minimum capital charge	17,098

The Group uses the Temenos T24 core system developed by Globus, for obtaining the data needed for analysis of events and data related to credit, market and operational risk assessment. The Bank uses a dedicated system namely ‘Risk Nucleus’ system developed by BenchMatrix for effective operational risk management.

Non-Shari’a compliant income for the period ended 30 June 2023 amounted to BD 176 thousand. 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 period ended 30 June 2023. (PD 1.3.30 b.ii)

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

5.4 Rate of Return Risk (PD 1.3.39)

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

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).

The below tables provide the asset and liability re-pricing profile on the contractual repricing or maturity dates, whichever is earlier for the period ended 30 June 2023 . **(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	572,912	-	-	-	-	-	-	-	572,912
Sovereign Sukuk	884,528	16,194	52,511	33,338	79,258	91,471	82,398	529,358	-
Placements with financial institutions	178,262	154,214	29	23,376	643	-	-	-	-
Corporate Sukuk	48,063	89	273	13,618	12,282	5,306	5,295	11,200	-
Murabaha financing	717,773	34,797	137,446	72,148	65,734	107,854	102,395	197,399	-
Mudaraba financing	621,838	16,910	103,643	35,867	109,145	152,068	45,529	158,676	-
Finance lease assets	845,994	6,667	9,796	79,001	31,019	58,875	52,730	607,906	-
Salam financing	281,662	48,558	75,489	110,943	39,827	4,957	1,491	397	-
Istisna financing	46,129	6,910	10,577	15,404	9,499	2,940	476	323	-
Musharaka	32,337	1,111	1,218	1,278	4,602	17,967	1,621	4,540	-
Credit Cards	13,288	13,288	-	-	-	-	-	-	-
Non-trading investments	110,654	-	-	-	-	-	-	-	110,654
Investment in real estate	75,925	-	-	-	-	-	-	-	75,925
Investment in associates	221,406	-	-	-	-	-	-	-	221,406
Takaful and related assets	53,309	-	-	-	-	-	-	-	53,309
Other assets	91,184	-	-	-	11	56	-	-	91,117
Goodwill and other intangible assets	75,547	-	-	-	-	-	-	-	75,547
Total Assets (A)	**4,870,811**	**298,738**	**390,982**	**384,973**	**352,020**	**441,494**	**291,935**	**1,509,799**	**1,200,870**
Liabilities	**Total**	**Upto 1 month**	**>1 to 3 months**	**>3 to 6 months**	**>6 to 12 months**	**>1 to 2 years**	**>2 to 3 years**	**>3 years**	**Profit insensitive**
Placements from financial institutions and customers	175,457	66,010	50,808	4,236	54,403	-	-	-	-
Customers' current accounts	960,976	-	-	-	-	-	-	-	960,976
Murabaha term financing	418,317	128,117	157,211	35,368	69,681	2,211	-	25,729	-
Takaful and related liabilities	92,225	-	-	-	-	-	-	-	92,225
Other liabilities	105,896	-	-	-	-	-	-	-	105,896
Equity of investment accountholders	2,733,862	1,040,433	411,403	314,413	653,315	177,874	66,086	63,261	7,077
Total Liabilities	**4,486,732**	**1,234,560**	**619,422**	**354,017**	**777,399**	**180,085**	**66,086**	**88,990**	**1,166,174**
Shareholders funds	384,078	-	-	-	-	-	-	-	384,078
Total Liabilities & Shareholders Funds	**4,870,810**	**1,234,560**	**619,422**	**354,017**	**777,399**	**180,085**	**66,086**	**88,990**	**1,550,252**
Off-Balance Sheet Liabilities	601,344	39,549	39,549	79,098	79,098	79,098	-	10,442	274,510
Total liabilities with Off-Balance Sheet Items (B)	**5,472,154**	**1,274,109**	**658,971**	**433,115**	**856,497**	**259,183**	**66,086**	**99,432**	**1,824,762**
Gap (A - B)		(975,371)	(267,989)	(48,142)	(504,477)	182,311	225,849	1,410,368	
Cumulative Gap		**(975,371)**	**(1,243,360)**	**(1,291,502)**	**(1,795,979)**	**(1,613,668)**	**(1,387,819)**	**22,549**	

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

Profit rate risk in the Banking Book 200bp Profit Rate Shocks	
Upward rate shocks on net profit	(254)
Downward rate shocks on net profit	254
Impact on Economic Value of Equity	7.0%

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 Credit and 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 Credit and 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.

