بنك السلام
Al Salam Bank

Inspired by you

Annual Report 2021

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

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

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Corporate Profile

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

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

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

With a Bahrainization rate of 88%, Al Salam Bank considers its people to be its most valued asset. The Bank has prioritized the wellbeing of its human capital, empowering them with the requisite tools, training and opportunities to create an inspired workforce dedicated to the pursuit of excellence. Championing a highly energetic and collaborative work environment, Al Salam Bank fosters a culture of innovation which celebrates collective achievements.

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

Our Brand Promise and Values

Our Brand Promise

- We nurture relationships by enriching experiences.

Our Values

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

Our Guiding Principles

We Enchant our Clients

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

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

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

We Inspire our People

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

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

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

We are Digitally Native

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

We Do the Right Thing

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

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

We Act with Empathy

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

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

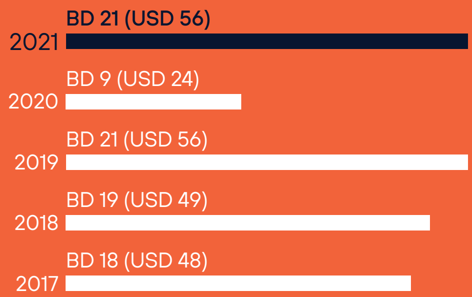
Financial Highlights

Net Operating Income
(Million)

BD 64m

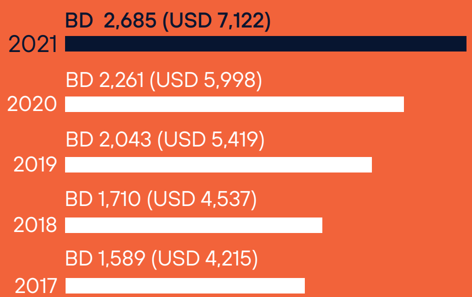
Net Profit
(Million)

BD 21m



Total Assets
(Million)

BD 2,685m

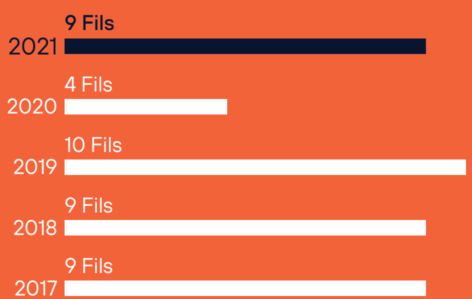


Total Equity
(Million)

BD 297m

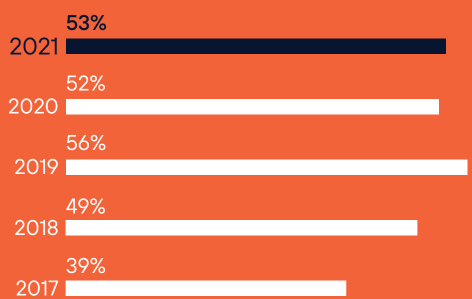
Earning Per Share
(Fils)

9 Fils



Cost to Income Ratio
(Percent)

53%



Operational Highlights

Al Salam Bank's Retail Banking business witnessed robust growth in 2021, citing a 32% YTD increase in assets portfolio and a record surge in assets performance new bookings, indicating the highest returns historically since the Bank's inception.

- The Bank maintained its leadership position in the Mazaya Social Housing Financing Scheme, which accounted for more than 40% of total bookings, through exclusive offers and strategic partnerships with key developers.
- Card utilization and spend also saw a substantial 73% increase for credit cards and 123% for prepaid cards, resulting in improved card profitability and a 600% growth in net profit generated from the card segment.
- The Private Banking department demonstrated great agility, citing remarkable achievements in 2021. Priority was given to nurturing client relationships by offering tailored solutions, which was reflected in the successful onboarding of 154 new clients and a record 49% growth in liabilities which exceeded BD 1 billion in 2021.
- Private Banking booked a record high fees and commissions, increasing by 38% during 2021 and also recorded a steady growth in transactional income.
- Corporate Banking saw a significant improvement in Net Income, exceeding the set forecasts. Corporate Banking liabilities on the other hand increased by 11% YoY.
- Treasury and Capital Markets department continued to grow and diversify its fixed income portfolio, experiencing a substantial increase of 56% in the Sukuk portfolio, coupled with an improvement in yields through careful use of leverage, which, in turn, provided support to the Bank's overall profitability and liquidity profile.
- The International Transaction Banking (ITB) department managed to grow its total funds by 68% or BHD 102 million during 2021.
- The Bank's Innovation unit worked alongside key departments to launch the first-of-its kind, cloud-native, online platform with best-in-class features catering to the more advanced needs of corporate clients.
- The Operations department has also received the "JP Morgan Elite Quality Recognition Award" for processing exceptionally high-quality Straight Through cross border payments for the second consecutive year, marking the Bank's success in providing its clients with first-class efficient services. Tapping an STP Rate that reaches up to 99.7%, this award is presented to less than 1% of JPMorgan's clientele banks worldwide.
- The Human Resources department launched LinkedIn Learning, a platform with access to an abundance of courses geared to both professional and personal development, ranging from Business, Technology and Marketing, and financial literacy to more creative and artistic fields of study, resulting in a holistic learning experience.


We are
inspired by
your Dreams

Board of Directors

H. E. Shaikh Khalid bin Mustahail Al Mashani
Chairman

Non-executive

Director since: 5 May 2014
Term started: 17 March 2021
Experience: more than 26 years

H.E. Shaikh Khalid bin Mustahail Al Mashani offers the Bank over 26 years of in depth experience. He is the Chairman of the Board of Directors of Bank Muscat S.A.O.G., Director of Al Omaniya Financial Services Company, and Chairman of Dhofar International Development & Investment Holding Company S.A.O.G.

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

Mr. Matar Mohamed Al Blooshi
Deputy Chairman

Non-executive

Director since: 22 March 2018
Term started: 17 March 2021
Experience: more than 25 years

Mr. Matar Mohamed Al Blooshi has over 25 years of experience in the financial and fund management industries. Beginning his career in 1992 with the Central Bank of the United Arab Emirates as a Dealer in the Treasury department, he joined Abu Dhabi Investment Company as a Portfolio Manager in 1995. In 1998, he joined First Gulf Bank as the Head of Treasury & Investment, moving to National Bank of Abu Dhabi in 2001 as Head of Foreign Exchange and Commodities. In February 2005, Mr. Matar Al Blooshi became the Head of Domestic Capital Market Group and the General Manager of Abu Dhabi Financial Services (a subsidiary of National Bank of Abu Dhabi) and was given the title of Senior Manager, Asset Management Group in October 2006. Mr. Matar Al Blooshi is Chief Investment Officer at Das Holding LLC, a Member of the Board of Directors of Al Salam Bank, First Energy Bank in Bahrain, Etisalat Misr and Chairman of Maalem Holdings in Bahrain.

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

Mr. Salman Saleh Al Mahmeed
Board Member

Non-executive

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

Mr. Salman Saleh Al Mahmeed is a prominent business figure with experience exceeding 35 years. He is the Chairman of Board's Audit Committee at Al Salam Bank, the Chief Executive Officer of Bahrain Airport Services, the Deputy Chairman of Dar Albilad, the Managing Director, Chairman of Coca Cola Bottling Company Bahrain and Owner's Representative of Global Hotels, Global Express and the Movenpick Hotel in Bahrain. Previously, he was a Board Member and member of the Investment, Executive and Strategic Options Committee for the Bahraini Saudi Bank, and the Investment Director of Magna Holdings.

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

Mr. Salim Abdullah Al Awadi
Board Member

Independent

Director since: 22 March 2018
Term started: 17 March 2021
Experience: more than 33 years

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

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

Board of Directors (Continued)

Mr. Khalid Salem Al Halyan
Board Member

Independent

Director since: 24 February 2015
Term started: 17 March 2021
Experience: more than 39 years

Mr. Khalid Salem Al Halyan is a business professional with over 39 years of senior level experience spanning a number of industries. Mr. Khalid Al Halyan is currently the Group Chief Audit Executive at Dubai Aviation City Corporation (DACC). His career has seen him hold senior positions at the UAE Central Bank, the Department of Economic Development (DED), Dubai, and in the aviation industry where he played a key role in the establishment of the new Dubai Airport Free Zone (DAFZA) and head up the Finance Department, before moving on to establish the Group Internal Audit and Risk Assessment (GIARA) function at DACC. Mr. Khalid Al Halyan has also supported the establishment of DED, Emaar Properties, the UAE Internal Audit Association, the UAE Golf Association and restructured projects for DUBAL, Dubai World Trade Centre, Dubai Civil Aviation, UAE Central Bank Banking Supervision, and realized the construction of a new facility for the Al Noor Special Needs Centre in Dubai. He currently serves as Vice President of the UAE Internal Audit Association (affiliated to the Institute of Internal Auditors (IIA), USA), is Chairman of Al Noor Special Needs Centre in Dubai, Chairman of Emaar South, Dubai, Board Member of Emaar Development Company, Board Member of Amlak Finance PGSC, and he has recently become a member at the Board of Trustees of American University in the Emirates.

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

Mr. Zayed Ali Al-Amin
Board Member

Non-executive

Director since: 22 March 2018
Term started: 17 March 2021
Experience: more than 23 years

Mr. Zayed Al-Amin is a Bahraini Businessman with over 23 years of experience in the finance and investment sectors. Currently serving as Executive Director of Investments at Ali Rashid Al-Amin Group, he is also a Board Member of various organizations including Chairman of First Energy Bank, Board Member of Al Salam Bank, Board Member of Esterad Investment Co. and Board Member of Gulf African Bank, and a former Board Member of MIDAD Gulf Energy, RAMAKAZA Logistics Qatar and Food Storage Co. Ltd. KSA. Prior to his current responsibilities at Al-Amin Group, he worked for National Bank of Bahrain and Towry Law International.

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

Mr. Alhur Mohammed Al Suwaidi
Board Member

Independent

Director since: 22 March 2018
Term started: 17 March 2021
Experience: more than 18 years

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

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

Mr. Hisham Al-Saie
Board Member

Non-executive

Director since: 17 March 2021
Term started: 17 March 2021
Experience: more than 23 years

Mr. Hisham Al-Saie had over 23 years of experience in Investment Management (financial investments, real estate asset management and corporate finance). He is a member of the Board and Executive Committee at Al Salam Bank.

Mr. Al-Saie, is currently the General Manager of Investments & Business Support at Premier Group, he also serves as Board member at McLaren Group Limited where he also Chairs the Board Audit & Risk Committee. In addition, he is a member of the Board of Investcorp Holdings B.S.C, Diyar Al Muharraq W.L.L., and Bahrain Bay Development W.L.L., in Bahrain.

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

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

Mr. Tariq Abdul Hafidh Salim Al- Aujaili
Board Member

Independent

Director since: 17 March 2021
Term started: 17 March 2021
Experience: more than 21 years

Mr. Tariq Al-Aujaili is a Board Member at Al Salam Bank. He was previously Chairman of the Board Financial Services Co, SAOG, and is currently Chairman at Garden Hotel, Muscat Oman, Deputy Chairman at Dhofar International Development and Investment Holding Co. SAOG, Dhofar Insurance SAOG and Oman Investment and Finance Co. SAOG. Mr. Al- Aujaili additionally serves on the Board at Bank Dhofar SAOG, Octal Holding SAOC, Ad'Dahirah Power Company SAOC, Wasel Exchange SAOC, and Dhofar Desalination Co. SAOC.

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

Fatwa & Shari'a Supervisory Board

Sheikh Adnan Abdullah Al Qattan
Chairman

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

Dr. Fareed Yaqoub Al Meftah
Member

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

Dr. Nizam Mohammed Yaquby
Member

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

Dr. Osama Mohammed Bwahar
Member

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

Executive Management

Mr. Rafik Nayed
Group Chief Executive Officer

Experience: more than 29 years

Mr. Rafik Nayed is a seasoned banker with over 29 years of experience. He joined Al Salam Bank from Deutsche Bank where he was the Vice Chairman of the MENA region, Chief Country Officer for the UAE and Senior Executive Officer of Deutsche Bank AG Dubai (DIFC). Before joining Deutsche Bank, Mr. Nayed was the Chief Executive Officer of the Libyan Investment Authority and prior to that worked for many years in the oil and gas and financial services industries in a variety of international senior positions.

Mr. Anwar Mohammed Murad
Deputy Chief Executive Officer - Banking

Experience: more than 28 years

Mr. Anwar Murad is a proficient Banker with over 28 years of experience in the areas of Private Banking, Treasury, Market Risk Management and Retail Banking. Prior to his current appointment with the Bank, Mr. Murad served as the Executive Vice President - Head of Private Banking at Al Salam Bank since May 2006. Previous to joining Al Salam Bank, he was the Head of Private Banking at BMI Bank, Bahrain and Regional Market Risk Manager for the MENA region at ABN AMRO Bank where he also headed the Bank's Treasury Operations in Bahrain and he held various senior positions at CitiBank – Bahrain. Mr. Murad has extensive knowledge and experience in Global Consumer Banking, Treasury and Investment products including Money Market, Foreign Exchange, Debt Derivatives, and Structured Products.

Mr. Eihab Abdellatif Ahmed
Deputy Chief Executive Officer - Corporate Affairs

Experience: more than 26 years

Mr. Eihab Ahmed has a wide range of professional experience that spans over 26 years covering all major legal disciplines including but not limited to Investment Banking, Corporate Banking and Criminal, Labour, Public and Private International Laws. Prior to joining Al Salam Bank, he was the General Counsel - Corporate Secretary & Money Laundering Reporting Officer (MLRO) Legal & Compliance of First Energy Bank - Bahrain. He was the focal point of communication between the Board of Directors and Senior Management as well as between the Bank and its Shareholders, providing advisory and guidance on Corporate Governance principles and practices. Mr. Ahmed had worked at the International Investment Bank - Bahrain (IIB) as Head of Legal and Compliance, MLRO and for Khaleej Finance & Investment as the Head of Legal, MLRO and Corporate Secretary. He also worked for a number of reputed firms in the Kingdom of Bahrain. Before coming to Bahrain 15 years ago, he served the Ministry of Justice, Sudan as a Legal Counsel.

Mr. Ahmed holds L.L.B degree from the Faculty of Law - University of Khartoum, Sudan. In January 2017, he obtained his International Diploma in Governance, Risk and Compliance from the ICTA and University of Manchester, UK. He also holds the Sudanese Bar certificate from Sudan and he is a registered member of the Sudanese Advocates Association as a Proper Advocate before various Courts of Law. Mr. Ahmed is a Certified Compliance Officer (CCO) from the American Academy of Financial Management - Dubai, UAE. In 2014, Mr. Eihab was awarded the GCC MLRO of the year.

Executive Management (Continued)

Mr. Yousif Ahmed Ebrahim
Chief Financial Officer

Experience: more than 28 years

Mr. Yousif Ebrahim is a proficient banker with over 28 years of experience in the areas of finance and audit. He is primarily responsible for directing and overseeing the financial and fiscal management of the Bank and its subsidiaries that includes contributing to the Bank's strategy planning, leading and directing the budget process, maintaining appropriate accounting framework and establishing effective system of cost management and internal control. Prior to joining Al Salam Bank, he served as the Chief Financial Officer at First Energy Bank for more than 9 years. He also worked at Gulf International Bank as a Vice President of Internal Audit and he was also in the Audit & Business Assurance services at PricewaterhouseCoopers. Mr. Ebrahim is a Certified Public Accountant (USA) and a member of the American Institute of Certified Public Accountant.

Mr. Abdulkarim Turki
Chief Operating Officer

Experience: more than 41 years

Mr. Abdulkarim Turki is a well-rounded banker with more than 41 years of experience spanning Treasury, Operations, Audit, Internal Controls, Remedial and Risk Management. Mr. Turki worked in the incorporation and structuring of the Bank's Operation and he was appointed as a key member in the Selection and Implementation Committee of the Bank's core banking system responsible for the integration and business transfer of BMI Bank to Al Salam Bank in addition to being a member in the Bank's major management committees. Prior to joining the Bank in 2006, Mr. Turki was Vice President - Head of Treasury Support at Citibank Bahrain where he headed various departments and business units and was a key player in the launch of Citi Islamic Investment Banking. Mr. Turki holds an MBA in Investment & Finance from the University of Hull, UK.

Mr. Ahmed Abdulla Saif
Head of Strategy and Planning

Experience: more than 15 years

Mr. Ahmed Saif brings over 15 years of experience in the banking sector. Prior to joining Al Salam Bank in 2008 as an Associate in the Investment Team, Mr. Saif worked with DBS Singapore as an Investment Analyst. In 2012, he was appointed as the Head of the Investment Middle Office Department, and in 2016 took the reigns as the Head of Strategic Acquisition and Investment Management. Mr. Saif sits on the Board of a number of the Bank's affiliate and subsidiary companies, including Al Salam Bank-Seychelles, NS Real Estate Holding, and SAMA Investment Company. He holds an MSc in Finance and Financial Law with Honors from SOAS University of London, UK, and a BSc with Honors in Commerce, majoring in Finance & Economics, from DePaul University, USA.

Mr. Hussain Abdulhaq
Head of Treasury and Capital Markets

Experience: more than 21 years

Mr. Hussain Abdulhaq is an experienced Treasurer in the area of Islamic Banking and Financial Markets. His 21 years banking career as a treasury specialist has been very focused in Islamic liquidity management, Islamic capital markets, the development of Islamic compliant investment products and hedging instruments as well as Financial Institutions relationships. Mr. Abdulhaq joined Al Salam Bank in 2007 as a senior member in the treasury team, and has led the treasury integration process of Al Salam Bank and Bahrain Saudi Bank in 2010 and the same for BMI Bank in 2014. Prior to joining Al Salam Bank, he was in charge of dealing room activities for Kuwait Finance House Bahrain for a period of 5 years. Mr. Abdulhaq holds an MBA degree in Banking & Islamic Finance with honors from University of Bahrain and is a Chartered Financial Analyst (CFA).

Mr. Ahmed Jasim Murad
Head of Corporate Banking

Experience: more than 25 years

Mr. Ahmed Murad brings over 25 years of experience in the banking sector covering areas that include Retail, Commercial and Corporate Banking. Prior to joining Al Salam Bank BSC, he served as Head of Corporate Banking and also a member of the Credit Committee at National Bank of Bahrain BSC. Mr. Murad holds a Bachelor degree in Business Marketing from St. Edward's University – Austin, Texas, USA, Associate Diploma in Commercial Studies from University of Bahrain, and Executive Diploma from University of Virginia, USA. Moreover, he attended number of banking training courses inside the Kingdom of Bahrain and abroad.

Mr. Ali Habib Qassim
Head of Private Banking

Experience: more than 22 years

Mr. Ali Habib Qassim is a banking expert with more than 22 years of experience covering Corporate, Investment and Private Banking; developing new products, locally and throughout GCC and capitalizing on his investment experience. Previous to his appointment with the Bank's Private Banking division in 2011, he marketed the Bank's Corporate Banking products and services in local markets after which he handled financial institutions and government relationships. He holds a Master Degree in Science from Emerson College, Boston. USA.

