بنك السلام
Al Salam Bank

AL SALAM BANK B.S.C.

BASEL III - PILLAR III
Disclosures

31 December 2022

Table of Contents

1 Introduction

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

The Basel III accord is built on three pillars:

- **Pillar I** deals with the basis for the computation of the regulatory capital adequacy ratio. It defines the calculation of Risk Weighted Assets (RWAs) for credit risk, market risk and operational risk, as well as the derivation of the regulatory capital base. The capital adequacy ratio is then calculated as the ratio of the Bank's regulatory capital to its total RWAs.

- **Pillar II** involves the process of supervisory review of a financial institution's risk management framework and its capital adequacy.
- **Pillar III** relates to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process.

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

2 Financial Performance and Position

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

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.

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

2 Financial Performance and Position (continued)

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)	7.6x	6.1x	4.7x	3.5x	3.5x	3.3x
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	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.

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.

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%.

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	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**

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	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.

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	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

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**

Funded by EAIH		
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.

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**

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 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	-	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**

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)**

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 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**

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%.

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.

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 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 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 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 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	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	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)**

Table 5.18 (a) (BD '000s)

Profit rate risk in the Banking Book 200bp Profit Rate Shocks	
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.

Table 5.19 Equity positions in the Banking Book

(BD '000s)

	Gross Credit Exposure
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.

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

	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%

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	1,273,552	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)

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.

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**	
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**	

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**	
	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	-	
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)*	-	

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

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.

AL SALAM BANK B.S.C.

Net Stable Funding Ratio (NSFR) Report - Consolidated

31 December 2022

BHD '000

No.	Item	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
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%

Appendix III - Liquidity Coverage Ratio (LCR) Report - Consolidated
31 December 2022

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:

		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

Appendix IIII - Leverage Ratio - Consolidated
31 December 2022

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 Fac	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%