Table 5.19 Equity positions in the Banking Book

	Gross Credit Exposure (BD '000s)
Quoted Equities	3,415
Unquoted Equities	107,239
Investment in associates - equity accounted	221,406
Net realized gain during the period	7,606
Net unrealized loss during the period	(366)

(BD '000s)

Asset Categories for Credit Risk	Gross Credit Exposure	Risk-Weighted Assets (RWA)	Minimum Capital Charge
Equity Investments - Unlisted	204	306	38
Investments in unrated funds - Unlisted	302	452	57
Significant investment in the common shares of financial entities >10%	258,278	48,226	6,028
Investment in listed real estate companies	3,415	10,245	1,281
Investment in unlisted real estate companies	81,783	327,133	40,892

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 and concentration. The multiple funding lines can be used to offset any shortage resulting from the Group's obligations and/or to settle any shortage from each of the current accounts and Equity of investment accounts. The liquidity coverage ratio as of 30 June 2023 was 149.58%.

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.

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 period ended 30 June 2023 and years ended 2022, 2021, 2020,2019 and 2018 are as follows: (**PD 1.3.33**) **(PD 1.3.41)**

Table 6.1 **(BD '000s)**

	Jun-2023	Dec-2022	Dec-2021	Dec-2020	Dec-2019	Dec-2018
Profit earned on the assets funded by EIAH	81,294	110,403	68,425	60,186	50,271	492
Profit paid for EIAH	45,346	47,991	35,977	29,335	28,425	246
Balance of:						
PER	-	-	-	-	-	-
IRR	-	-	-	-	-	-
Annual Rate of Return Benchmark	3%	3%	3%	3%	3%	3%
Annual Rate of Return (EIAH) - Profit earned	5.95%	4.73%	4.21%	4.91%	4.86%	0.53%
Annual Rate of Return (EIAH) - Profit paid	3.32%	2.06%	2.22%	2.39%	2.75%	0.27%
PER Amount	-	-	-	-	-	-
PER %	-	-	-	-	-	-
IRR Amount	-	-	-	-	-	-
IRR %	-	-	-	-	-	-
Reconciliation						
Mudaraba Profit Earned	81,294	110,403	68,425	60,186	50,271	492
Mudarib fees	(35,948)	(62,412)	(32,448)	(30,851)	(21,846)	(246)
Profit credited to EIAH accounts	**45,346**	**47,991**	**35,977**	**29,335**	**28,425**	**246**
Mudarib fee as a percentage of total investment profit	44%	57%	47%	51%	43%	50%
EIAH Balance	2,733,862	2,332,473	1,624,177	1,225,380	1,034,743	99,761
RWA as per PIRI Report	385,823	343,730	203,389	170,292	11,469	6,886

Table 6.2

	Jun-2023	Dec-2022	Dec-2021	Dec-2020	Dec-2019	Dec-2018
Rate of Return	3.32%	2.06%	2.22%	2.39%	2.75%	0.25%
Return on average EIAH assets (ROAA)	6.42%	5.58%	4.80%	5.45%	15.23%	0.49%
Return on average equity (Total Owner's Equity) (ROAE)	45.07%	34.82%	23.68%	20.89%	16.15%	0.16%

6 Equity of Investment Accountholders (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	1,409,879	431,043	978,836	31%
Financial Institutions	1,094,717	466,185	628,532	43%
Corporate	1,095,424	646,946	448,478	59%
Retail	1,270,791	1,171,650	99,141	92%
Total	**4,870,811**	**2,715,824**	**2,154,987**	**56%**

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 30 June 2023	97,234	475,678	153,509	24,753	217,042	4,364	1,479,141	233,886	768,898	77,096
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	-	-	-	-	-	-

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 30 June 2023.

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. The group also has an investment in subsidiary denominated in Algerian Dinar. The impact of foreign currency translation is included under Foreign Currency Translation Reserve (FCTR) in equity. (PD 1.3.42)

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 Note11 titled Related Party Transactions in the condensed consolidated interim financial information for the period ended 30 June 2023. 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)

7.3 Restructured Facilities

As at 30 June 2023, the balance of the renegotiated financing facilities to individuals and corporate was BD 24,418 thousand. In general, facilities are renegotiated to optimize a facility's credit profile with respect to its recoverability. This can involve changing any of the profit rate, tenure or security package. Previous restructuring of any facilities to individual and corporate customers did not have any significant impact on present and future earnings. (PD 1.3.23 j)

7.4 Assets Sold Under Recourse Agreements

The Group has not entered into any recourse agreement during the period ended 30 June 2023. (PD 1.3.23 k)

7.5 Legal Risk and Claims

As at 30 June 2023, legal suits amounting to BD 4,443 thousand (2022: BD 1,302 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. (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 first half of 2023 an amount of BD nil was paid as penalty to the Central Bank of Bahrain (CBB) for failure to comply with CBB requirements.