Executive Management (Continued)

Mr. Mohammed Yaqoob Buhijji
Head of Retail Banking

Experience: more than 20 years

Mr. Mohammed Buhijji brings to the Bank more than 20 years of consultancy and banking experience. He joined Al Salam Bank in 2006 when he set up the Internal Audit division and various departmental policies and procedures during the Bank's establishment. In 2009, he moved to the Bank's Retail Banking division where he supported the development of products, services, the core banking system and Retail Banking policies. He also played an essential role in the integration and conversion phases of the Bank's acquisition of the Bahraini Saudi Bank and BMI Bank; serving as a member in the Integration Steering Committee and various other management committees including IT Steering Committee and Information Security Steering Committee. Prior to joining Al Salam Bank, he worked with Ernst & Young in the Business Risk Services division, where he was responsible for managing the audit and consultancy services for major financial institutions and governmental bodies. He holds an MBA degree from the University of Strathclyde Business School, Glasgow and a Bachelor's degree in accounting. He has also completed Executive Management Programs in Harvard Business School in USA and Ivey Business School in Canada.

Mr. Sadiq Al Shaikh
Head of International Transaction Banking

Experience: more than 24 years

Mr. Sadiq Al Shaikh is a professional banker with over 24 years of experience in both Wholesale and Retail Banks in the Kingdom of Bahrain. Mr. Al Shaikh managed global markets with a focus on the GCC, MENA region, East Africa, South Asia and CIS region, where he develops Financial Institutions Group (FIG) products and structured finance. These include bilateral and syndication, correspondent and transaction banking, global trade finance instruments, export credit insurance covers and credit review of credit limits for countries and banks. Prior to joining Al Salam Bank in 2014, he was the Head of FIG & International banking at BMI Bank for 10 years, and held various senior positions for 7 years at the Arab Investment Company in Operations, Risk Management and the International Banking Division, covering Financial Institutions and Corporate products in overseas markets. Mr. Al Shaikh holds a Bachelor degree in Business Management majoring in finance and marketing from Bangalore University.

Mr. Krishnan Hariharan
Chief Risk Officer

Experience: more than 37 years

Mr. Krishnan Hariharan is a versatile Banker with over 37 years of experience in conventional and Islamic banks in the region and India. Prior to joining Al Salam Bank in 2019 he worked with Ithmaar Bank, Bahrain as Chief Risk Officer. Before joining Ithmaar Bank, he was part of the founding team of Alizz Islamic Bank, Sultanate of Oman. He holds twin Bachelor degrees one in Commerce and the other in Economics from Universities in India, he also holds a Master degree in Financial Management from Jamanalal Bajaj Institute of Management Studies, Mumbai – India.

Mr. Essa Abdulla Bohijji
Chief Auditor

Experience: more than 21 years

Mr. Essa Bohijji has more than 21 years of consulting and industry experience covering financial services, commercial entities, governmental bodies, and internal audit. Prior to joining Al Salam Bank, Mr. Bohijji was the Chief Auditor and Board Secretary of an Islamic Investment Bank in Bahrain and held senior positions at Ernst & Young where he worked in the Audit and Assurance Services Group and Business Advisory Services responsible for the Internal Audit and Risk Management assignments. Mr. Bohijji has previously served as a Board and Audit Committee member of Al Salam Bank-Algeria, a non-executive Audit Committee member in Manara Developments B.S.C. (c), as a Board member of BMI Bank, as a Board and Audit Committee member of Bahraini Saudi Bank, and an interim Board member in BMIO Bank in Seychelles. Mr. Bohijji is a Certified Public Accountant (CPA), licensed from the state of New Hampshire and is a member of the American Institute of Certified Public Accountants. He also holds a B.Sc. in Accounting from the University of Bahrain.

Ms. Muna Al Balooshi
Head of Human Resources and Administration

Experience: more than 22 years

Ms. Muna Al Balooshi is a practiced HR professional with over 22 years of industry experience and vast knowledge of HR policies and Labor Law regulations. Prior to her appointment with Al Salam Bank in 2006, Ms. Al Balooshi was the Head of Human Resources at the Court of HRH the Crown Prince prior to this served as HR Associate with KPMG Bahrain. She has played a major role in the Bank's two acquisitions of the Bahraini Saudi Bank and BMI Bank where she managed the merger of the Bank's Human Resources. She holds an MBA from De Paul University, Chicago, and is a CIPD Associate.

Mr. Qassim Taqawi
General Counsel

Experience: more than 19 years

Mr. Qassim Taqawi is a skilled legal counsel with over 19 years of experience covering Investment Banking, Islamic Banking, Retail Banking, Finance, Company Law, Labor Law, Real Estate and Construction. Mr. Taqawi has handled legal matters covering the GCC, USA, Europe and MENA region. Prior to his appointment with Al Salam Bank, Mr. Taqawi held a number of senior executive positions with various Banking and Financial Institutions throughout the region. In addition to his current executive responsibilities as General Counsel, Mr. Taqawi is a member of the Bank's Investment Committee and Remedial Committee. Mr. Taqawi holds a Bachelor degree (LLB) in Law, and is a registered lawyer with the Ministry of Justice & Islamic Affairs in the Kingdom of Bahrain.

Executive Management (Continued)

Dr. Mohammed Burhan Arbouna
Head of Shari'a Compliance

Experience: more than 24 years

Dr. Mohammed Burhan Arbouna is a well versed Islamic banking and finance expert with over 24 years of Islamic banking experience. Prior to joining Al Salam Bank, Dr. Arbouna was the Shari'a Head and Shari'a Board Member of Seera Investment Bank B.S.C Bahrain, Head of the Shari'a department at Kuwait Finance House Bahrain, and has worked as a Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in Bahrain. He is a respected lecturer on Islamic banking and finance, and provides consultancy on orientation and professional programs for a number of professional and educational institutions. Dr. Arbouna was also a member of the Islamic Money Market Framework (IMMF) steering committee, a committee initiated by the Central Bank of Bahrain for the management of liquidity amongst Islamic banks. He holds a PhD in comparative law with a specialization in Islamic banking and finance and a Masters in Comparative Laws with specialization in Law of Evidence from the International Islamic University Malaysia, a BA degree in Shari'a, and Higher Diploma in Education from the Islamic University, Medina.

Mr. Ali Al Khaja
Head of Compliance and MLRO

Experience: more than 13 years

Mr. Ali Al Khaja brings more than 13 years of Compliance experience to the Bank. Prior to joining Al Salam Bank, he worked with Kuwait Finance House Bahrain, where he was responsible for various regulatory aspects including ensuring that transactions, investments and general dealings with the public were in compliance with the Central Bank of Bahrain (CBB) regulations and applicable laws. Previous to this he was employed by the CBB, where he held responsibility for the oversight of various local Islamic Bank's in the Kingdom of Bahrain. Mr. Al Khaja holds a Bachelor degree in Banking and Finance from the University of Bahrain and an International Diploma in Compliance from the International Compliance Association (ICA).

Mr. Ahmed Abdulrahim Al Mahmood
Head of Internal Shari'a Audit

Experience: more than 15 years

Mr. Ahmed Al Mahmood has over 15 years of professional experience in the field of Shari'a supervision and auditing in Islamic financial institution. Prior to joining Al Salam Bank, he established the Shari'a department in BMI Bank and GBCORP in addition to joining the Shari'a department of Abu Dhabi Islamic Bank (ADIB). He also played an essential role in the integration and conversion phases of the Bank's acquisition of BMI Bank; serving as a member in the Conversion Committee.

He holds an MBA degree in Islamic Finance from University of Bolton - UK, and he is currently preparing a PhD at the same university. In addition to BA in Islamic Studies from University of Bahrain. He holds various professional qualifications that includes Certified Shari'a Advisor and Auditor (CSAA) from AAOIFI along with Advanced Diploma in Islamic commercial Jurisprudence (ADICJ) from BIBF. He also provided several training workshops on the principles of Islamic banking and wrote a lot of researches and published articles about Islamic banking & products.

Mahmood Qannati
Head of Marketing & Communications

Experience: more than 20 years

With over 20 years of extensive experience in Marketing, Communications and Branding on both local and regional levels, Mahmood Qannati is a veteran of the communications industry; having worked across various sectors including banking, telecommunications, automotive and aviation.

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

Mr. Hemantha Wijesinghe
Chief Technology Officer

Experience: more than 21 years

Mr. Hemantha Wijesinghe is the Chief Technology Officer at Al Salam Bank, possessing over 21 years of experience in Information Technology management in the banking and finance sector in international markets globally. Prior to his UK based global roles, he had also covered multiple regions including Asia, Middle East, North America and Europe.

He carries various international qualifications covering systems engineering and other areas of information technology, in addition to his higher IT studies in NCC Education (UK).

Further to the Chartered institute of IT (UK), Mr. Wijesinghe also holds a MSc in Strategic Business Information Technology from the University of Portsmouth – UK.

Mohammed Alshehabi
Head of Innovation

Experience: more than 16 years

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

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

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

We are inspired by your Ideas

Board of Directors' Report
to the Shareholders

The Bank's net profit for the year increased from 9.12 million in 2020 to BD 21.22 million in 2021, reflecting an impressive YoY increase of 133%.

Net Operating Income

12% ↑

The Directors of Al Salam Bank B.S.C. "the Bank" are pleased to submit the annual report to the shareholders, accompanied by the consolidated financial statements of the Bank and its subsidiaries "the Group" for the year ended 31 December, 2021.

The global effort to combat COVID-19 continues to be the focal point of economies worldwide, which are expected to grow by 4.9% in 2022 following an expansion of 5.9% in 2021. While some challenges, such as supply-chain disruptions and higher inflation rates, are expected to continue in 2022, the global economy is forecasted to continue its overall recovery. In Bahrain, the economy is expected to grow by 3.1% in 2022 compared to 2.5% in 2021, primarily due to a rebound in the non-oil sector and further supported by the increase in oil prices. While the banking sector faced volatile challenges creating deployment difficulties as a result of the low profit rate environment, the sector continued to exhibit sustained resilience.

The short-term strategy which was swiftly devised by the Bank in the wake of the pandemic was strategically designed with defined objectives to mitigate against headwinds and steer the Bank through a period of uncertainty. This strategy was successfully achieved and yielded outstanding results. During this period, the Bank succeeded in making exceptional progress in the Bank's overall growth strategy to grow core banking activities and successfully capture additional market share. The Bank is now strongly positioned to navigate the uncertain waters that lie ahead and continue making strides in implementing its growth initiatives.

In the face of a fragile landscape that continues to be clouded with uncertainty, the Bank posted a YoY increase in net operating income of 12%, from BD 57.4 million in 2020 to BD 64.2 million in 2021. Total operating expenses saw a slight YoY increase, from BD 30 million to BD 33.9 million, in line with operational activities. Global macro-economic factors improved in 2021 compared to 2020, and the Bank capitalized on this position by adopting a prudent approach to provisioning levels, resulting in a decrease in impairment charges from BD 18.28 million in 2020 to BD 9.16 million in 2021. Ultimately, the Bank's net profit for the year increased from 9.12 million in 2020 to BD 21.22 million in 2021, reflecting an impressive YoY increase of 133%.

The Bank recorded robust growth across all verticals achieving record levels of customer deposits ending the year at BD 1.8 billion, up from BD 1.3 billion in 2020, reflecting a YoY increase of 36%. Financings also increased by 6% in 2021, reaching BD 1.36 billion, up from BD 1.28 billion in 2020. The Group's total assets increased from BD 2.3 billion in 2020 to BD 2.7 billion as of 31 December 2021, reflecting a solid growth of 19%. Furthermore, the Bank achieved a significant improvement in its non-performing financing ratio, declining from 5.1% in 2020 to a record low of 2.1% in 2021. The Bank continued to grow and diversify its fixed income portfolio closing the year at BD 640 million reflecting a robust increase of 56%. The cost-to-income ratio during the year stood at 52.7% in 2021 compared to 52.3% in 2020. Maintaining its strong capital position, the Bank ended 2021 with a Capital Adequacy Ratio (CAR) of 28.5%, significantly higher than the 12.5% mandated by the CBB.

All in all, the core banking book continued its upward trajectory driven by robust organic growth and optimization across all verticals. In line with our strategy to focus on core-banking assets, the Bank executed initiatives to exit legacy investments and reduce real estate exposure, further aiding our strong capital base and liquidity metrics. The resilience of the Bank position was further enhanced by incorporating the requisite stress testing and strategic future scenarios.

As part of the Bank's inorganic growth aspirations, several projects were strategically launched aimed at further enhancing the Group's position and market standing. Prudent and tactical expansion of market share, growth and enhancement of earnings quality, further development of operational efficiency, fast-tracking digitalization initiatives, and strict adherence to the Bank's corporate and social responsibility measures formed the foundation of our strategy.

Moreover, in line with Bank's strategic vision to maintain its leading position and keep ahead of evolving market changes and proactively cater to a post-pandemic stakeholder base, the Bank expedited the roll out of front and back-end digitization initiatives and tackled specified focus areas, including increasing fee-based income and expanding International Trade and Transaction Banking operations. The Bank also underwent a bold, compelling, forward-thinking re-branding exercise. The Bank launched a new Brand DNA comprising of a new brand promise where reinvigorated brand values and principles were carefully formulated.

Under this new brand DNA, the Bank embraced a digitally-native mindset and launched a number of new features on its banking app, including digital financing, new saving offerings such as the "Fils Challenge", and an analytics feature providing customers a self-service platform for analyzing their banking activities.

Board of Directors' Report to the Shareholders (Continued)

Looking ahead, the Bank's Innovation Lab plans to further accelerate its rollouts with a focus on Private Banking and SME customers, alongside a variety of new digital-only services and business offerings.

On behalf of all the Board Members, I would like to take this opportunity to express our gratitude for the visionary leadership of His Majesty King Hamad bin Isa Al Khalifa and His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince and Prime Minister. Their guidance and wise directives during these unprecedented times and the responsiveness of the Kingdom's various Government institutions have bolstered the nation's stability and confidence in overcoming profound challenges. We would also like to express our gratitude to the Ministry of Finance and National Economy, the Ministry of Industry, Commerce and Tourism, the CBB, the Bahrain Bourse, Dubai Financial Market, as well as the Group's correspondent banks, customers, shareholders, partners and employees for their continued support and co-operation.

We look forward to a year ahead of increased growth, and a brighter outlook in 2022.

Finally, in line with the Commercial Companies Law No. (21) of 2001 and its amendments, and pursuant to the provisions of Article No. (188) of the Commercial Companies Law and Article No. (125) of the Executive Regulations of Resolution No. (3) for the year 2022, we are pleased to attach the table below that shows the remuneration of members of the Board and the Executive Management for the year ending 31 December 2021.

First: Board of Directors' Remuneration Details:

	Fixed remunerations					Variable remunerations							
Name	Remunerations of the Chairman and BOD	Total allowance for attending Board and committee meetings	Salaries	Others*	Total	Remunerations of the Chairman and BOD	Bonus	Incentive plans	Others**	Total	End-of-service award	Aggregate amount (Does not include expense allowance)	Expenses Allowance
First: Independent Directors:													
1 Mr. Alhur Mohammed Al Suwaidi	75,000	64,000	-	-	139,000	-	-	-	-	-	-	139,000	-
2 Mr. Khalid Salem Al Halyan	75,000	64,000	-	-	139,000	-	-	-	-	-	-	139,000	-
3 Mr. Salim Abdullah Al Awadi	75,000	52,000	-	-	127,000	-	-	-	-	-	-	127,000	-
4 Mr. Tariq Abdul Hafidh Salim Al-Aujaili	75,000	48,000	-	-	123,000	-	-	-	-	-	-	123,000	-
Second: Non-Executive Directors:													
1 H.E. Sheikh Khalid bin Mustahail Al Mashani	90,000	66,000	-	-	156,000	-	-	-	-	-	-	156,000	-
2 Mr. Matar Mohamed Al Blooshi	75,000	52,000	-	-	127,000	-	-	-	-	-	-	127,000	-
3 Mr. Salman Saleh Al Mahmeed	75,000	52,000	-	-	127,000	-	-	-	-	-	-	127,000	-
4 Mr. Zayed Ali Al-Amin	75,000	44,000	-	-	119,000	-	-	-	-	-	-	119,000	-
5- Mr. Hisham Al Saie	75,000	36,000	-	-	111,000	-	-	-	-	-	-	111,000	-
Third: Executive Directors:													
1	-	-	-	-	-	-	-	-	-	-	-	-	-
2	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**690,000**	**478,000**	**-**	**-**	**1,168,000**	**-**	**-**	**-**	**-**	**-**	**-**	**1,168,000**	**-**

Note: All amounts stated are in Bahraini Dinars.

Notes:

1. The Bank does not have any variable remuneration payments, end of service benefits, or expense allowances paid to its directors.
2. The Bank does not have any Executive Directors in its Board.
3. Board remuneration represents allocation of proposed remuneration for 2021 subject to approval of the Annual General Meeting.

Other remunerations:

* It includes in-kind benefits – specific amount - remuneration for technical, administrative and advisory works (if any).

** It includes the Board Member's share of the profits - Granted shares (insert the value) (if any).

Second: Executive management remuneration details:

Executive management	Total paid salaries and allowances	Total paid remuneration (Bonus)	Any other cash/ in kind remunerations for 2021	Aggregate Amount
Top 6 remunerations for executives, including CEO* and Senior Financial Officer**	1,688,000	749,151	-	2,437,151

Note: All amounts stated are in Bahraini Dinars.

Notes:

1. Paid salaries and allowances exclude indirect staff expenses such as GOSI contributions, leave and indemnity accruals, medical insurance and air travel reimbursements.
2. Remuneration details exclude any Board remuneration earned by executive management from their role in investee companies or other subsidiaries.
3. Refer to the Remuneration related disclosures in Annual Report for a better understanding of the Bank's variable remuneration framework.

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

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

H.E. Shaikh Khalid Bin Mustahil Al Mashani
Chairman
12 February 2022
Manama, Kingdom of Bahrain

Message from the
Group Chief Executive Officer

The Bank's profitability increased by 133% to BD 21.2 million in 2021, crossing pre-pandemic highs (2020: BD 9.1 million and 2019: BD 21.1 million)

Net Profit

133%

2021 was a year of recovery for the banking industry across the world. The global effort to combat COVID-19 continued to be the focal point of worldwide economies which are expected to grow by 4.9% in 2022 following an estimated expansion of 5.9% in 2021. Amidst a steady revival within the global financial sector and continued social and economic recovery, Al Salam Bank has remained resilient, maintaining a robust balance sheet, and prudently increasing provisions to reach record earnings. The Bank's profitability increased by 133% to BD 21.2 million in 2021, crossing pre-pandemic highs (2020: BD 9.1 million and 2019: BD 21.1 million), all the while ensuring uninterrupted service to our clients and prioritizing the health and safety of our team members.

During the course of last year, Al Salam Bank made it a priority to complete the formulation of its three-year strategy. While the short-term strategy adopted during 2020 in response to COVID-19 yielded outstanding results, the economic recovery post-pandemic provided the ideal opportunity to revisit strategic aspirations and chart an ambitious direction for us going forward. Building on the successful endeavors from 2018 to date, our new strategy further reinforces focus on core banking activities, alongside the expedited roll out of front and back-end digitization initiatives. Moreover, the strategy consists of key focus areas including increasing fee-based income, expanding ITB operations, and fast-tracking the asset management vertical.

Solid strides were made during 2021, culminating in the Bank's successful delivery of positive results across the board, evidenced by significant organic growth in all of its core activities.

The Bank's Retail Banking division witnessed positive performance with increases of 33.1% (BHD 110 million) and 24.5% (BHD 52 million) in financing facilities and customer deposits respectively, as a result of new digitized products, the execution of a re-branding exercise, a new and improved mobile banking application and a simplified digital onboarding for new and existing clients.

Al Salam Bank's capital adequacy ratio improved to 28.5% (2020: 26.5%) further reinforcing the Bank's deployment capabilities. The quality of our financing portfolio has also improved, aided by the booking of high-quality financing facilities in 2021 with NPF declining by 58.8%, from 5.1% to 2.1%, driven by high quality bookings and optimization initiatives.

Corporate Banking had a stellar year, recording a 15.4% growth while similarly, Private Banking's business surged, reflecting a 49.1% growth as it collected more than BD 4.5 million in fees while maintaining its position as the single largest liquidity provider of the Bank. Deposits witnessed a significant increase, rising from BD 716.8 million to BD 1.1 billion.

As part of our growth aspirations, we continued to aggressively pursue alternative avenues for expansion during 2021, to maintain the Bank's position as a leading Islamic player in the financial industry. Following the impending closure of key transactions, namely with Ithmaar Holdings and Al Salam Bank Algeria, Al Salam Bank will leap be a much larger financial institution with assets crossing the USD 10 billion mark. Both these work streams continue in full force as we navigate 2022.

Our real estate portfolio saw the monetization of 14 local real estate assets in 2021, amounting to BD 12.3 million. International Transaction Banking continued expanding its operations, concluding FX transactions and growing its low-cost funding base. The Bank's overseas interests in Algeria and Kenya also continued to serve it well.

We have additionally achieved a major milestone in our non-core banking activities with the signing of the sale and purchase agreement for ASB Biodiesel with full transaction closing taking place during Q1 2022.

On a digital front, Al Salam Bank's digitization initiatives witnessed major developments in 2021. We expanded our cloud infrastructure with the introduction of 10 additional integrated services which resonated positively with our digital customer base. Registered

Message from the
Group Chief Executive Officer (Continued)

users on our mobile banking app increased by 137% to 22.5 thousand customers, completing the digital onboarding of 4.4 thousand customers during the year; a year-over-year increase of 77%.

The Bank additionally launched several new features to the app, including the Fils Challenge, which saw over 1,000 sign ups in its first week; Transaction Memories, our maiden AI initiative, with 6,446 participants in less than 6 months; Digital Applications for Assets, generating BD 1.2 million of leads in 2 months, along with a number of other features such as Financial Planning Accounts, Danat eGifts, Account Top-ups and Cross-border payments.

In line with our strategic vision, Al Salam Bank underwent a bold, compelling, and forward-thinking re-branding exercise. Extensive marketing efforts were set into motion to cement the Bank's new identity which expanded our presence in the digital arena. This led to a milestone achievement of securing one of the highest follower bases on social media, amongst financial institutions in the Kingdom.

Our brand rollout was additionally complemented by bank-wide initiatives to further integrate employees into the new brand DNA and work culture, which was complemented by the relocation to the new Al Salam Bank headquarters, marking a fresh new start for the Bank.

Looking ahead in 2022, Al Salam Bank remains confident of its resilience in mitigating risks and its ability to pursue growth opportunities to strengthen its portfolio. The Bank is incredibly well positioned to withstand potential economic disruptions and to effectively achieve its growth targets, as we look to capitalize on various organic and inorganic growth initiatives to sustain our robust trajectory. Further growth is anticipated in our balance sheet driven by the acquisition of Ithmaar Bank's consumer banking portfolio which will further expand our core-banking operations and accelerate the capture of market share in the retail banking segment, cementing Al Salam Bank's position as the largest Islamic lender in the Kingdom of Bahrain. This landmark transaction supports our growth ambitions, as we leverage on a stronger value proposition to elevate our clients' banking experience and deliver an enhanced product and service offering in line with our brand promise. Additional focus areas include enhanced digital rollouts and increased efforts to strengthen our asset management and international trade finance business, while continuing to complete orderly exits of non-core banking and real estate assets to ensure we sustain value delivery to our shareholders.

On behalf of Al Salam Bank, I would like to express my gratitude to the leadership of the Kingdom of Bahrain, led by His Majesty King Hamad bin Isa Al Khalifa, King of Bahrain, and His Royal Highness the Crown Prince and Prime Minister, Prince Salman bin Hamad Al Khalifa, for their unwavering support.

My sincerest appreciation also goes out to the Central Bank of Bahrain, the Ministry of Industry, Commerce and Tourism, Bahrain Bourse, Dubai Financial market (DFM), and the Securities & Commodities Authority in the UAE, for their continued guidance.

I would also like to acknowledge the invaluable counsel of the Board of Directors, and convey my deepest thanks to them and to our valued shareholders and loyal customers who continue to place their trust in us. Lastly, I would like to commend the efforts of the management and employees who have worked diligently to ensure that Al Salam Bank retains its prominent position in the markets it serves.

Rafik Nayed
Group Chief Executive Officer
12 February 2022
Manama, Kingdom of Bahrain

Management Review of Operations and Activities

OPERATING ENVIRONMENT

Global efforts to combat the COVID-19 pandemic continue to be the focal point of economies worldwide. While some challenges, such as supply-chain disruptions and higher inflation rates, continue to endure, the global economy is forecasted to continue its overall recovery. In Bahrain, the economy is expected to grow in 2022 compared to 2021, primarily due to a rebound in the non-oil sector, further supported by the increase in oil prices. While the banking sector faced volatile challenges creating deployment difficulties as a result of the low profit rate environment, it exhibited sustained resilience. The perseverance of the pandemic in 2021, continued to have a severe impact on global economies. Businesses and banks faced many operational challenges to meet customer and regulatory expectations, while the health and safety of employees remained a top priority. Consumer demand, which was adversely impacted by weak tourism and remittance inflows, started to pick up towards the latter half of 2021 following the opening of borders and the government's drive to make vaccines available to the general public.

The pandemic accelerated the shift to digital banking, challenging the industry's conventional business operations with the need for fast-paced adoption of new technologies. Al Salam Bank was well-placed to ride the wave of change, transitioning into the digital sphere with great agility, and making digitization a core pillar of its brand DNA. The Bank's digital banking initiatives resulted in cost reductions and an enhanced service for its clients.

BUSINESS DEVELOPMENT

Similar to the rest of the region, Bahrain's economy is closely linked to the fluctuation in oil prices, albeit the impact is well- contained compared to other GCC states, due to the country's diversified economy. GDP growth surpassed the 2021 projected levels, supported by a surge in capital spending and robust private consumption and exports growth. Despite the conservative outlook, volatile oil prices and potential austerity measures are expected to balance the budget. A number of key policy responses (including fiscal, monetary, and macro-financial) were issued to mitigate the fiscal implications on financial services clients affected by the pandemic, as well as on financial institutions and merchants, and to support them in mitigating the adverse effects while ensuring the stability of the Kingdom's financial sector. The policies were successful in easing liquidity into the economy and facilitating the banking sector's compliance with regulatory requirements. The robust and diverse nature of Bahrain's economy provided Al Salam Bank with a sound platform for expansion across several lines of business within the GCC and beyond.

FINANCIAL PERFORMANCE

The Group posted a net income of BHD 21.2 million in 2021 compared to BHD 9.1 million as of 31 December 2020, representing an increase of 133%. Global macroeconomic factors improved in 2021 versus the previous year, and the Bank capitalized on this position by adopting a prudent approach to provisioning levels, resulting in a decrease in impairment charges from BHD 18.28 million in 2020 to BHD 9.16 million in 2021.

Total operating income stood at BHD 107.3 million for the year ended December 2021 – an 11% increase from BHD 96.6 million recorded for the year ended December 2020. The Group's cost-to-income ratio stood at 52.7% in 2021 versus 52.3% in 2020.

Total assets recorded strong growth in 2021, increasing by 19% to BHD 2,685 million from BHD 2,261 million in December 2020. The growth was accompanied with a robust improvement in asset quality, with the Bank's nonperforming facilities ratio decreasing to 2.1% in 2021 compared to 5.1% in 2020, driven by effective recovery initiatives and quality asset bookings. The customer deposits reached BHD 1.80 billion, up from BHD 1.32 billion in 2020 - a YOY increase of 36%. Financings rose by 6.2% for the year, reaching BHD 1.36 billion compared to BHD 1.29 billion in 2020.

Total shareholders' equity increased by 5.5% from BHD 280.8 million in 2020 to BHD 296.3 million at the end of December 2021, primarily due to profits made during the year.

CAPITAL ADEQUACY

The Group continued to enjoy strong financial solvency and liquidity in 2021 and, in accordance with the Basel III capital adequacy guidelines, achieved a Capital Adequacy Ratio of 28.54% against a mandatory Central Bank of Bahrain minimum requirement of 12.5%.

ASSET QUALITY

The Bank maintained its conservative approach to asset selection for financing and investments and as at 31 December 2021, 98% of the financing portfolio was classified under the 'good & satisfactory' category (2020: 98%). Total provisions for the financing portfolio were BHD 41.4 million (2020: BD 43.8 million), which is primary due to the pandemic. The Asset Remedial and Collection unit continued to closely monitor past due facilities.

Management Review of Operations and Activities (Continued)

STRATEGY

Building on the success achieved in the previous 3-year strategy set in 2018, a new strategy formulated mid 2021 was designed to capitalize on the Bank's momentum by expanding offerings, accelerating digital rollouts, and improving the Bank's competitiveness.

The strategy's main objectives revolve around achieving bank-wide optimizations to improve offerings, achieve growth in core banking operations, and fast-track the adoption of forward -looking technologies.

The Bank has made significant strides in achieving its strategic objectives, specifically by intensifying customer acquisition efforts and increasing market share. This was coupled with an expansion of product offerings to cater for new customer segments.

In addition to the focus on the consumer and corporate banking segments, the new strategy also envisions the roll out of new asset management offerings to better serve our consumer banking clients, and the expansion of our international transaction banking services for our corporate and FI clients.

These initiatives are underpinned by a strong commitment to digitization in a way that creates a seamless customer experience powered by the utilization of data analytics in day-to-day processes and decision making.

The Bank also embarked on a bold and forward-thinking re-branding exercise, launching a new brand DNA comprising a new promise that embraces a digitally-native mindset.

Continuing on the momentum from the previous strategy, the focus going forward is to further accelerate the rollout of offerings to better serve a broader base of client segments through our seamless digital channels.

RETAIL BANKING

Al Salam Bank's Retail Banking business witnessed robust growth in 2021, citing a 32% YTD increase in assets portfolio and a record surge in assets performance new bookings, indicating the highest returns historically since the Bank's inception. These results were attributed primarily to the Bank maintaining its leadership position in the Mazaya Social Housing Financing Scheme, which accounted for more than 40% of total bookings, through exclusive offers and strategic partnerships with key developers.

An exceptional 26% growth YTD in liabilities was catalyzed by the consistent surge in Al Ruwad Banking clients at a total contribution represent 60%, as well as the launch of a refreshed Danat savings scheme, which boosted the Bank's client base by an additional 4,000 new accounts, and raised its portfolio growth by nearly 25% compared by year end.

On a product level, the Bank launched Loyalty Rewards Program the first of its kind in the kingdom, prepaid Turkish Lira Card, and Corporate Deposit Cards. Rebranded Al Salam Life Planning scheme, which offered competitive profit rates on minimal investments for short to medium term savings plans in the likes of education or retirement, with the added benefit of Takaful insurance and Covid-19 coverage. Other digital-first initiatives included the generation of paperless PINs through the Bank's Automated Teller Machine (ATM) network, card activation or deactivation through Interactive Voice Response (IVR), the launch of new online platform for Corporate/MSME clients, account activation and payment dispute through the mobile application, in addition to paperless account opening and maintenance in branch and externally through fully integrated tables.

Card utilization and spend also saw a substantial 73% increase for credit cards and 123% for prepaid cards, resulting in improved card profitability and a 600% growth in net profit generated from the card segment.

Enhancing the client experience remained at the forefront of the Retail strategy, with priority focus given to expanding the product offering and enhancing the automated financing workflows to improve efficiencies. Full automation was achieved for all Retail Banking segments and across all product offerings, which contributed to a significant time reduction in the application process for new facilities and renewals.

The Bank pursued the rationalization of its physical network, closing its Salmabad and Exhibition branches, and opening a new flagship branch in Hidd, featuring a dedicated Al Ruwad Business Center, 24/7 Banking services via self-service online Banking kiosks, instant bulk Cash Deposit Machines (CDM) and ATMs. Another branch was also inaugurated at the Bank's new headquarters in Sanabis last December.

PRIVATE BANKING

The Private Banking department demonstrated great agility, citing remarkable achievements in 2021. Priority was given to nurturing client relationships by offering tailored solutions, which was reflected in the successful onboarding of 154 new clients and a record 49% growth in liabilities which exceeded BD 1 billion in 2021. Private Banking also closed new asset deals recording a total of BD 291 million in assets as at the year-end 2021. In line with the Bank's strategy of increasing Fee-Based Income, Private Banking booked a record high fees and commissions, increasing by 38% during 2021 and also recorded a steady growth in transactional income.

In light of the restrictions and social distancing protocols imposed by the pandemic, the Bank pursued the implementation of its digital transformation initiatives and continued to enhance its digital platforms to facilitate the Banking experience and maintain seamless connectivity with clients. A curated e-lounge service was launched for Private Banking clients, in addition to maintaining its in-house private services which were adapted to adhere to the requisite safety precautions.

CORPORATE BANKING

In light of the lingering market uncertainty, the Corporate Banking division continued to operate with caution, implementing risk reduction strategies, including consistent optimization of the Corporate Banking financing book, and managed to maintain its asset base with only a marginal decrease compared to 2020.

Prudent portfolio management strategies combined with cautious provisions and effective cost control measures, saw a significant improvement in Net Income, exceeding the set forecasts. Corporate Banking liabilities on the other hand increased by 11% YoY.

Building on its commitment to nurturing client relationships, the Corporate Banking team worked to consistently enhance the diversity of its corporate products and services. The launch of a new Corporate Online Banking Platform empowered with advanced features for swift business operations, enabled corporate clients to conduct their daily financial transactions through a fully digital easy-to-use interface, resulting in the onboarding of more than 200 corporate clients during the year.

A Corporate Deposit Card was also launched in 2021, providing heightened security for businesses and micro, small and medium enterprises, and the added convenience of permitting daily deposits of up to BD 6,000 per account, through the Bank's deposit machines and smart 24/7 ATM's, while eliminating the need to visit a physical branch.

The Corporate Banking unit also effectively executed the 4th phase of the CBB issued financing deferrals, an extension to the regulatory measures introduced to limit the economic repercussions of COVID-19, and continued to offer the requisite support to the impacted businesses and startups across industries, counselling corporate clients on more effective ways to navigate their business operations through unpredictable and volatile economic conditions, to minimize risk exposure.

TREASURY AND CAPITAL MARKETS

As a primary enabler of liquidity, the Treasury and Capital Markets department has played an instrumental role in supporting the Bank's growth strategy during 2021. The Bank achieved a 47% growth in assets, as it continues to grow its existing portfolio.

The department has contributed significantly to the Bank's standing through a variety of funding sources and tools utilized to support its focus on large syndication activities catered to key clients within the Kingdom of Bahrain. Despite a highly volatile market due to the effects of COVID-19, the Treasury and Capital Markets department applied extraordinary control measures to ensure sustainable liquidity and seamless business delivery.

Furthermore, the department continued to grow and diversify its fixed income portfolio, experiencing a substantial increase of 56% in the Sukuk portfolio, coupled with an improvement in yields through careful use of leverage, which, in turn, provided support to the Bank's overall profitability and liquidity profile.

The Bank also continued to support Bahrain's sovereign requirements through the distribution of local and international CBB Sukuk issuances to local and regional client bases. Moreover, the department successfully placed several tranches of Investment Gateway Bahrain (IGB) Sukuk; a corporate issuance out of Bahrain, with a distribution mandate issued to the Department.

In addition to overseeing the Bank's Asset and Liability management functions, the Treasury and Capital Markets department saw an expansion of its institutional relationships with a variety of financial institutions locally, regionally and internationally. This was partly due to the successful engagement of new counterparties across the GCC and North Africa, and the development of a wide-reaching network of intra-bank relationships.

Management Review of Operations and Activities (Continued)

In line with the mandate set by Al Salam Bank's Executive Management, the department successfully structured Shari'a-compliant hedging products, including FX Wa'ad and Cross Currency Swaps, and supported the Group (Seychelles and Kenya) with relevant products in their respective Treasury units.

Although 2021 was a challenging year, the Treasury and Capital Markets team achieved further diversification of liquidity sources, using a variety of tools, including Islamic repos and term finance from various local and international sources.

As the Bank continues to implement its growth strategy of amassing core assets, the focus will remain on further enhancing the geographic diversification of liquidity sources, and on the implementation of innovative fixed income structures and leveraged products with international Banks. The Treasury and Capital Markets department will continue to assume its central role in aiding business units within the Group to optimally deploy their liquidity while simultaneously ensuring they adhere to regulatory liquidity ratios.

INTERNATIONAL TRANSACTION BANKING

2021 was a successful year, despite the challenges facing regional and global businesses, compounded with stringent restrictions on overseas businesses. The International Transaction Banking (ITB) department managed to grow its total funds by 68% or BHD 102 million during 2021, with an average cost of approximately 1%, while increasing its deposit base to BD 252 million, split between various funding items. The department portfolio was also expanded registering a healthy ancillary overall business in excess of USD 2.2 billion, mainly in foreign exchange volumes for trades and other cash payments.

With the support of the Senior Management, Al Salam Bank shifted its focus to low-cost funds, and expanded its range of tailored services and diversified offerings. The Bank took further steps to enhance its service offering through automation of key cash management and trade services features, while expanding its market coverage and onboarding new relationships.

Al Salam Bank is one of the very few banks capable of finalizing structured trade funding to support its FI trade portfolio, which has resulted in a net growth of BHD 50 million for the trade funding book in 2021, compared to the previous years. This was largely achieved due to the overall strong financial position of the Bank, and the trust of its stakeholders for the quality of its trade portfolio, which is a positive indication for future expansion in the coming years.

Other factors for the Bank's success can be attributed to its robust relationships with prominent institutions such as ABC Group and its UK subsidiary, for which Al Salam Bank established the first trade loan facility in the country, as well as RAK Bank, Standard Chartered Bank, and the Arab Monetary Fund, among many other regional and international counterparts.