Appendix I - COMPOSITION OF CAPITAL DISCLOSURE

Appendix PD-2: Reconciliation requirements

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

There are no differences between the regulatory and accounting consolidation, 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	4,870,811
Collective provision impairment	31,282
Less: Provision related to Contingent Liabilities and Commitments	(203)
Balance sheet as in Regulatory Return	4,901,890

Step 2: Reconcilation of published financial balance sheet to regulatory reporting as at 30 June 2023

BHD '000

	Balance sheet as in published financial statements	Consolidated PIRI data	Reference
Assets			
Cash and balances with banks and Central Bank	572,912	573,018	
of which Self financed		475,784	
of which financed by URIA		97,234	
Placements with banks and similar financial institutions	178,262	178,275	
of which Self financed	-	24,764	
of which financed by URIA	-	153,511	
Held-to-maturity investments	582,620	582,971	
of which Sovereign Sukuk	558,339	-	
of which Corporate Sukuk	24,281	-	
Available-for-sale investments	349,971	350,202	
of which Sovereign Sukuk	326,189		
of which Corporate Sukuk	23,782		
Financing assets	2,559,021	2,588,833	
of which Self financed	-	322,758	
of which financed by URIA	-	2,266,075	
Investment properties	75,925	75,925	
Investment in associates	221,406	221,406	
of which Self financed		4,364	
of which financed by URIA		217,042	
Property, plant, and equipment (PPE)	25,235	25,235	
Other Assets	305,460	306,025	
Non-Trading investment	110,654	110,654	
Other receivables and prepayments	65,949	66,515	
Takaful assets	53,309	53,309	
Goodwill & Intangibles	75,547	75,547	
of which eligible for deduction from CET1		50,156	G
of which not eligible for CET1 deduction		25,391	
Total Assets	4,870,811	4,901,890	
Liabilities			
Placements from financial institutions	175,457	175,457	
Customers' current accounts	960,976	960,976	
Funding Liabilities (Murabaha Term Financing)	418,317	418,317	
Accruals, deferred income, other liabilities, current and deferred tax liabilities (DTLs)	198,121	197,918	
of which Takaful Liabilities	92,225	92,225	
of which Other liabilities	105,896	105,693	
Unrestricted Investment Accounts	2,733,862	2,733,862	
Total Liabilities	4,486,733	4,486,530	
Owners' Equity			
Total share capital	251,814	251,814	A
Share capital	261,692	261,692	
Treasury stock	(9,878)	(9,878)	
Reserves and retained earnings	66,031	66,031	
Share premium	209	209	C-1
Statutory reserve	21,759	21,759	C-2
Retained earnings (excluding profit for the year), of which:	6,846	6,846	
Amount eligible for CET1	3,298	3,298	B-1
Amount not eligible for CET1	1,405	1,405	
Subsidy from government	2,143	2,143	
of which amount added-back to CET1 as per CBB concessionary measures		714	B-2
of which amount to be added-back to CET1 in 2023 and 2024 as per CBB concessionary measures		1,429	
Modification Loss	(24,768)	(24,768)	
of which amount deducted from CET1 as per CBB concessionary measures		(8,256)	B-3
of which amount to be deducted from CET1 in 2023 and 2024 as per CBB concessionary measures		(16,512)	
Modification loss amortization	24,768	24,768	B-4
Net profit for the year	20,554	20,554	
of which amount eligible for CET1	19,690	19,690	B-5
of which amount not eligible for CET1	864	864	
Fx translation adjustment	(1,186)	(1,186)	
of which amount eligible for CET1		(941)	C-3
of which amount not eligible for CET1		(245)	
Changes in fair value - amount eligible for CET1	(6,581)	(6,581)	C-4
Share grant scheme	1,631	1,631	C-5
Real estate fair value reserve - amount eligible for T2	22,799	22,799	D
Minority interest in subsidiaries' share capital	66,233	66,233	
of which amount eligible for CET1	-	8,423	E-1
of which amount eligible for AT1	-	2,807	E-2
of which amount eligible for T2	-	3,743	E-3
of which amount not eligible for regulatory capital	-	51,260	
Expected credit losses (Stages 1 & 2)	-	31,282	
of which amount eligible for T2	-	28,090	F
of which amount not eligible for regulatory capital	-	3,192	
Total Owners' Equity	384,078	415,360	
Total Liabilities + Owners' Equity	4,870,811	4,901,890	

Appendix PD-1: Reconciliation requirements & Template
Step 3: Composition of Capital Common Template as at 30 June 2023

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	251,814	A
2	Retained earnings	40,214	B1+B2+B3+B4+B5
3	Accumulated other comprehensive income (and other reserves)	16,077	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)	8,423	E1
6	**Common Equity Tier 1 capital before regulatory adjustments**	316,528	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	50,156	G
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	*Not applicable*		
15	Defined-benefit pension fund net assets	-	
16	Investments in own shares	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	CBB specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common equity Tier 1**	50,156	
29	**Common Equity Tier 1 capital (CET1)**	**266,372**	
	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)	2,807	E-2
35	*of which: instruments issued by subsidiaries subject to phase out*	-	
36	**Additional Tier 1 capital before regulatory adjustments**	**2,807**	
	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)**	**2,807**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**269,179**	
	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)	3,743	E-3
49	*of which: instruments issued by subsidiaries subject to phase out*	-	
50	Provisions	28,090	F
51	**Tier 2 capital before regulatory adjustments**	**54,632**	