FEE INCOME

The International Banking team generated a healthy fee income of approximately BHD 1 million in 2021, resulting from a growth in the international transactions book despite the ongoing challenges of the overseas markets largely influenced by the pandemic and supply chain disruptions. The trade finance portfolio also witnessed strong growth in terms of volume, marking an increase of over 40% YoY. The Bank expects 2022 to be an even more successful year, with the easing of regulatory restrictions and the general improvement of the sector.

RESILIENCE

Al Salam Bank's business is currently the most resilient it has ever been. The Bank is capable of navigating and adapting to the changing business environment and can operate successfully through current or upcoming restrictions, in line with risk appetites, as a result of its strong credit and risk capabilities and in-depth risk understanding across the different regions.

The Bank possesses the required expertise to apply a business model based on the sector's circumstances. The Al Salam Bank team is capable of adapting to different business needs, from asset building, to growing a contingent liability trade finance portfolio based on market appetite, and expanding its services modules, increasing funds on Wakala based structures, CASA and structured trade funding.

Furthermore, the Bank is able to seamlessly maneuver between diverse market portfolios, reducing its reliance on a single market, while managing country-specific credit and other risks.

The year 2022 looks promising, as the Bank has started with onboarding new clients in different regions and countries, and looks towards potential new market pipelines and counterparties while planning to expand its products and services.

INNOVATION

As a core pillar of the Bank's corporate strategy, innovation has continued to fuel Al Salam Bank's growth trajectory, and 2021 witnessed great strides and significant milestones in the Bank's digital transformation agenda.

The Bank's substantial investments in digitally-driven initiatives since 2019, comprising the enhancement and upgrading of its digital infrastructure, channels, and touchpoints, have culminated in an optimized, highly efficient, seamless experience for both retail and corporate clients.

The client onboarding process was completely overhauled following direct integration of the Bank's core systems, digital channels and mobile applications to the Kingdom's eKYC system, which resulted in improved data accuracy levels as well as a significant reduction in onboarding time to five minutes.

The Bank's Innovation unit worked alongside key departments to launch the first-of-its kind, cloud-native, online platform with best-in-class features catering to the more advanced needs of corporate clients. The platform offers a selection of services, including cash management facilities, treasury solutions, and a digital flow engine to streamline client communication with the Bank's Relationship Managers. Plans are in place to further upgrade this platform with trade finance services, as well as electronic bill and invoicing tools.

In line with the Bank's commitment to be at the forefront of the Fintech landscape through industry collaborations, the Innovation team has worked closely with multiple Fintech players via the Bank's cloud-native integration sandbox, to develop, test-pilot, and deploy products and services with the support and guidance of the Bank's experienced technology and business teams.

OPERATIONS

The Operations department continued to play an active role in pushing change during the challenging year of 2021, witnessing higher efficiencies while utilizing its remote working module.

Following emergency measures adopted worldwide, the Bank witnessed a major shift in the way it operates, communicates, and reacts to new directions received from regulators and the Bank's management, business lines and development projects, with some key examples including the newly introduced AFAQ GCC (Gulf Cooperative Council) RTGS payment system; enabling Real Time intra GCC payments settlements at preferential exchange rates; the Bank's evolving Mobile Application add-ons, BCTS (Bahrain Cheque Truncation System), Major Upgrade & Migration, among other regulatory and internal enhancements aimed at providing an elevated client and user experience, that were all met with great success.

The Operations department has also received the "JP Morgan Elite Quality Recognition Award" for processing exceptionally high-quality Straight Through cross border payments for the second consecutive year, marking the Bank's success in providing its clients with first-class efficient services. Tapping an STP Rate that reaches up to 99.7%, this award is presented to less than 1% of JPMorgan's clientele banks worldwide.

The Bank's human resources continued to be managed remotely, while stronger focus was placed on increasing communication with main stakeholders, adopting flexible operating hours, executing innovative ideas and managing change by implementing solutions quickly and effectively, to ensure continuity of operations.

In response to the directives from the Central Bank of Bahrain, Al Salam Bank undertook the imperative task of managing clients' facilities and financing deferments, while aligning with the Bank's initiatives to support impacted client categories, as part of its corporate responsibility strategy.

Al Salam Bank saw seamless stakeholder engagement during the entire process, which guaranteed meeting regulatory requirements throughout the year without interruption to its client service.

Increased efficiency was reflected in the additional processing enhancements adopted by the Bank in 2021, achieving a shorter lead time in booking transactions, maintaining output quality, adhering to regulatory guidelines, compliance, and application of its Standard Operating Procedures.

This achievement came in spite of remote working conditions, and was earned through increasing the Bank's collective team efforts and harnessing its corporate spirit, ensuring successful operational continuity.

INFORMATION TECHNOLOGY

From the outset of 2021, the Information Technology (IT) team has been working diligently to support the Bank's business and operations units, prioritizing the swift delivery of facilities deferment requests for clients adversely affected by the pandemic, while simultaneously launching new initiatives in line with the Bank's digital transformation ambitions and carrying out multiple infrastructure upgrades over the twelve-month period.

Management Review of Operations and Activities (Continued)

Over thirty individual business and technology projects were successfully delivered by the IT department in 2021. Additionally, IT also successfully carried out multiple infrastructure upgrades within the year. Key highlights include the seamless transition of the Bank's IT systems from its former offices in the Bahrain World Trade Center to its new headquarters in Khair Tower 3, as well as the implementation of a new software defined network and continued enhancement of its collaborative systems and installation of new features and functionalities to strengthen the Bank's resilience against potential disruptions, and ensure business continuity.

The IT team also initiated a milestone project to modernize and future-proof the Bank's Core Banking System by setting up a robust foundation to enable seamless integration of the latest cutting-edge technologies and digital functionalities.

Beyond this, the Bank's main data center was completely renovated, while IT worked closely with the Bank's Information Security team to implement strategic enhancements to the Bank's management, monitoring and infrastructure systems, to enhance data security and upkeep the Bank's systems with the latest technologies. In collaboration with the Banks' Innovation team, the IT department successfully delivered a new online Banking experience for corporate clients through the launch of a full-fledged digital platform, while the mobile retail application was upgraded with new features and functionalities, to facilitate easier access to the Bank's services.

CORPORATE GOVERNANCE & RISK MANAGEMENT

In 2021 the Bank closely monitored and reviewed its financing portfolio and took corrective steps, to maintain asset quality and at the same time support business growth, which is reflected in the low NPA levels and asset growth. The Bank identified vulnerable sectors of the economy to ensure Bank's exposure to customers in the said vulnerable sectors are closely monitored, appropriate and timely action is initiated to ensure the business of these customers are not severely impacted due to the pandemic situation.

The pandemic situation warranted the Bank to maintain its BCM infrastructure and ensure its availability to support employees to work from home and other locations, and there are no disruptions to the Bank's operations.

Given the increase in cyber risks, Bank enhanced its cyber security standards by review of its cybersecurity policies and procedures, and investments in new security enhancement projects. Bank provided awareness sessions to its employees on cyber security. Bank will continue to enhance its cybersecurity framework by investing in new technologies to improve its resilience and response to security incidents and have in place an effective process to detect and manage security incidents. The Bank maintained constant vigilance over the evolving market conditions with respect to systemic as well as idiosyncratic liquidity conditions and maintained sufficient buffer of high-quality liquid assets to meet any unforeseen stress situations, which was reflected in healthy LCR and NSFR ratios.

The Group's Corporate Governance and Risk Management function continues to take proactive measures to maintain its asset quality, low levels of NPA, and increased focus on liquidity management, information security and market risks. Bank will continue to invest in new projects to comply with the changing Regulatory landscape.

KNOW YOUR CUSTOMER

The stringent application of the Know Your Customer (KYC) policies and procedures has been fundamental in ensuring that the Bank and all its stakeholders are protected from any fraud and money laundering activities. Furthermore, the Bank has consistently adhered to the CBB's Financial Crimes Module, which mirrors the Anti Money Laundering (AML) directives developed by the Financial Action Task Force (FATF), while conducting a series of internal AML training sessions throughout the year alongside additional measures to educate employees on the Bank's new client onboarding risk assessment procedures and due diligence requirements for the digital onboarding process.

The Bank will continue to maintain an active review of its policies and processes to ensure it remains fully compliant with current digitization standards, while enhancing its systems and control mechanisms to stay abreast of global market trends.

HUMAN RESOURCES

The Bank continued to offer its employees the flexibility of working remotely, as part of its commitment to fostering a safe and agile work environment, with rotations and schedules managed efficiently to minimize disruption to operations and ensure business continuity.

Human Resources also worked closely with the IT department to further automate and simplify the HR processes by expanding the services offered to employees via the Bank's digital Self Service HR platform, taking a further step to eliminate paper usage, as the Bank transitions towards a paperless environment.

As part of the Bank's Annual Summer Internship Program, a challenging competition was introduced for the best mobile app Banking experience "Mobile App Enhancement" and the winning team's idea was later implemented on Al Salam Bank's mobile app.

ONGOING DEVELOPMENT

Employee empowerment through access to tools, resources and training opportunities, continued to be a priority for the Bank in 2021. The Human Resources department launched LinkedIn Learning, a platform with access to an abundance of courses geared to both professional and personal development, ranging from Business, Technology and Marketing, and financial literacy to more creative and artistic fields of study, resulting in a holistic learning experience. Employees could take advantage of any course of their choosing to develop both their soft and technical skills, at their own time and pace.

CULTURE

The roll out of the Bank's Brand DNA, supported by HR's robust career planning framework, has boosted employee engagement and stimulated teamwork and idea generation. The Bank is executing a strategic roadmap for a highly energic and supportive work environment that fosters a collaborative mindset and encourages collective achievement.

In line with its commitment to creating a unique work culture, the Bank extended its Danat savings scheme and associated rewards and benefits, to all employees and their immediate family members, as a token of appreciation for their continuous efforts and achievements.

HEALTH & WELL-BEING

Prioritizing the health and well-being of its employees, the Bank held multiple virtual awareness sessions throughout the year, offering guidance and a reminder on best practices and safety precautions during the pandemic. In coordination with the Kingdom's Ministry of Health and the National Taskforce for Combating the Coronavirus, employees also benefitted from discounted rates on PCR tests and access to complimentary COVID-19 Rapid Test devices. Enhancements were also factored into the Bank's Medical Insurance policy, covering current limit increases at no additional cost.

Al Salam Bank partnered with Soza Health, to offer its employees a specialized wellness test with personalized data designed as a preventative tool to enable them to better understand their health levels and proactively reduce associated risks. The provision of this test by Al Salam Bank to its employees was a first for any Bank in the region.

SOCIAL

The First Fundraising Event "Be a Fighter" was hosted on 31 October to raise funds for Breast Cancer/ Prostate awareness month in coordination with Charbonnel Et Walker along with Anadda Collection. A Dinar for Dinar purchase from any of the offered selections was donated to Bahrain Cancer Society for a good cause.

BRAND, MARKETING AND CORPORATE COMMUNICATIONS

In line with the Bank's future-ready vision and new strategic direction, the corporate communications and marketing teams carried out an extensive rebranding exercise, setting into a motion a new powerful Brand DNA, built from the ground up following collective feedback received from the Bank's employees.

Reiterating the Bank's client-centric focus and commitment to creating an enriching and transformative experience for clients by simplifying and humanizing their journey through personalization, convenience, and rewards, the Brand DNA comprised a newly-formed brand promise, values and principles. Alongside the launch of a refreshed, minimalist logo to earmark the next chapter in the Bank's brand journey, the Bank actively involved its employees, clients, and the entire local community in the inaugural launch of its community-led CSR platform, Al Salam Helping Hands, hosting month-long art activations and pop-up gallery exhibitions in partnership with the artist Abbas Al-Mosawi. The activation kicked off with the Bank's internal Town Hall and followed on with events held at the Avenues Mall Bahrain, City Center Bahrain and Seef Mall. For every individual that participated, 1 BD was subsequently donated to the Royal Humanitarian Foundation, which resulted in a total sum of BD 10,000. Furthermore, to celebrate the Bank's human-centric values, and reiterate the inspiration behind the logo creation, Abbas Al-Mosawi conceptualized all the artworks into a final masterpiece, which was revealed on the facade of the Bank's new headquarters.

Al Salam Bank was also awarded 'Best Domestic Bank in Bahrain – 2021' by Asiamoney Middle East, recognizing its role as pioneers of the Banking industry in light of its solid financial performance, unwavering initiative in providing a diversified portfolio of Banking products and services, and significant milestones achieved as part of its journey towards digital transformation.

We are inspired by your Trust

Corporate Governance Report

Corporate Governance Practice

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

Shareholders

Major Shareholders as of 31 December 2021

S. No.	Investor Name	Country	No. of Shares	%
1	Bank Muscat (S.O.A.G)	Sultanate of Oman	356,578,525	14.74
2	Sayacorp B.S.C Closed	Kingdom of Bahrain	151,883,594	6.28
3	Al Salam Bank - B.S.C	Kingdom of Bahrain	146,300,000	6.05
4	Overseas Investment S.P.C.	Kingdom of Bahrain	145,542,249	6.01
5	Al-Rushd Investments Limited	United Arab Emirates	118,673,100	4.90
6	Tasameem Real estate	United Arab Emirates	115,581,512	4.78
7	United International Representation of Companies	United Arab Emirates	87,558,143	3.62
8	Royal Court Affairs, Sultanate of Oman	Sultanate of Oman	80,048,235	3.31
9	Silver Hills investments Limited	United Arab Emirates	65,846,448	2.72
10	Sayed Husain Ali Alawi Al Qatari	Kingdom of Bahrain	63,934,235	2.64
11	Global Express Comapany W.L.L	Kingdom of Bahrain	46,000,000	1.90
12	Bond Investments L.L.C	United Arab Emirates	43,287,426	1.79
13	Al Asuban Company	Kingdom of Bahrain	29,668,275	1.23
14	Emirates Investment Bank	United Arab Emirates	26,800,615	1.11
15	Al Salam Bank - Sudan	Sudan	23,734,620	0.98

Shareholding – 31 December 2021

Category	No. of Shares	No. of Shareholders	% of Outstanding Shares
Less than 1%	942,020,389	22,598	38.93%
1% to less than 5%	677,397,989	10	27.99%
5% to less than 10%	443,725,843	3	18.34%
10% to less than 20%	356,578,525	1	14.74%
20% up to less than 50%	-	-	-
50% and above	-	-	-
Total	**2,419,722,746**	**22,612**	**100.00**

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

Nationality	No. of Shares	Ownership Percentage
Bahraini		
Government	-	-
Institutions	589,072,722	24.34%
Individuals	253,604,546	10.48%
GCC		
Government	80,048,235	3.31%
Institutions	836,842,522	34.58%
Individuals	397,131,532	16.41%
Other		
Government	-	-
Institutions	189,462,670	7.83%
Individuals	73,560,519	3.04%
Total	**2,419,722,746**	**100.00**

BOARD OF DIRECTORS

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

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

Board Composition

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

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

Mandate of the Board of Directors and their Roles and Responsibilities

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

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

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

Board Elections System

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

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

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

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

1. Fails to attend four consecutive meetings of the Board in one year without an acceptable excuse, and the Board of Directors decides to terminate his membership;
2. Resigns his office by virtue of a written request;
3. Forfeits any of the provisions set forth in Article 26 of the Articles of Association;
4. Is elected or appointed contrary to the provisions of the Law; and

5. Has abused his membership by performing acts that may constitute a competition with the Company or caused actual harm to the Company;
6. If he has been convicted before any court for theft, embezzlement, fraud, forgery or issuing dishonored cheques or any crime as provided in the law;
7. If he declares bankruptcy;
8. If any of the shareholders have terminated his appointment to any of their representatives on the Board of Directors or if the shareholders of the General Assembly vote for his removal in accordance with Article 42; or
9. If the Central Bank of Bahrain considers him not eligible for the position.

Independence of Directors

An independent Director is a Director whom the Board has specifically determined has no material relationship, which could affect his independence of judgment, taking into account all known facts. The Directors have disclosed their independence by signing the Directors Annual Declaration whereby they have declared that during the year ending 31st December 2021, they have met all the conditions required by the various regulatory authorities to be considered independent.

As of 31-12-2021, the members of the Board were:

Non-executive Members

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

Independent Members

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

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

The Board Charter

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

Conflict of Interest

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

Corporate Governance Report (Continued)

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

Sr	Board Member	Instances of abstaining from voting	Status
1	Mr. Hisham Al Saie	4 instances	Approved by Board
2	Mr. Zayed Al Amin	2 instances	Approved by Board
3	HE. Shaikh Khalid Al Mashani	2 instances	Approved by Board

Induction and Orientation for New Directors

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

Code of Conduct

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

- To act with honesty, integrity and in good faith, with due diligence and care, in the best interest of the Bank and its stakeholders;
- To act only within the scope of their responsibilities;
- To have a proper understanding of the affairs of the Bank and to devote sufficient time to their responsibilities;
- To keep confidential Board discussions and deliberations;
- Not to make improper use of information gained through the position as a director;
- Not to take undue advantage of the position of director;
- To ensure his/her personal financial affairs will never cause reputational loss to the Bank;
- To maintain sufficient/detailed knowledge of the Bank's business and performance to make informed decisions;
- To be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions of the Board;
- To consider themselves as a representative of all Shareholders and act accordingly;
- Not to agree to the Bank incurring an obligation unless he/she believes at the time, on reasonable grounds, that the Bank will be able to discharge the obligations when it is required to do so;
- Not to agree to the business of the Bank being carried out or cause or allow the business to be carried out, in a manner likely to create a substantial risk of serious loss to the Bank's creditors;
- To treat fairly and with respect all of the Bank's employees and customers with whom they interact;
- Not to enter into competition with the Bank;
- Not to demand or accept substantial gifts from the Bank for himself/herself or his/her associates;
- Not to take advantage of business opportunities to which the Bank is entitled for himself/herself or his/her associates;
- Report to the Board any potential conflicts of interests; and
- Absent themselves from any discussions or decision-making that involves a subject in which they are incapable of providing objective advice or which involves a subject or proposed conflict of interest.

Evaluation of Board Performance

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

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

The results of the annual performance assessment shall be communicated to the Shareholders at the Annual General Meeting.

The assessment for 2021 was satisfactory.

Remuneration of Directors

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

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

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

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

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

Board Meetings and Attendances

The Board of Directors meets at the summons of the Chairman or his Deputy (in the event of his absence or disability) or if requested to do so as per the Bank's Board Charter. According to the Bahrain Commercial Companies Law and the Bank's Articles of Association, the Board meets at least four times a year. A meeting of the Board of Directors shall be valid if attended by half of the members in person. During 2021, the Directors that were present at the Annual General Meeting are detailed in the minutes of the 2021 Annual General Meeting. The details of the Board meetings held during 2021 are as follows:

Board Meetings in 2021 - Minimum Four Meetings per Annum

Members	9 Feb	17 Mar	7 Jun	5 Aug	9 Sep	2 Nov	9 Dec
H.E. Shaikh Khalid bin Mustahil Al Mashani	✓	✓	✓	✓	✓	✓	*
Mr. Alhur Mohammed Al Suwaidi	✓	✓	✓	✓	✓	✓	✓
Mr. Khaled Shehabeddin Madi*	✓	*	*	*	*	*	*
Mr. Khalid Salim Al Halyan	✓	✓	✓	✓	✓	✓	✓
Mr. Matar Mohamed Al Blooshi	✓	✓	✓	✓	✓	✓	✓
Mr. Salim Abdullah Al Awadi	✓	✓	✓	✓	✓	✓	✓
Mr. Salman Saleh Al Mahmeed	✓	✓	✓	✓	✓	✓	✓
Mr. Zayed Ali Al Amin	✓	✓	✓	✓	✓	✓	✓
Mr. Tariq Abdulhafidh AlAujaili**	*	✓	✓	✓	✓	✓	✓
Mr. Hisham Saleh AlSaie**	*	✓	✓	✓	✓	✓	✓

* Khaled Shehabeddin Madi finished his term on 17 March 2021

** Both Mr. Hisham Saleh AlSaie and Mr. Tariq Abdulhafidh AlAujaili were elected on 17 March 2021

Corporate Governance Report (Continued)

Directors' Interests

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

Members	No of Shares 2021	No of Shares 2020
H.E. Shaikh Khalid bin Mustahil Al Mashani	0	0
Mr. Matar Mohamed Al Blooshi	0	0
Mr. Salim Abdullah Al Awadi	0	0
Mr. Alhur Mohammed Al Suwaidi	0	0
Mr. Khalid Salem Al Halyan	11,302	10,764
Mr. Zayed Ali Al-Amin*	5,000,000	520,000
Mr. Salman Saleh Al Mahmeed	0	0
Mr. Tariq Abdulhafidh AlAujaili	0	0
Mr. Hisham Saleh AlSaie**	735,000	0

*Mr .Zayed bought 4,480,000 shares.

**Mr. Hisham has bought 735,000 shares (indirect).

Approval Process for Related Parties' Transactions

The Bank has a due process for dealing with transactions involving related parties. Any such transaction will require the unanimous approval of the Board of Directors. The nature and extent of transactions with related parties are disclosed in the consolidated financial statements under note 28 - related party transaction.

Material Transactions that require Board Approval

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

Material Contracts and Financing Involving Directors and Senior Management During 2021

The Bank's dealings with its directors/ associated entities are conducted on an arms-length basis and at prevailing commercial terms in respect of its exposure to and deposits received from them. All financing facilities to senior management members are governed by the policies applicable to staff, which are reviewed and approved by the Board Remuneration & Nomination Committee. Material contracts and financing facilities involving directors and senior management during 2021 are as follows:

- BD 1.6 million outstanding against Ali Rashid Al Amin Co. which is related to a director.
- Financing Facilities provided to certain Directors of the Board with total amount of BD 834 thousand.
- BD 712 thousand outstanding against Quality Wire Products Wll which is related to senior management.
- Financing facilities provided to senior management with total amount of BD766 thousand.

All related party transactions are disclosed in note 28 of the consolidated financial statements for the year ending 31st December2021.

Directorships held by Directors on Other Boards

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

Board Committees

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

Certain information relating to the work of certain Board Committees during the year 2021, summary of the dates of Committee meetings held, Directors' attendance and a summary of the main responsibilities of each Committee is enclosed in this report.

Executive Committee

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

There are no significant issues to report.

Below are the members of the Executive Committee:

Sr	Member	Status
1	Mr. Matar Mohamed Al Blooshi (Chairman)	Non-executive
2	Mr. Hisham AlSaie	Non-executive
3	Mr. Salim Abdullah Al Awadi	Independent
4	Mr. Zayed Ali Al Amin	Non-executive

Committee Meetings in 2021 - Minimum four meetings per annum.

Four Committee meetings were held during 2021 as follows:

Members	2 Feb	3 Jun	2 Sep	5 Dec
Mr. Matar Mohamed Al Blooshi (Chairman)	✓	✓	✓	✓
Mr. Hisham AlSaie*	*	✓	✓	✓
Mr. Salim Abdullah Al Awadi	✓	✓	✓	✓
Mr. Zayed Ali Al Amin	✓	✓	✓	✓
Mr. Alhur Mohammed Al Suwaidi**	✓	*	*	*

* Mr.Hisham AlSaie was elected and started his term on 17 March 2021

** Mr. Alhur Mohammed Al Suwaidi was a former member of the committee as per the old board member composition

Audit and Risk Committee

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

There are no significant issues to report.

Below are the Members of the Audit and Risk Committee:

Sr	Member	Status
1	Mr. Salman Saleh Al Mahmeed (Chairman)	Non-executive
2	H.E. Shaikh Khalid bin Mustahil Al Mashani	Non-executive
3	Mr. Tariq Abdulhafidh AlAujaili	Independent
4	Mr. Khalid Salim Al Halyan	Independent
5	Mr. Alhur Mohammed Al Suwaidi	Independent

Committee Meetings in 2021 - Minimum four meetings per annum.

Six Committee meetings were held during 2021 as follows:

Members	3 Feb	2 Jun	3 Aug	1 Sep	28 Oct	2 Dec
Mr. Salman Saleh Al Mahmeed (Chairman)	✓	✓	✓	✓	✓	✓
H.E. Shaikh Khalid bin Mustahil Al Mashani	✓	✓	✓	✓	✓	✓
Mr. Khaled Shehabeddin Madi*	✓	*	*	*	*	*
Mr. Khalid Salim Al Halyan	✓	✓	✓	✓	✓	✓
Mr. Alhur Mohammed Al Suwaidi	*	✓	✓	✓	✓	✓
Mr. Tariq Abdulhafidh AlAujaili**	*	✓	✓	✓	✓	✓

* Khaled Shehabeddin Madi finished his term on 17 March 2021

** Mr. Tariq Abdulhafidh AlAujaili was elected on 17 March 2021 and became Member of the committee as per the new Board Committee's composition dated 26 April 2021

Remuneration Committee

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

There are no significant issues to report.

Below are the members of the Remuneration Committee.

Sr	Member	Status
1	H.E. Shaikh Khalid bin Mustahil Al Mashani (Chairman)	Non-executive
2	Mr. Alhur Mohammed Al Suwaidi	Independent
3	Mr. Khalid Salim Al Halyan	Independent

Committee Meetings in 2021 - Minimum two meetings per annum. Three meetings were convened during 2021:

Members	3 Feb	20 Jun	2 Dec
H.E. Shaikh Khalid bin Mustahail Al Mashani (Chairman)	✓	✓	✓
Mr. Khalid Salim Al Halyan	✓	✓	✓
Mr. Alhur Mohammed Al Suwaidi*	*	✓	✓
Mr. Khaled Shehabeddin Madi**	✓	*	*

* Mr. Alhur Mohammed Al Suwaidi became a Member of the Committee as per the new Board Committee's composition dated 26 April 2021

** Mr. Khaled Shehabeddin Madi finished his term on 17 March 2021

Nomination and Corporate Governance Committee

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

There are no significant issues to report

Below are the members of the Nomination and Corporate governance committee:

Sr	Member	Status
1	Mr. Salim Abdullah Al Awadi (Chairman)	Independent
2	Mr. Tariq Abdulhafidh AlAujaili	Independent
3	Mr. Matar Mohamed Al Blooshi	Non-executive
4	Dr. Fareed AlMaftah (Shari'a Supervisory member)	-

Committee Meetings in 2021 - Minimum two meetings per annum.

Two meetings were convened during 2021:

Members	2 Feb	2 Sep
Mr. Salim Abdullah Al Awadi (Chairman)	✓	✓
Mr. Matar Mohamed Al Blooshi	✓	✓
Mr. Tariq Abdulhafidh AlAujaili*	*	✓
Mr. Alhur Mohammed Al Suwaidi*	✓	*
Dr. Fareed AlMaftah (Shari'a Supervisory Member)	✓	✓

* Mr. Tariq Abdulhafidh AlAujaili became a member of the committee instead of Mr. Alhur Mohammed Al Suwaidi as per the new Board Committee's composition dated 26 April 2021

FATWA & SHARI'A SUPERVISORY BOARD

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

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

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

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

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

ANNUAL GENERAL MEETING

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

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

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

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

EXECUTIVE MANAGEMENT

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

Senior Managers' Interests

The number of shares held by the senior managers, in two-year comparison, as on 31 December 2021 is as follows:

	Shares	
Members	**2021**	**2020**
Dr. Mohammed Burhan Arbouna	378	360
Mr. Essa Abdulla Bohijji	134,489	128,085
Mr. Karim Turki	187	179
Mr. Anwar Mohammed Murad*	750,000	0
Total	**885,054**	**128,624**

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

Management Committees

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

Committee	Roles and Responsibilities
Management Executive Committee	Overseeing the other Management committees and assisting the Group CEO in various issues or topics as and when required.
Credit/Risk Committee	Recommending the risk policy and framework to the Board. Its primary role is the selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to Board, Board Committees, Regulators and Executive Management. In addition to these responsibilities, individual credit transaction approval and monitoring is an integral part of the responsibilities.

Committee	Roles and Responsibilities
Asset Liability Committee	This Committee's primary responsibility is to review the trading and liquidity policy for the overall management of the balance sheet and its associated risks.
Investment Committee	The role of the Committee is to review and approve all transactions related to corporate and real estate investments and monitoring their performance on an ongoing basis. In addition, the Committee is responsible to oversee the performance of the fund managers and recommend exit strategies to maximize return to its investors.
Technology Steering Committee	The Committee oversees the information technology function of the Bank. It recommends the annual IT budget and plans, drawn up in accordance with the approved strategy of the Bank, to the Group CEO for submission to the Board of Directors for their approval. It supervises the implementation of the approved IT annual plan within set deadlines and budgetary allocations.
Remedial Committee	The role of the committee is to assess and follow up on all non-performing assets of the Bank with the objective of maximizing recoveries for the Bank.
Human Resources Committee	The role of the committee is to enable the Bank's employees to meet their professional and personal goals aligned with the growth of the Bank by focusing on skill enhancement, career development, rewards with performance, and work life balance.
Information Security Committee	The role of the committee is advisory in nature. It assists the relevant stakeholders to develop, review and execute a comprehensive Information Security Management System (ISMS) for the Bank. The role of the Committee is to strengthen the Information Security Department's capabilities as well.
Social Responsibility Committee	This Committee oversees the Corporate Social Responsibility affairs of the Bank, managing donations and sponsorship requests, evaluating the proposals and allocating funds to causes that the Bank is committed to support, in line with the annual corporate social responsibility plan and the Corporate Social Responsibility Policy. Any exceptions to the approved plan are reviewed and recommended to the Board for approval. The Committee is also involved in the preparation of the Corporate Social Responsibility Report, which forms part of the Annual Report, detailing the donations and sponsorships made during the year. The social causes that are supported by the Bank are: • Medical assistance; • Care for the less fortunate; and • Cultural initiatives focused on preserving and promoting Bahraini traditions into the future.

Corporate Governance Report (Continued)

Executive Management Compensation

The performance bonus of the Group Chief Executive Officer is recommended by the Remuneration and Nomination Committee and approved by the Board. The performance bonus of senior management is recommended by the Group Chief Executive Officer for review and endorsement by the Remuneration Committee subject to Board approval. The Performance Audit for the Compliance, Audit and Risk functions are assessed and approved by both the Audit and Risk Committee and the Remuneration Committee. The Remuneration policy was amended to include the following changes for the Year 2022 (Subject to shareholders and regulatory approvals):

Item	Changes
Approved Persons	1. Additions: • Chief Risk Officer • Chief Technology Officer • Head of Internal Shari'a Audit • Head of Shari'a Compliance
RNC	2. Definition Name changed to Remuneration Committee (RC)
CEO	3. Definition changed to Group Chief Executive Officer (GCEO)
HRC	4. Newly added (Human Resources Committee)
The Remuneration Committee	5. Point 3.1.1.: • The GCEO and the HRC can only provide inputs regarding remuneration as and when requested by RC and RC will be responsible for finalizing the remuneration policy
Internal Audit Department	6. Point 3.12.: • Certain aspects of the Audit will be covered by the external auditor as per the Module AU of the CBB rulebook, furthermore, the Bank, subject to the Board's approval, may engage the external auditor or an independent third-party consultant to conduct an independent audit on sensitive items.
Board of Directors' Remuneration	7. Point 4.3.: • Board Remuneration (Up to 10% of the net profit after deducting the legal reserves and distributing the profit above) article 188
Approvals	8. Point 5.4.: • The compensation for the relevant heads reporting to the Audit & Risk Committee shall be approved by the Audit & Risk Committee.
Variable Pay Scheme	9. Point 6.3.1.: • Calculation Basis for the GCEO & His Deputies 10. Point 6.3.2 & 6.3.3 Combined 11. Point 6.4. Addition of: • The remuneration system must link the size of the bonus pool to the overall performance of the bank 12. Section 7 added on Variable non-cash reward components* 13. Section 9 on LTIP (Long Term Incentive Plan) Share Awards introduced
Classification of Employees	14. Point 6.6.2 • Addition of Chief Risk Officer • Chief Technology Officer • Head of Internal Shari'a Audit • Head of Shari'a Compliance

Item	Changes
Performance Management and Annual Increment	15. Point 9.6.: • The Bank shall carry out the performance management process once a year for all employees
Promotion	16. Point 11.2.: • Promotion of employees reporting to the GCEO shall be approved by the Board based on the recommendation of the GCEO & RC.
Effective Date and Changes	17. Point 12.1.: • The policy will be approved in the next Annual General Meeting, after the recommendation of the RC and Board.

COMPLIANCE

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

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

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

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

REMUNERATION AND APPOINTMENT OF THE EXTERNAL AUDITORS

During the Annual General Meeting held on 17 March 2021, the shareholders approved the re-appointment of KPMG as external auditors for the year ending 31 December 2021 and authorized the Board of Directors to determine their remuneration. The Bank has appointed the auditor for several non-audit services which were cleared as per the Bank's internal policies and procedures. The Board has approved the fees related to those services on cases by case basis.

INTERNAL CONTROL

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

KEY PERSONS POLICY

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

Corporate Governance Report (Continued)

EMPLOYEE RELATIONS

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

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

COMMUNICATION POLICY

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

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

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

WHISTLE BLOWING POLICY

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

DELEGATION OF AUTHORITY LIMITS

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

DISCLOSURES

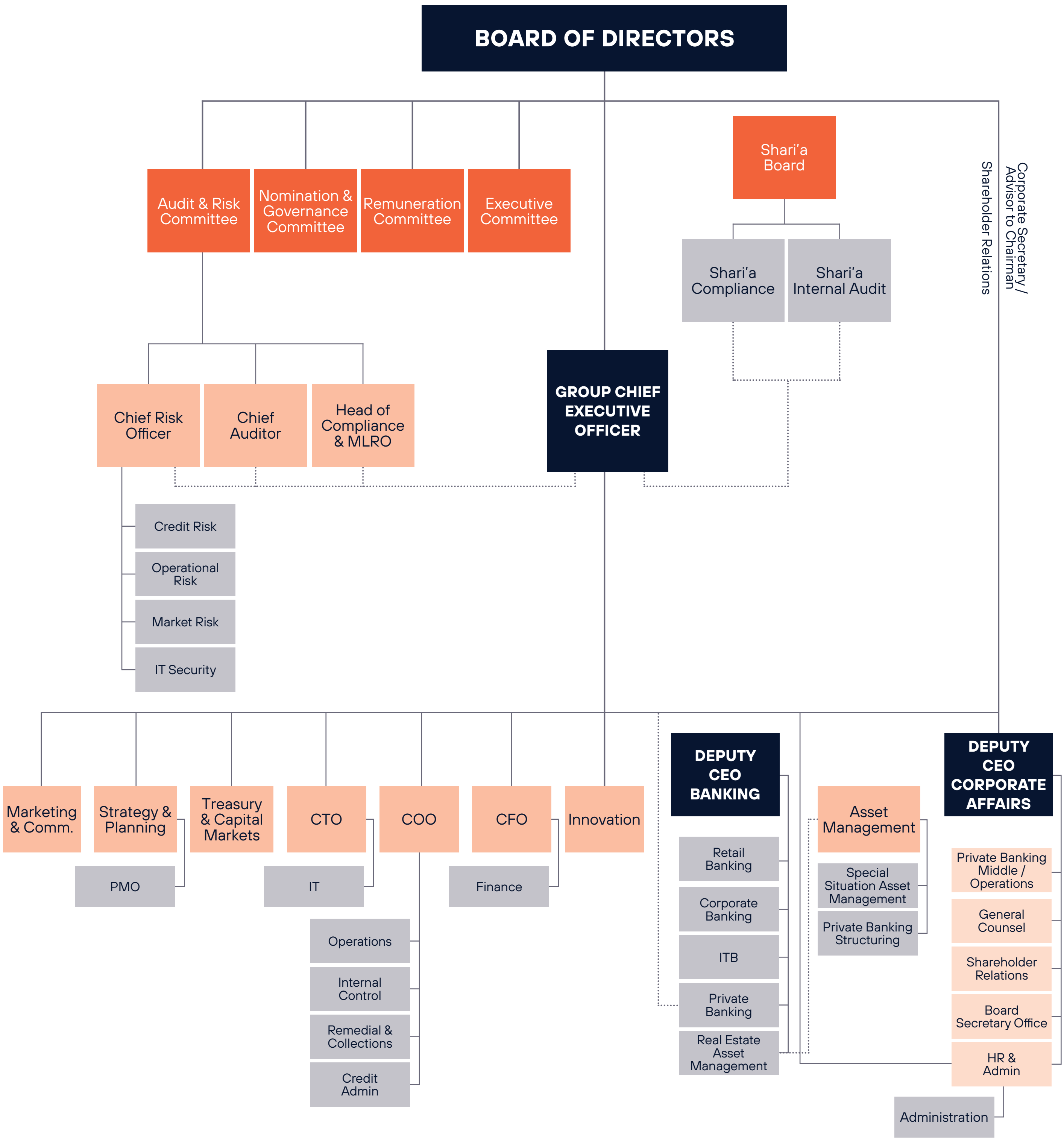
The Bank has a Disclosures Policy in place detailing the Bank's internal as well as external communications and disclosures. The Board oversees the process of disclosure and communication with the internal and external stakeholders.

HC Comply or Explain:

Sr	Rule	Recommendation
1	HC-1.4.6 – The chairman of the Board should be an independent director, so that there will be an appropriate balance of power and greater capacity of the Board for independent decision making.	Given the vast experience of the Chairman, the Board has seen fit for him to become Chairman and is able to represent all shareholder tiers in a fair manner. The Central Bank of Bahrain has no objections on the Board structure.
2	HC-5.3.2 (Remuneration Committee) - The committee should include only independent directors or, alternatively, only non-executive directors of whom a majority are independent directors and the chairman is an independent director. This is consistent with international best practice and it recognizes that the remuneration committee must exercise judgment free from personal career conflicts of interest.	Given the vast experience of the Chairman and his time with the Bank, it was decided that he is the most fit to chair the said Committee. The Central Bank of Bahrain has no objections on the Committee structure.
3	HC-6.6.15 and HC-3.2.1 (Board Audit and Risk Committee) - The risk/ audit committee must be chaired by an independent director.	Given the current Chairman's experience in the Audit Committee and his role during the multiple transition periods experience by the Bank as the Audit chair, it was seen that he is the most fit to chair the Committee. This was approved by the Central Bank of Bahrain.
4	HC-7.2.2 The Bahraini Islamic bank licensee should require all directors to attend and be available to answer questions from shareholders at any shareholder meeting and, in particular, ensure that the chairs of the audit, remuneration and nominating committees are ready to answer appropriate questions regarding matters w thin their committee's responsibility (it being understood that confidential and proprietary business information may be kept confidential).	Only members who were able to attend have attended (this was due to Covid 19).