	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments		
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	54,632	
59	**Total capital (TC = T1 + T2)**	323,811	
60	**Total risk weighted assets**	1,568,310	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	16.98%	
62	Tier 1 (as a percentage of risk weighted assets)	17.16%	
63	Total capital (as a percentage of risk weighted assets)	20.65%	
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)	16.98%	
	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)	31,282	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	28,090	
78	N/A		
79	N/A		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)		
80	*Current cap on CET1 instruments subject to phase out arrangements*	-	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-	
82	*Current cap on AT1 instruments subject to phase out arrangements*	-	
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	-	
84	*Current cap on T2 instruments subject to phase out arrangements*	-	
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-	

Appendix PD-3: Features of regulatory capital
For the period ended 30 June 2023

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 261.692 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

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 30 June 2023, the weighted value of the Available Stable Funding (ASF) stood at BD 3.1 billion, while the total weighted value of the Required Stable Funding (RSF) stood at BD 2.5 billion. The resultant NSFR stood at 119.82%, 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 12%, 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 1% of the RSF portfolio. unencumbered financing and placements account for 67% and Investment exposures account for 17% 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.

AL SALAM BANK B.S.C.

Net Stable Funding Ratio (NSFR) Report - Consolidated

30 June 2023

No.	Item	Unweighted Values (before applying relevant factors)				BHD '000
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):						
1	Capital:					
2	Regulatory Capital	304,252	-	-	54,631	**358,884**
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	230,482	7,283	6,653	**232,529**
6	Less stable deposits	-	1,303,298	439,112	281,388	**1,849,557**
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	1,593,626	329,330	76,003	**610,384**
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities		-	-	-	
12	All other liabilities not included in the above categories	-	135,288	-	-	-
13	**Total ASF**					3,051,354
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)					**33,154**
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	-	247,681	-	12,501	**49,653**
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:	-	788,919	262,411	1,114,077	**1,437,374**
20	With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	176,281	**114,583**
21	Performing residential mortgages, of which:	-	-	-	356,514	**231,734**
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	356,514	**231,734**
23	Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	14,722	11,112	12,640	**23,661**
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	727,286	17,806	-	68,943	**740,948**
30	OBS items		601,317	-	-	**30,066**
31	**Total RSF**		-	-	-	2,546,591
32	**NSFR (%)**					119.82%

AL SALAM BANK B.S.C.

Appendix III - Liquidity Coverage Ratio (LCR) Report - Consolidated

30 June 2023

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:

		Q2-2023		Q1-2023	
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets					
1	Total HQLA		647,559		584,832
Cash outflows					
2	**Retail deposits and deposits from small business customers, of which:**				
3	Stable deposits	309,516	9,285	294,543	8,836
4	Less stable deposits	423,965	42,397	446,570	44,657
5	**Unsecured wholesale funding, of which:**				
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-
7	Non-operational deposits (all counterparties)	784,750	518,397	769,967	488,495
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	59,790	39,794	85,849	47,621
14	**Other contractual funding obligations**	-	-	-	-
15	**Other contingent funding obligations**	224,650	6,764	215,250	6,293
16	Total Cash Outflows		616,637		595,903
Cash inflows					
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	96,428	51,285	64,079	38,823
19	Other cash inflows	281,149	266,220	259,463	244,476
20	Total Cash Inflows	377,577	317,505	323,542	283,299
			Total adjusted Value		Total adjusted Value
21	**Total HQLA**		647,559		584,832
22	**Total net cash outflows**		299,132		312,604
23	**Liquidity Coverage Ratio (%)***		220.02%		191.57%

*Represents simple average of daily LCR

Appendix IIII - Leverage Ratio - Consolidated
30 June 2023

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 30 June 2023:

S.No.	Description	BHD '000
1	Total Self Financed Assets	2,007,789
2	Total URIA Financed Assets	2,742,731
3	Off Balance Sheet items - with relevant Credit Conversion Factors	270,452
4	**Leverage ratio exposure [(1) + (2)*30% + (3)]**	**3,101,060**
5	Regulatory Adjustments	50,156
6	**Total exposures for the calculation of the leverage ratio [(4)-(5)]**	**3,050,903**
7	**Tier 1 Capital**	**254,096**
	Leverage Ratio [(7)/(6)]	**8.33%**
	Minimum Leverage Ratio as required by CBB	3%