Corporate Governance Report (Continued)

ORGANIZATIONAL STRUCTURE



Remuneration Policy

CORE REMUNERATION POLICY

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

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

Remuneration Policy (Continued)

REGULATORY ALIGNMENT

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

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

REMUNERATION COMPONENTS

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

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

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

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

The following table summarizes the total remuneration:

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

Remuneration Policy (Continued)

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

DETAILS OF REMUNERATION

(A) Board of Directors

Amounts in BD	2021	2020
Attendance fee and travel expenses	478,000	344,111
Remuneration paid	690,000	615,000
Al Salam Bank subsidiaries' Board remuneration, attendance fees and expenses	18,665	18,850

(B) Employees

		Amounts in BD thousands					
			Variable upfront		Variable deferred		
31-Dec-21	**No of staff**	**Fixed ***	**Cash**	**Non-cash**	**Cash**	**Non-cash**	**Total**
Approved person business line	10	2,508	610		148	718	3,984
Approved person control & support	22	1,762	264		33	134	2,193
Other material risk takers	39	1,718	447		2	9	2,176
Other employees - Bahrain operations	305	7,602	1,659				9,261
Other employees overseas	27	236					236
	403	13,826	2,980	-	183	861	17,850
31-Dec-20							
Approved person business line	9	1,990	343		83	403	2,819
Approved person control & support	19	1,236	154		12	53	1,455
Other material risk takers	39	1,390	279		2	9	1,680
Other employees - Bahrain operations	296	6,647	1,159				7,806
Other employees overseas	28	186					186
	391	11,449	1,935	-	97	465	13,946

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

Severance payments during the year amounted to zero.

Remuneration Policy (Continued)

DEFERRED PERFORMANCE BONUS AWARDS

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

31-Dec-20	Cash	Phantom shares		Others	Total
Awards	(BD000)	Nos.	(BD000)	(BD000)	
Opening balance	321	13,353,495	2,020	-	2,341
Awarded during the year	97	3,686,254	466		563
Bonus shares adjustment		534,140			
Exercised / sold / paid during the year	(63)	(4,124,968)	(605)		(668)
Remeasurement of shares			8		8
Risk Adjustment	-	-	-		-
Closing balance	355	13,448,921	1,889	-	2,244

Risk Management & Compliance

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

The fundamental principle underlying our risk management framework is ensuring that accepted risks are within the Board approved risk appetite and the returns are commensurate with the risks taken. The objective is creating shareholder value through protecting the Group against unforeseen losses, ensuring maximization of earnings potential and opportunities vis-à-vis the Group's risk appetite and ensuring earnings stability.

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

Risk Management Framework

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

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

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

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

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

Capital Management

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

Corporate Governance

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

Risk Ownership

The implementation of the Group-wide risk management framework is the responsibility of the Risk Management Department under the supervision of the Group Chief Executive Officer and Board Audit and Risk Committee. Ownership of the various risks across the Group lies with the business and support heads, being the first line of defense, and it is their responsibility to ensure that these risks are managed in accordance with the risk management framework.

Risk Management assists business and support heads in identifying concerns and risks, identifying risk owners, evaluating risks as to likelihood and consequences, assessing options for mitigating the risks, prioritizing risk management efforts, developing risk management plans, authorizing implementation of risk management plans and tracking risk management efforts.

Risk Management & Compliance (continued)

Compliance & Anti-Money Laundering Department

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

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

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

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

Corporate Social Responsibility

Al Salam Bank has made significant headway in fulfilling its promise to support the wellbeing of the community through its various initiatives, inspired by the vision and ongoing efforts of the Kingdom's wise leadership for sustainable socio-economic progress that will set a solid foundation for future generations.

This year, following a successful rebranding, and powered with a new brand promise and DNA, the Bank took a further step to demonstrate its social commitment with the launch of its new CSR platform, Al Salam Helping Hands; a testament to the Bank's underlying pledge to continue to contribute meaningfully to Bahrain and its people.

The launch of Al Salam Helping Hands culminated into one of the country's largest community-led activations, in collaboration with local Bahraini artist Abbas Al Mosawi, and witnessed the involvement of people of all ages and backgrounds, who came together to participate in an art initiative that resulted in substantial donations towards the Royal Humanitarian Fund.

Al Salam Bank remains committed to playing a dominant role in uplifting the Kingdom across multiple sectors, from education to health, and contributing to the country's economic growth and sustainable development.

We are inspired by your Passion

Fatwa & Shari'a Supervisory Board Report to the Shareholders

In the name of Allah, the Beneficent and the Merciful

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

The Report of Shari'a Supervisory Board of Al Salam Bank B.S.C, ("the Board") submitted to the General Assembly on the Bank's activities during the financial year ending 31 December 2021.

First: Memorandum and Articles of Association

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

Second: Activities of the Bank and Board's Guidance

The Board has supervised the activities and transactions of the Bank during the reporting year and instructed and guided various departments to comply with the rules and principles of Shari'a and fatwas of the Board while undertaking such activities and transactions. During the year, the SSB has held four meetings online due to Covid 19 with the senior staff of the Bank.

Third: Contracts and Transactions

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

Fourth: Access to Records

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

Fifth: Shari'a Audit

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

Sixth: Training

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

Seventh: Balance Sheet

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

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

Eighth: Zakat

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

Ninth: Charity Fund

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

Decision of the Board

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

Allah is the guider to the right path.

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

Fatwa and Shari'a Supervisory Board

Shaikh Adnan Abdulla AlQattan
Chairman

Dr. Fareed Yaqoob AlMeftah
Vice Chairman

Dr. Nedham Mohamed Yaqoobi
Member and Chairman of the Executive Committee

Dr. Osama Mohamed Bahar
Member and Member of the Executive Committee

Dr. Mohammed Arbouna
Head of Shari'a Compliance

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Al Salam Bank B.S.C (formerly Al Salam Bank- Bahrain B.S.C.) (the "Bank"), and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statements of income, changes in equity, cash flows, for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and consolidated results of its operations, changes in equity, its cash flows, for the year then ended in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI") as modified by the Central Bank of Bahrain (the "CBB").

In our opinion, the Group has also complied with the Islamic Shariah Principles and Rules as determined by the Group's Shariah Supervisory Board during the year ended 31 December 2021.

Basis for Opinion

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

Key Audit Matters

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

Impairment allowance on financing and finance lease assets

See disclosure on use of estimates and judgment in Note 2.4, accounting policy in Note 2.5 (d) and management of credit risk in Note 31.2 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
We focused on this area because: • of the significance of financing and finance lease assets representing 51% of total assets; • impairment of financing assets and assets acquired for leasing involves: ➢ complex estimates and judgement over both timing and recognition of impairment including susceptibility to management bias;	Our procedures, amongst others, included: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of applicable accounting standards, regulatory guidance, our business understanding and industry practice. • Confirming our understanding of management's processes, systems and controls over the ECL process **Control testing** We performed process walkthroughs to identify the key systems, applications and controls associated with the ECL calculation process. Key aspects of our control testing involved the following: • Testing controls over the transfer of data between underlying source systems and the ECL models that the Group operates. • Performing a detailed credit risk assessment for a sample of performing corporate contracts to test controls over the credit rating and monitoring process. • Testing controls over the review and approval of post model adjustments and management overlays and the governance process over such overlays. • Testing controls over the modelling process, including governance over model monitoring, validation and approval.

Independent Auditors' Report
to the Shareholders (continued)

<table>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
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- use of statistical models and methodologies for determination of expected credit losses. The Group exercises significant judgments and makes a number of assumptions in developing its expected credit loss ('ECL) models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") associated with the underlying financial assets; and
- complex disclosure requirements regarding credit quality of the portfolio including explanation of key judgments and material inputs used in determination of expected credit losses;
  - The need to measure ECLs on an unbiased forward-looking basis incorporating a range of economic conditions. Significant management judgment is applied in determining the economic scenarios used and the probability weightings applied to them; and
  - Adjustments to the ECL model results are made by management to address known impairment model limitations or emerging trends or risks. The assumptions regarding the economic outlook are more uncertain due to COVID-19 which, combined with government response (e.g. deferral programs and government stimulus package), increases the level of judgement required by the Group in calculating the ECL.

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Tests of details

Key aspects of our testing involved:

- Reviewing a sample of credit files for performing accounts and evaluating the financial performance of the borrower, source of repayment and eligible collateral and on this basis assess the appropriateness of credit rating and staging.
- Sample testing over key data inputs used in estimating the ECL and assessing the completeness, accuracy and relevance of data used.
- Testing the mathematical accuracy of the ECL model calculations.
- Reviewing the impact on ECL on account of COVID 19 with specific focus on reassessment of macroeconomic factors, probability weights, impact of financial stress on various industries and the consideration of regulatory guidance.
- Sample testing over factors used to determine whether significant increase in credit risk has been appropriately identified.
- Selecting a sample of post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions, testing the underlying calculation and tracing a sample back to source data.
- Assessing the adequacy of provisions against individually impaired loans and advances (stage 3) in accordance with the applicable reporting standards

Use of specialists

For the relevant portfolios examined, we have involved KPMG specialists to assist us in assessing IT system controls and challenging key management assumptions used in estimating expected credit losses. Key aspects of their involvement included the following:

- We involved our IT Risk Management (IRM) specialists to test the relevant General IT and Application Controls over key systems used for data extraction as part of the ECL calculation process.
- We involved our Financial Risk Management (FRM) specialists in:
- Evaluating the appropriateness of the Groups' ECL methodologies (including the staging criteria used);
- Re-performing the calculation of certain components of the ECL model (including the staging criteria);
- Evaluating the appropriateness of the Group's methodology for determining the economic scenarios used and the probability weights applied to them; and
- Evaluating the overall reasonableness of the management forward-looking estimates by comparing it to external market data and our understanding of the underlying sector and macroeconomic trends, including the impact of COVID-19.

Disclosures

We assessed the adequacy of the Group's disclosure in relation to use of significant estimates and judgement and credit quality of financing and finance lease assets by reference to the requirements of relevant accounting standards.

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</table>

Valuation of unquoted equity investments

Refer to accounting policy in Note 2.5 (k), use of estimates and judgments in Note 2.4 and Note 41 to the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
Non-trading investments include investment in unquoted equity securities that are carried at their fair values. We considered this as a key audit area we focused on because the valuation of unquoted equity securities (level 3 financial instruments) held at fair value requires the application of valuation techniques which often involve the exercise of significant judgment by the Group and the use of significant unobservable inputs.	Our procedures, amongst others, included: • Comparing the key underlying financial data inputs to external sources, investee company financial and management information, as applicable; • Assessing the qualification and experience of the independent valuers by reading the terms of their engagement letter to determine whether there were any matters that might have affected their objectivity or limited their scope of work; and • With the involvement of our own valuation specialists, we performed the following testing: ➢ evaluating the appropriateness of the valuation methodology used by the Group and its appointed experts, where applicable and compared with observed industry practice; and ➢ For assets valued using the residual method, evaluating the reasonableness of key inputs and assumptions used by using our knowledge of the industries in which the investees operate and industry norms; ➢ Evaluating the adequacy of the Group's disclosures related to valuation of unquoted equity instruments by reference to the relevant accounting standards.

Valuation of investment properties

Refer to accounting policy in Note 2.5 (m), use of estimates and judgments in Note 2.4 and Note 13 to the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
We considered this as a key audit area we focused on because of: • the uncertainty prevalent in the property market; and • application of valuation techniques which often involve the exercise of judgment and the use of assumptions and estimates.	Our procedures, amongst others, included: • With the involvement of our real estate valuation specialists, who by reference to their knowledge of the industry and available historical data: ➢ evaluating the appropriateness of the valuation methodology used by the independent property valuer appointed by the Group; and ➢ for assets valued using the residual method, challenging the inputs and assumptions used in the valuation; • Assessing the qualification and experience of the independent property valuers by reading the terms of their engagement letter to determine whether there were any matters that might have affected their objectivity or limited their scope of work; and • evaluating the adequacy of the Group's disclosures related to valuation of investment properties by reference to the relevant accounting standards.

Independent Auditors’ Report
to the Shareholders (continued)

Other Information

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

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

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

Responsibilities of Board of Directors for the Consolidated Financial Statements

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

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Regulatory Requirements

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

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

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

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

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

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

KPMG

KPMG Fakhro

Partner Registration Number 137

12 February 2022

Consolidated Statement of Financial Position

31 December 2021

	Note	2021 BD '000	2020 BD '000
ASSETS			
Cash and balances with banks and Central Bank	4	309,149	288,266
Placements with financial institutions	5	133,860	37,965
Sovereign Sukuk	6	613,403	393,108
Corporate Sukuk	6	26,285	16,395
Financing assets	7	806,968	814,449
Finance lease assets	8	555,909	469,363
Non-trading investments	10	91,591	98,034
Investment properties	11	57,961	67,586
Development properties	12	2,943	2,943
Investment in associates	13	14,533	12,036
Other assets	14	45,998	35,237
Goodwill	15	25,971	25,971
TOTAL ASSETS		2,684,571	2,261,353
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST			
LIABILITIES			
Placements from financial institutions	5	126,891	116,883
Customers' current accounts		482,739	363,970
Murabaha term financing	16	100,216	221,671
Other liabilities	17	53,789	52,282
TOTAL LIABILITIES		763,635	754,806
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Wakala from financial institutions	18	299,607	264,784
Wakala and Mudaraba from customers	18	1,324,570	960,596
TOTAL EQUITY OF INVESTMENT ACCOUNTHOLDERS		1,624,177	1,225,380
OWNERS' EQUITY			
Share capital	19	241,972	230,450
Treasury shares	19	(12,473)	(7,530)
Share premium		209	12,209
Retained earnings / Accumulated loss		19,531	(5,549)
Reserves		47,012	51,186
Total owners' equity		296,251	280,766
Non-controlling interest		508	401
TOTAL EQUITY		296,759	281,167
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST		2,684,571	2,261,353

H.E. Shaikh Khalid bin Mustahil Al Mashani
Chairman

Matar Mohamed Al Blooshi
Deputy Chairman

Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 45 form part of these consolidated financial statements.

Consolidated Income Statement

Year ended 31 December 2021

	Note	2021 BD '000	2020 BD '000
OPERATING INCOME			
Finance income	22	76,357	74,863
Income from Sukuk		22,421	19,481
(Loss) net from non-trading investments	23	(2,981)	(8,964)
Income / (loss) from properties	24	56	(1,825)
Fees and commission, net	25	8,239	7,406
Share of profit from associates	13	2,697	1,953
Other income	26	462	3,665
Total operating income		107,251	96,579
Finance expense on placements from financial institutions		(4,154)	(4,265)
Finance expense on Murabaha term financing		(2,876)	(5,559)
Return on equity of investment accountholders before Group's share as a Mudarib and Wakil		(68,425)	(60,186)
Group's share as a Mudarib		552	925
Group's Wakala fee		31,896	29,926
Share of profit of investment accountholders	18	(35,977)	(29,335)
Net operating income		64,244	57,420
OPERATING EXPENSES			
Staff cost	27.1	17,033	14,759
Premises cost		1,866	2,293
Depreciation		1,283	1,882
Other operating expenses	27.2	13,675	11,091
Total operating expenses		33,857	30,025
PROFIT BEFORE IMPAIRMENT ALLOWANCES		30,387	27,395
Net impairment charge	9	(9,163)	(18,277)
NET PROFIT FOR THE YEAR		21,224	9,118
ATTRIBUTABLE TO:			
- Shareholders of the Bank		21,367	9,142
- Non-controlling interest		(143)	(24)
		21,224	9,118
Basic and diluted earnings per share (fils)	21	9.1	3.9

H.E. Shaikh Khalid bin Mustahil Al Mashani
Chairman

Matar Mohamed Al Blooshi
Deputy Chairman

Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 45 form part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

Year ended 31 December 2021

Amounts in BD '000s

	Attributable to shareholders of the Bank				Reserves							
	Share capital	Treasury shares	Share premium	Retained earnings	Statutory reserve	Investment fair value reserve	Real estate fair value reserve	Foreign exchange translation reserve	Total reserves	Total owners' Equity	Non-controlling interest	Total Equity
Balance as of 1 January 2021	**230,450**	**(7,530)**	**12,209**	**(5,549)**	**21,778**	**9,844**	**23,348**	**(3,784)**	**51,186**	**280,766**	**401**	**281,167**
Impact of adopting FAS 32 (note 2.6)	**-**	**-**	**-**	**57**	**-**	**-**	**-**	**-**	**-**	**57**	**-**	**57**
Balance as at 1 January 2021 (restated)	**230,450**	**(7,530)**	**12,209**	**(5,492)**	**21,778**	**9,844**	**23,348**	**(3,784)**	**51,186**	**280,823**	**401**	**281,224**
Net profit for the year	**-**	**-**	**-**	**21,367**	**-**	**-**	**-**	**-**	**-**	**21,367**	**(143)**	**21,224**
Movement in fair value	**-**	**-**	**-**	**-**	**-**	**(312)**	**-**	**-**	**(312)**	**(312)**	**-**	**(312)**
Movement from reserve to income statement	**-**	**-**	**-**	**-**	**-**	**-**	**(483)**	**-**	**(483)**	**(483)**	**-**	**(483)**
Foreign currency re-translation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(201)**	**(201)**	**(201)**	**-**	**(201)**
Total recognised income and expense	**-**	**-**	**-**	**21,367**	**-**	**(312)**	**(483)**	**(201)**	**(996)**	**20,371**	**(143)**	**20,228**
Bonus shares issued	**11,522**	**-**	**-**	**(11,522)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfer to retained earnings (note 19.2)	**-**	**-**	**(12,000)**	**17,315**	**(5,315)**	**-**	**-**	**-**	**(5,315)**	**-**	**-**	**-**
Transfer to statutory reserve	**-**	**-**	**-**	**(2,137)**	**2,137**	**-**	**-**	**-**	**2,137**	**-**	**-**	**-**
Purchase of treasury shares	**-**	**(4,943)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,943)**	**-**	**(4,943)**
Movements in non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**250**	**250**
Balance at 31 December 2021	**241,972**	**(12,473)**	**209**	**19,531**	**18,600**	**9,532**	**22,865**	**(3,985)**	**47,012**	**296,251**	**508**	**296,759**
Balance as of 1 January 2020	221,586	(6,758)	12,209	42,608	21,107	8,257	23,589	(3,223)	49,730	319,375	699	320,074
Net profit for the year	-	-	-	9,142	-	-	-	-	-	9,142	(24)	9,118
Movement in fair value	-	-	-	-	-	1,587	-	-	1,587	1,587	-	1,587
Movement from reserve to income statement	-	-	-	-	-	-	(241)	-	(241)	(241)	-	(241)
Foreign currency re-translation	-	-	-	-	-	-	-	(561)	(561)	(561)	-	(561)
Total recognised income and expense	-	-	-	9,142	-	1,587	(241)	(561)	785	9,927	(24)	9,903
Bonus shares issued	8,864	-	-	(8,864)	-	-	-	-	-	-	-	-
Cash dividend for the year 2019	-	-	-	(8,551)	-	-	-	-	-	(8,551)	-	(8,551)
Modification loss (note 2.2)	-	-	-	(24,768)	-	-	-	-	-	(24,768)	-	(24,768)
Subsidy from government	-	-	-	2,143	-	-	-	-	-	2,143	-	2,143
Purchase of treasury shares	-	(772)	-	-	-	-	-	-	-	(772)	-	(772)
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	(274)	(274)
Transactions with non-controlling interest	-	-	-	(16,588)	-	-	-	-	-	(16,588)	-	(16,588)
Transfer to statutory reserve	-	-	-	(671)	671	-	-	-	671	-	-	-
Balance at 31 December 2020	230,450	(7,530)	12,209	(5,549)	21,778	9,844	23,348	(3,784)	51,186	280,766	401	281,167

The attached notes 1 to 45 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2021

	2021 BD '000	2020 BD '000
OPERATING ACTIVITIES		
Net profit for the year	21,224	9,118
Adjustments:		
Depreciation	1,283	1,882
Loss from non-trading investments and properties	3,506	10,616
Net impairment charge	9,163	18,277
Amortisation of premium on Sukuk - net	1,016	-
Impact of modification loss	-	(23,170)
Share of profit from associates	(2,697)	(1,953)
Operating income before changes in operating assets and liabilities	33,495	14,770
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank	(10,530)	10,093
Balances with other banks	-	(9,955)
Murabaha and Wakala receivables from banks with original maturities of 90 days or more	(2,019)	-
Financing assets and finance lease assets	(86,520)	(224,612)
Other assets	(10,990)	(7,109)
Placements from financial institutions	10,100	(94,576)
Customers' current accounts	118,769	74,514
Other liabilities	2,864	14,912
Equity of investment accountholders	398,797	190,637
Net cash from / (used in) operating activities	453,966	(31,326)
INVESTING ACTIVITIES		
Sovereign Sukuk	(221,487)	(46,440)
Corporate Sukuk	(9,904)	5,743
Non-trading investments and properties	12,079	4,147
Purchase of premises and equipment	(2,815)	(2,304)
Net cash used in investing activities	(222,127)	(38,854)
FINANCING ACTIVITIES		
Murabaha term financing	(121,455)	76,081
Dividends paid	(1,139)	(12,993)
Purchase of treasury shares	(4,943)	(772)
Net cash (used in) / from financing activities	(127,537)	62,316
NET CHANGE IN CASH AND CASH EQUIVALENTS	104,302	(7,864)
Cash and cash equivalents at 1 January	291,645	299,509
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	395,947	291,645
Cash and cash equivalents comprise of:*		
Cash and other balances with Central Bank	79,458	82,286
Balances with other banks **	184,648	171,253
Placements with financial institutions with original maturities of less than 90 days	131,841	38,106
	395,947	291,645

*Cash and cash equivalents is gross of the expected credit loss of BD 87 thousands (2020: BD 217 thousands).

**Balances with other banks is net of restricted cash of BD 9,746 thousands which is not available for day to day operations.

The attached notes 1 to 45 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

31 December 2021

1 REPORTING ENTITY

Al Salam Bank B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and registered with Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and operates under Islamic principles in accordance with all relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank in its extraordinary general meeting held on 30 September 2021, obtained shareholders' approval for change of name from Al Salam Bank- Bahrain B.S.C to Al Salam Bank B.S.C. The legal formalities in this respect have been completed on 28 October 2021.

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

The principal subsidiaries are as follows:

			% Holding	
Name of entity	**Country of incorporation**	**Principal activities**	**2021**	2020
ASB Seychelles ("ASBS")	Seychelles	Provide Banking services	**70%**	70%
ASB Biodiesel (Hong Kong) Limited	Hong Kong	Production of Biodiesel	**36%**	36%

The Bank and its principal banking subsidiary operates through 9 branches in the Kingdom of Bahrain and one 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.

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 12 February 2022.

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION AND PRESENTATION

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

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

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2021 were in accordance with FAS as issued by AAOIFI. However, except for the below-mentioned modifications to accounting policies that have been applied retrospectively and impact of adoption of new standards (note 2.3), all other accounting policies remain the same and have been consistently applied in this consolidated financial statements. The retrospective application of the change in accounting policies on adoption of FAS as modified by CBB did not result in any change to the financial information reported for the comparative period.

The consolidated financial statements of the Group have been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain ("CBB") including the CBB issued circulars on regulatory concessionary measures in response to COVID-19. These rules and regulations require the adoption of all Financial Accounting Standards issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) (FAS), except for:

(a) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of income statement as required by FAS issued by AAOIFI. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable FAS. Refer to note 2.2 for further details; and

(b) recognition of financial assistance received from the government and / or regulators as part of its COVID-19 support measures that meets the government grant requirement, in equity, instead of income statement as required by the statement on "Accounting implications of the impact of COVID-19 pandemic" issued by AAOIFI, to the extent of any modification loss recorded in equity as a result of (a) above, and the excess amount to be recognized in income statement. Any other financial assistance is recognised in accordance with the requirements of FAS.

The above framework for basis of preparation of the consolidated financial statement is hereinafter referred to as 'Financial Accounting Standards as modified by CBB'.

2 ACCOUNTING POLICIES (continued)

2.1 BASIS OF PREPARATION AND PRESENTATION (continued)

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

2.2 COVID-19 IMPACT

On 11 March 2020, the Coronavirus (COVID 19) outbreak was declared a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global economic slowdown with uncertainties in the economic environment. Global equity and commodity markets have also experienced great volatility and a significant drop in prices. The estimation uncertainty is associated with the extent and duration of the expected economic downturn and forecasts for key economic factors including GDP, employment, oil prices etc. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns.

The management and the Board of Directors (BOD) has been closely monitoring the potential impact of the COVID 19 developments on the Group's operations and financial position; including possible loss of revenue, impact on asset valuations, impairment, review of onerous contracts and debt covenants, outsourcing arrangements etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans including its liquidity requirements.

In preparing the consolidated financial statements, judgements made by management in applying the Group's accounting policies and sources of estimation are subject to uncertainty regarding the potential impacts of the current economic volatility and these are considered to represent management's best assessment based on available or observable information.

As of 31 December 2021, the Bank is compliant with the required regulatory capital adequacy ratio, net stable funding ratio and liquidity coverage ratios.

IMPACT OF COVID-19 CONCESSIONARY MEASURES

Modification of financial assets

During the previous year, based on a regulatory directive issued by the CBB as concessionary measures to mitigate the impact of COVID-19, the one-off modification losses amounting to BD 24,768 thousands arising from the 6-month payment holiday provided to financing customers without charging additional profit has been recognized directly in equity. The modification loss had been calculated as the difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of modification. During 2020, the Group provided payment holiday on financing exposures amounting to BD 896,279 thousands as part of its support to impacted customers.

2.3 BASIS OF CONSOLIDATION

(i) Business combinations

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

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

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

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

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see 2.5 (q)). Any gain on a bargain purchase is recognised in consolidated income statement immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Notes to the Consolidated Financial Statements (continued)

31 December 2021

2 ACCOUNTING POLICIES (continued)

2.3 BASIS OF CONSOLIDATION (continued)

(i) Business combinations (continued)

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

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

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

(ii) Subsidiaries

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2021. The financial statements of the subsidiaries are prepared for the same reporting year. All subsidiaries are using consistent accounting policies of the Bank.

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

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

The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 36.

(iii) Non-controlling interests

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

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

(iv) Loss of control

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

2 ACCOUNTING POLICIES (continued)

2.3 BASIS OF CONSOLIDATION (continued)

(v) Transactions eliminated on consolidation

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

(vi) Foreign currency

(a) Functional and presentation currency

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

(b) Foreign currencies

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

(c) Translation of foreign operations

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

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Estimation uncertainty

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

Impairment assessment of financial contracts subject to credit risk

In determining expected credit losses ('ECL') on financial contracts subject to credit risk, significant estimates are made in determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information. Refer to notes 2.5 (d) and 31.2 for further details.

Notes to the Consolidated Financial Statements (continued)

31 December 2021

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Impairment of goodwill

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

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

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates based on the actual loss experience. Refer note 15 for further details.

Impairment of fair value through equity investments

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

Fair value of unquoted equity

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

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

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

The 31 December 2021 valuation of certain assets contains a 'material valuation uncertainty' clause due to the market disruption caused by the COVID-19 pandemic, which resulted in a reduction in transactional evidence and market yields. This clause does not invalidate the valuation but implies that there is substantially more uncertainty than under normal market conditions. Accordingly, the valuer cannot attach as much weight as usual to previous market evidence for comparison purposes, and there is an increased risk that the price realised in an actual transaction would differ from the value conclusion. As a result of this increased uncertainty, the assumptions may be revised significantly in 2022.

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

Judgments

Going concern

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

Control over special purpose entities

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

Investment classification

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

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

- Their intention relating to the respective holding years of such investments i.e. for trading purposes, or with intention for strategic investment, or for long-term dividends and capital gains etc.;
- As to whether the decline in value of investment is in line with the overall trend of decline in the relevant or local market corresponding to the uncertain economic condition as a result of COVID-19;
- Forecasts of expected recovery of market values within the expected holding years; and/ or
- Forecasts of the expected recovery of the core business of the investee entity within the expected holding years and consequential cash flows to the institution.

2.5 SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

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

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

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

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

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

b) Trade and settlement date accounting

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

c) Derecognition

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

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

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

d) Impairment assessment

Impairment of financial assets and commitments

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

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Impairment assessment (continued)

Impairment of financial assets and commitments (continued)

Stage 1: Twelve months ECL

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

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

Stage 2: Lifetime ECL – not credit impaired

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

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

Stage 3: Lifetime ECL – credit impaired

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

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

Credit-impaired financial assets and assets acquired for leasing

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

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

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

Write-offs

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Cash and cash equivalents

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

f) Financing assets

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

Modification of financing assets

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

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

The above policy is applied for all reporting periods except for contracts that were subject CBB directives on COVID-19 related concessionary measures (refer note 2.2).

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

f-i) Murabaha financing

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

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

f-ii) Mudaraba financing

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

f-iii) Musharaka

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

g) Finance lease assets

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

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Finance lease assets (continued)

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

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

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

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

Modification of finance lease assets

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

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

h) Placements with financial institutions

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

i) Sovereign Sukuk and Corporate Sukuk

These investments are in the nature of debt-type instruments that provide fixed or determinable payments of profits and capital. Sukuk that are assessed as debt-type securities are classified as investments carried at fair value through equity. Any change in fair value of the Sukuks will be recognized as a movement in the statement of changes in equity under fair value reserve. On de-recognition of Sukuks due to disposal, the balance in the fair value reserve will be recycled to the consolidated statement of income.

j) Assets and liabilities under conversion

Assets under conversion:

Loans and advances

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

Non-trading investments

These are classified as fair value through equity investments and are fair valued based on criteria set out in note 2.5 (k).

Notes to the Consolidated Financial Statements (continued)

31 December 2021

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Non-trading investments

Equity-type investments

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

Recognition and de-recognition

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

Measurement

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

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

l) Investments in associates and joint ventures

The Group's investments in associates and joint ventures, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates and joint ventures (note 2.5 (k)) are accounted for as fair value through consolidated income statement by availing the scope exemption under FAS 24, Investments in Associates. An associate is an entity over which the Group has significant influence, and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other manner. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Investment properties

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

n) Development properties

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

o) Premises and equipment

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

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

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

p) Subsidiaries acquired with a view to sell

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

q) Goodwill

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

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

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

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

q) Goodwill (continued)

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

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

r) Offsetting

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

s) Customers' current accounts

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

t) Equity of investment accountholders

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

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

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

u) Provisions

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

v) Employees' end-of-service benefits

Short term benefits

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

2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Employees' end-of-service benefits (continued)

Post employment benefits

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

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

w) Revenue recognition

Financing assets

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

Sukuk

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

Dividend

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

Finance lease assets

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

Fees and commission income

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

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

x) Fair value of financial assets

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

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

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

Notes to the Consolidated Financial Statements (continued)

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2 ACCOUNTING POLICIES (continued)

2.5 SIGNIFICANT ACCOUNTING POLICIES (continued)

y) Fiduciary assets

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

z) Dividend on ordinary shares

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

aa) Financial guarantees

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

ab) Treasury shares

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

ac) Zakah

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

ad) Repossessed assets

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

ae) Earnings prohibited by Shari'a

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

2.6 STANDARDS ISSUED AND EFFECTIVE

Adoption of new standards in current year

FAS 32 Ijarah

AAOIFI has issued FAS 32 "Ijarah" in 2020. This standard supersedes the existing FAS 8 "Ijarah and Ijarah Muntahia Bittamleek".

The objective of this standard is set out principles for the classification, recognition, measurement, presentation and disclosure for Ijarah (asset Ijarah, including different forms of Ijarah Muntahia Bittamleek) transactions entered into by the Islamic Financial Institutions as a lessor and lessee. This new standard aims to address the issues faced by the Islamic finance industry in relation to accounting and financial reporting as well as to improve the existing treatments in line with the global practices. This standard shall be effective for the financial periods beginning on or after 1 January 2021 with early adoption permitted.

The group recognizes a right of use asset and a lease liability at the lease commencement date. The right -of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

2 ACCOUNTING POLICIES (continued)

2.6 STANDARDS ISSUED AND EFFECTIVE (continued)

Adoption of new standards in current year (continued)

The right -of -use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of right of use assets are determined on the same basis as property and equipment. In addition, the right of use of asset is periodically reduced by impairment losses, if any and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the profit rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental financing rate. Generally, the Group uses its incremental financing rate as the discount rate.

The lease liability is measured at amortized cost using the effective profit rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount to be expected to be payable under a residual value guarantee, or if the Group changes it assessment of whether the it will exercise a purchase, extension or termination option.

When a lease liability is measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in income statement if the carrying amount of the right-of-use asset has been reduced to zero.

Short term leases and leases of low value assets

The Group has elected not to recognize the right-of-use assets and lease liabilities for short term leases that have a lease term of less than 12 months and lease of low value assets, including IT equipment. The Group recognizes the lease payments associated with these assets as an expense on a straight line basis over the lease term.

Accounting policy prior to 1 January 2021

Assets held under lease were classified as operating leases and were not recognized in the Group's consolidated statement of financial position. Payments under operating leases were recognized in the consolidated income statement over straight line method over the term of the lease.

Impact on transition

As permitted by FAS1, the Bank has adopted a modified retrospective application of FAS 32 where the cumulative effect of adoption of the standard is reflected in opening retained earnings and consolidated statement of financial position of the current period.

The right of use asset and lease liability amounting to BD 2,094 thousands and BD 2,036 thousands arising on initial adoption of the FAS 32 standard has been classified under Other Assets (note 14) and Other Liabilities (note 17) respectively and the Day 1 impact on adoption of BD 57 thousands has been taken to retained earnings.

2.7 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following new standards and amendments to standards are effective for financial years beginning after 1 January 2022 with an option to early adopt. However, the Group has not early adopted any of these standards.

1) FAS 38 Wa'ad, Khiyar and Tahawwut

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.7 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

1) FAS 38 Wa'ad, Khiyar and Tahawwut (continued)

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

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

2) FAS 39 Financial Reporting for Zakah

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

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

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

The Group is assessing the impact of adoption of this standard.

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

AAOIFI has issued the revised FAS 1 General Presentation and Disclosures in the Financial Statements in 2021. This standard describes and improves the overall presentation and disclosure requirements prescribed in line with the global best practices and supersedes the earlier FAS 1. It is applicable to all the Islamic Financial Institutions and other institutions following AAOIFI FAS's. This standard is effective for the financial reporting periods beginning on or after 1 January 2023 with an option to early adopt.

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

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

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

b) Definition of Quassi equity is introduced;

c) Definitions have been modified and improved;

d) Concept of comprehensive income has been introduced;

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

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

g) True and fair override has been introduced;

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

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

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

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

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

The Group is assessing the impact of adoption of this standard and expects changes in certain presentation and disclosures in its consolidated financial statements.

3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

	2021			
	At fair value through consolidated income statement BD '000	At fair value through equity BD '000	At amortised cost / others BD '000	Total BD '000
ASSETS				
Cash and balances with banks and Central Bank	-	-	309,149	309,149
Placements with financial institutions	-	-	133,860	133,860
Sovereign Sukuk	-	613,403	-	613,403
Corporate Sukuk	-	26,285	-	26,285
Financing assets	-	-	806,968	806,968
Finance lease assets	-	-	555,909	555,909
Non-trading investments	91,241	350	-	91,591
Investment properties	-	57,961	-	57,961
Development properties	-	-	2,943	2,943
Investment in associates	-	-	14,533	14,533
Other assets	619	192	45,187	45,998
Goodwill	-	-	25,971	25,971
	91,860	698,191	1,894,520	2,684,571
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Placements from financial institutions	-	-	126,891	126,891
Customers' current accounts	-	-	482,739	482,739
Murabaha term financing	-	-	100,216	100,216
Other liabilities	402	-	53,387	53,789
Equity of investment accountholders	-	-	1,624,177	1,624,177
	402	-	2,387,410	2,387,812

Notes to the Consolidated Financial Statements (continued)

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

	2020			
	At fair value through consolidated income statement BD '000	At fair value through equity BD '000	At amortised cost / others BD '000	Total BD '000
ASSETS				
Cash and balances with banks and Central Bank	-	-	288,266	288,266
Placements with financial institutions	-	-	37,965	37,965
Sovereign Sukuk	-	393,108	-	393,108
Corporate Sukuk	-	16,395	-	16,395
Financing assets	-	-	814,449	814,449
Finance lease assets	-	-	469,363	469,363
Non-trading investments	97,684	350	-	98,034
Investment properties	-	67,586	-	67,586
Development properties	-	-	2,943	2,943
Investment in associates	-	-	12,036	12,036
Other assets	299	900	34,038	35,237
Goodwill	-	-	25,971	25,971
	97,983	478,339	1,685,031	2,261,353
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Placements from financial institutions	-	-	116,883	116,883
Customers' current accounts	-	-	363,970	363,970
Murabaha term financing	-	-	221,671	221,671
Other liabilities	194	-	52,088	52,282
Equity of investment accountholders	-	-	1,225,380	1,225,380
	194	-	1,979,992	1,980,186

4 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2021 BD '000	2020 BD '000
Mandatory reserve with Central Bank*	35,378	24,848
Cash and other balances with Central Bank	79,458	82,286
Balances with other banks**	194,313	181,132
	309,149	288,266

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

** This balance is net of BD 81 thousands (2020: BD 76 thousands) amount of allowance for credit losses.

5 PLACEMENTS WITH FINANCIAL INSTITUTIONS AND PLACEMENTS FROM FINANCIAL INSTITUTIONS

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

	2021 BD '000	2020 BD '000
Placements with financial institutions		
Wakala	93,584	27,432
Commodity Murabaha	40,282	10,674
Allowance for credit losses	(6)	(141)
	133,860	37,965
Placements from financial institutions		
Commodity Murabaha	126,891	116,883
	126,891	116,883

6 SOVEREIGN SUKUK AND CORPORATE SUKUK

a. Sovereign Sukuk

This includes sukuk with carrying value of BD 128,220 thousands (2020: BD 271,361 thousands) which are pledged against Murabaha term financing.

b. Corporate Sukuk

The rating of corporate sukuk are as follows:

	2021 BD '000	2020 BD '000
Investment grade (AAA - BBB+)	10,756	3,980
Un-rated Sukuk	15,543	12,446
Allowance for credit losses	(14)	(31)
	26,285	16,395

This includes sukuk with carrying value of BD 3,942 thousands (2020: BD 3,977 thousands) which are pledged against Murabaha term financing.

7 FINANCING ASSETS

	2021			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Murabaha financing	359,470	27,008	5,588	392,066
Mudaraba financing	382,005	15,525	6,264	403,794
Musharaka financing	32,950	-	277	33,227
Credit cards	3,566	34	571	4,171
Total financing assets	777,991	42,567	12,700	833,258
Allowance for credit losses (note 9)	(11,743)	(6,955)	(7,592)	(26,290)
	766,248	35,612	5,108	806,968

7 FINANCING ASSETS (continued)

	2020			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Murabaha financing	346,904	10,375	43,913	401,192
Mudaraba financing	375,803	29,782	4,852	410,437
Musharaka financing	32,262	65	278	32,605
Credit cards	2,749	157	566	3,472
Total financing assets	757,718	40,379	49,609	847,706
Allowance for credit losses (note 9)	(10,184)	(5,499)	(17,574)	(33,257)
	747,534	34,880	32,035	814,449

Murabaha financing is reported net of deferred profits of BD 29,007 thousands (2020: BD 41,687 thousands).

8 FINANCE LEASE ASSETS

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

	2021 BD '000	2020 BD '000
Finance lease assets	565,383	476,137
Allowance for impairment	(9,474)	(6,774)
At 31 December	555,909	469,363

Movements in finance lease assets are as follows:

	2021 BD '000	2020 BD '000
At 1 January	469,363	389,742
Additions during the year - net	170,163	141,285
Finance lease assets amortisation	(32,109)	(40,994)
Allowance for impairment during the year, net	(2,700)	(2,332)
Settlements/adjustments during the year	(48,808)	(18,338)
At 31 December	555,909	469,363

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

	2021 BD '000	2020 BD '000
Due within one year	54,045	59,939
Due in one to five years	129,023	154,565
Due after five years	372,841	254,859
	555,909	469,363

The accumulated depreciation / amortisation on finance lease assets amounted to BD 75,914 thousands (2020: BD 54,988 thousands).

8 FINANCE LEASE ASSETS (continued)

	2021			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Finance lease assets	522,917	33,178	9,288	565,383
Allowance for impairment (note 9)	(3,285)	(324)	(5,865)	(9,474)
	519,632	32,854	3,423	555,909

	2020			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Finance lease assets	445,656	20,594	9,887	476,137
Allowance for impairment (note 9)	(3,355)	(350)	(3,069)	(6,774)
	442,301	20,244	6,818	469,363

9 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

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

Notes to the Consolidated Financial Statements (continued)

31 December 2021

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

	2021			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Cash and balances with banks and Central Bank	81	-	-	81
Placements with financial institutions	6	-	-	6
Sovereign Sukuk	143	-	-	143
Corporate Sukuk	14	-	-	14
Financing assets	11,743	6,955	7,592	26,290
Finance lease assets	3,285	324	5,865	9,474
Loans and advances to customers				
- Assets under conversion (note 14)	20	1	5,606	5,627
Other receivables	44	-	2,183	2,227
Financing commitments and financial guarantee contracts	291	52	279	622
	15,627	7,332	21,525	44,484

	2020			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Balance at the beginning of the year	7,191	7,295	19,042	33,528
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	1,464	(1,128)	(336)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(317)	810	(493)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(49)	(1,815)	1,864	-
Net remeasurement of loss allowance	6,257	935	10,439	17,631
Recoveries / write-backs	-	(62)	(433)	(495)
Allowance for credit losses	7,355	(1,260)	11,041	17,136
Exchange adjustments and other movements	-	-	(125)	(125)
Amounts written off during the year	-	-	(3,239)	(3,239)
Balance at the end of the year	14,546	6,035	26,719	47,300

Movement in impairment allowance for equity investment and others is BD nil (2020: BD 1,141 thousands).

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

	2020			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Cash and balances with banks and Central Bank	76	-	-	76
Placements with financial institutions	141	-	-	141
Sovereign Sukuk	248	-	-	248
Corporate Sukuk	31	-	-	31
Financing assets	10,184	5,499	17,574	33,257
Finance lease assets	3,355	350	3,069	6,774
Loans and advances to customers				
- Assets under conversion	17	145	3,602	3,764
- Other receivables	45	-	2,181	2,226
Financing commitments and financial guarantee contracts	449	41	293	783
	14,546	6,035	26,719	47,300

10 NON-TRADING INVESTMENTS

	2021 BD '000	2020 BD '000
At fair value through profit or loss:		
Equity securities	90,939	94,371
Funds	302	3,313
At fair value through equity	350	350
Balance at the end of the year	91,591	98,034

The Group has 40% stake (2020: 40%) in Manara Developments Company B.S.C.(c) ("Manara") & Bareeq Al Retaj Real Estate Services WLL ("Bareeq"), incorporated in Bahrain and engaged in the business of property development. The investments are being fair valued through income statement using the fair value scope exemption of FAS 24. As part of restructuring, net assets of Manara will be novated to Bareeq, which is pending legal formalities.

11 INVESTMENT PROPERTIES

	2021 BD '000	2020 BD '000
Land	57,351	64,466
Buildings	610	3,120
	57,961	67,586

11 INVESTMENT PROPERTIES (continued)

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

	Fair value measurement using significant unobservable inputs Level 3	
	2021 BD '000	2020 BD '000
At 1 January	67,586	72,774
Fair value changes through income statement	(109)	(1,991)
Additions during the year*	2,669	902
Disposals during the year	(12,136)	(4,033)
Others	(49)	(66)
At 31 December	57,961	67,586

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

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

For sensitivity analysis of the investment properties, an increase or decrease of 5% in value of properties will impact income statement in either scenario by BD 2,898 thousands.

12 DEVELOPMENT PROPERTIES

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

13 INVESTMENT IN ASSOCIATES

The Group has a 14.42% (2020: 14.42%) stake in Al Salam Bank Algeria ('ASBA"), an Islamic commercial bank incorporated in Algeria. The Bank has representation on the board of ASBA through which the Bank exercises significant influence on ASBA.

The Group has a 20.94% (2020: 20.94%) stake in Gulf African Bank ("GAB"), an Islamic commercial bank incorporated as the first Islamic bank in Kenya on August 2006, licensed by the Central Bank of Kenya.

The Group's profit in ASBA and GAB is accounted for using the equity method in the consolidated financial statements.

The following table illustrates summarised financial information of Group's investments in ASBA:

	2021 BD '000	2020 BD '000
Associates' statement of financial position:		
Total assets	631,468	463,738
Total liabilities	571,119	409,843
Net assets	60,349	53,895
Total revenue	25,082	21,960
Total expenses	15,914	13,208
Net profit for the year	9,168	8,752
Group's share of associates' net profit	2,178	1,823

13 INVESTMENT IN ASSOCIATES (continued)

The following table illustrates summarised financial information of Group's investments in GAB:

	2021 BD '000	2020 BD '000
Associates' statement of financial position:		
Total assets	124,734	129,946
Total liabilities	106,490	112,664
Net assets	18,244	17,282
Total revenue	9,815	9,867
Total expenses	8,326	8,586
Net profit for the year	1,489	1,281
Group's share of associates' net profit	519	130

14 OTHER ASSETS

	2021 BD '000	2020 BD '000
Assets under conversion (a)		
Loans and advances to customers	3,749	6,434
Non-trading investments - fair value through equity (b)	192	900
Non-trading investments - debt	-	8
	3,941	7,342
Other receivables and advances	31,408	24,635
Prepayments	1,682	1,299
Premises and equipment	3,609	1,961
Assets held- for- sale (c)	5,358	-
	45,998	35,237

(a) These represent non-Shari'a compliant assets resulting from the acquisition of ASBS, BMI B.S.C. (c) and Bahraini Saudi Bank B.S.C. Income derived from these assets are transferred to charity payable and as such are not recognised as revenue in the consolidated income statement. During the year under audit, Shari'a prohibited income amounting to BD 291 thousands has been transferred to charity, which has been included under "Accounts payable and accruals" (note 17).

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

	Fair value measurement using significant unobservable inputs Level 3	
	2021 BD '000	2020 BD '000
At 1 January	900	964
Sales during the year	(708)	-
Write down during the year	-	(64)
At 31 December	192	900

Notes to the Consolidated Financial Statements (continued)

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14 OTHER ASSETS (continued)

Loans and advances to customer - Assets under conversion

	2021			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Loans and advances to customers	1,125	138	8,113	9,376
Allowance for credit losses (note 9)	(20)	(1)	(5,606)	(5,627)
	1,105	137	2,507	3,749

(c) During the year, the Group received a binding offer to sell its investment in subsidiary ASB Biodiesel (Hong Kong) Limited. The Group is committed to sell its investment and is in the process of finalizing legal and administrative formalities. Accordingly, the subsidiaries assets and liabilities are classified as "held- for- sale". The expected loss on sale of investment is included in the consolidated income statement under other income.

	2020			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Loans and advances to customers	1,806	485	7,907	10,198
Allowance for credit losses (note 9)	(17)	(145)	(3,602)	(3,764)
	1,789	340	4,305	6,434

15 GOODWILL

In 30 March 2014, the Bank acquired 100% of the paid-up capital of BMI. Goodwill of BD 25,971 thousands (2020: BD 25,971 thousands) arose from the business combination and is associated with the banking segment of the Group.

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

The bank assesses, on annual basis, whether there is an indication, based on either internal or external source of information, that the goodwill may be impaired in accordance to IAS 36 ('impairment of non-financial assets'). As of 31 December 2021, there are no indication of impairment of the CGU associated with the goodwill.

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

16 MURABAHA TERM FINANCING

These represent short-term to long-term financings obtained from various financial institutions and are collateralised by corporate and sovereign sukuk with total carrying value BD 132,162 thousands (2020: BD 275,338 thousands). The rates on these facilities range from 1.09% to 2.50% (2020: 1.32% to 3.9%).

17 OTHER LIABILITIES

	2021 BD '000	2020 BD '000
Accounts payable and accruals	46,529	48,767
Dividends payable	-	1,139
Project payables	69	69
End of service benefits and other employee related accruals	2,088	1,524
Allowance for credit losses relating to financing commitments and financial guarantee contracts	622	783
Liabilities held- for- sale	4,481	-
	53,789	52,282

18 EQUITY OF INVESTMENT ACCOUNTHOLDERS

Equity of investment accountholders comprise:

	2021 BD '000	2020 BD '000
Wakala from financial institutions	299,607	264,784
Wakala from customers	888,906	714,465
	1,188,513	979,249
Mudaraba from customers	435,664	246,131
	1,624,177	1,225,380

The Group utilizes the funds from EIAH to finance assets.

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

	2021 BD '000	2020 BD '000
Asset		
Mandatory reserve with Central Bank	35,378	24,848
Cash and other balances with Central Bank	154,025	82,286
Placements with financial institutions	133,866	38,106
Financing assets	777,991	757,718
Finance lease assets	522,917	322,422
	1,624,177	1,225,380

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

The Group does not allocate non-performing assets to EIAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders. Only the profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. As per the policy of the Group, minimum of 15% of return on assets earned is distributed to investment accountholders and up to 85% is retained by the Group as Mudarib share. During the year, the Bank has sacrificed portion of its share of Mudarib, in order to maintain a competitive profit distribution to the EIAH. The Group did not charge any administration expenses to investment account holders. The average profit rate attributed to the equity of investment accountholders based on the above ratio for the year ended 31 December 2021 was 2.46% (2020: 2.83%).

Notes to the Consolidated Financial Statements (continued)

31 December 2021

19 SHARE CAPITAL

	2021 BD '000	2020 BD '000
Authorised: 2,500,000,000 ordinary shares (2020: 2,500,000,000 shares) of BD 0.100 each	250,000	250,000
Issued and fully paid: (BD 0.100 per share) Number of shares 2,419,722,746 (2020: 2,304,497,853)	241,972	230,450

Total number of treasury shares outstanding as of 31 December 2021 was 146,300,000 shares (2020: 81,304,080 shares).

Names and nationalities of the major shareholders and the number of equity shares held in which they have an profit of 5% or more of outstanding share as of 31 December 2021 is as follows:

Investor Name	Nationality	No. of Shares	% of the outstanding shares
Bank Muscat (S.A.O.G.)	Omani	356,578,525	14.74
Sayacorp B.S.C (c)	Bahraini	151,883,594	6.28
Overseas Investment S.P.C.	Bahraini	145,542,249	6.01

A distribution schedule of equity shares, setting out the number of holders and the percentages as of 31 December 2021 is presented below:

Categories	No. of Shares	No. of the shareholders	% of the outstanding shares
Less than 1%	942,020,389	22,598	38.93
1% up to less than 5%	677,397,989	10	27.99
5% up to less than 10%	443,725,843	3	18.34
10% up to less than 20%	356,578,525	1	14.74
Total	2,419,722,746	22,612	100

19.1 Appropriation

The Board of Directors proposed a cash dividend of 4 fils per share or 4% (2020: Nil) of the par value of BD 0.100 per share excluding treasury shares and 3% of the paid up capital to be paid by issue of bonus shares (1 share for every 33.3 shares held). This amounts to BD 16,353 thousands (2020: BD 11,523 thousands).

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

20 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital of the Bank. The reserve is not distributable except in such circumstances as stipulated in the Commercial Companies Law and approval of the CBB. Refer note 19.2 on utilisation of statutory reserve.

21 BASIC AND DILUTED EARNINGS PER SHARE

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

	2021	2020
Net profit attributable to Shareholders of the Bank (BD '000)	21,367	9,142
Weighted average number of shares (thousands)	2,346,812	2,337,096
Basic and diluted earnings per share (fils)	9.1	3.9

22 FINANCE INCOME

	2021 BD '000	2020 BD '000
Murabaha financing	19,305	18,033
Mudaraba financing	23,386	27,960
Finance lease income, net	30,359	24,608
Musharaka	1,994	2,858
Placements with financial institutions	1,313	1,404
	76,357	74,863

23 (LOSS) NET FROM NON-TRADING INVESTMENTS

	2021 BD '000	2020 BD '000
Gain / (loss) on sale of investments	346	(252)
Fair value changes on investments	(3,397)	(8,866)
Dividend income	70	154
	(2,981)	(8,964)

24 INCOME / (LOSS) FROM PROPERTIES

	2021 BD '000	2020 BD '000
Gain / (loss) on sale of investment properties	165	(75)
Fair value loss on investment properties	(109)	(1,750)
	56	(1,825)

25 FEES AND COMMISSION, NET

	2021 BD '000	2020 BD '000
Transaction related fees and income	2,237	2,213
Arrangement fees	1,524	1,959
LC and LG commission	1,318	867
Credit and debit card income	1,061	733
Others	2,099	1,634
	8,239	7,406

26 OTHER INCOME

	2021 BD '000	2020 BD '000
Recoveries	946	1,392
Foreign exchange gains	144	377
Others	(628)	1,896
	462	3,665

Notes to the Consolidated Financial Statements (continued)

31 December 2021

27.1 STAFF COST

	2021 BD '000	2020 BD '000
Salaries and short term benefits	15,638	13,617
Employees' social insurance expenses	1,289	1,047
Other staff expenses	106	95
	17,033	14,759

27.2 OTHER OPERATING EXPENSES

	2021 BD '000	2020 BD '000
Business related expenses	5,186	3,208
Information Technology expenses	2,253	1,783
Professional expenses	1,687	1,634
Board of directors related expenses	1,307	1,058
Other expenses	3,242	3,408
	13,675	11,091

28 RELATED PARTY TRANSACTIONS

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

The balances with related parties at 31 December 2021 and 31 December 2020 were as follows:

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

28 RELATED PARTY TRANSACTIONS (continued)

	2020				
	Associates, and joint ventures BD '000	Major shareholders BD '000	Directors and related entities BD '000	Senior management BD '000	Total BD '000
Assets:					
Cash and balances with banks and Central Bank	-	194	-	-	194
Corporate Sukuk	-	-	3,977	-	3,977
Financing assets	18,330	6,460	6,797	1,107	32,694
Non-trading investments	79,715	-	1,574	-	81,289
Investment in associates	12,036	-	-	-	12,036
Other assets	7,996	-	-	-	7,996
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	23,455	-	-	23,455
Customers' current accounts	2,588	2,984	3,175	496	9,243
Equity of investment accountholders	9,286	31,672	59,367	2,041	102,366
Other liabilities	13	-	30	5	48
Contingent liabilities and commitments	9,117	119	101	-	9,337

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

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

28 RELATED PARTY TRANSACTIONS (continued)

	2020				
	Associates and joint ventures BD '000	Major shareholders BD '000	Directors and related entities BD '000	Senior management BD '000	Total BD '000
Income:					
Finance income	1,070	89	313	18	1,490
Income from sukuk	-	-	123	-	123
Loss from non-trading investments	(8,989)	-	(612)	-	(9,601)
Share of profit from associates	1,953	-	-	-	1,953
Expenses:					
Finance expense on placements from financial institutions	-	1,858	-	-	1,858
Share of profit on equity of investment accountholders	86	125	1,313	61	1,585
Other operating expenses	-	-	1,058	-	1,058

Key management personnel compensation

Board of Directors' remuneration for the year 2021 amounted to BD 690 thousands (2020: BD 787 thousands) and sitting fees for the year 2021 amounted to BD 478 thousands (2020: BD 270 thousands).

Sharia Supervisory Boards' remuneration for the year 2021 amounted to BD 44 thousands (2020: BD 43 thousands).

Key management personnel of the Bank comprise key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. Compensation of key management personnel for the year 2021 includes salaries and other short-term benefits of BD 3,090 thousands (2020: BD 2,769 thousands).

29 CONTINGENT LIABILITIES AND COMMITMENTS

	2021 BD '000	2020 BD '000
Contingent liabilities on behalf of customers		
Guarantees	44,749	34,575
Letters of credit	13,117	9,190
Acceptances	1,862	855
	59,728	44,620
Unutilised commitments		
Unutilised financing commitments	121,501	55,051
Unutilised non-funded commitments	7,384	9,097
	128,885	64,148

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

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

30 WA'AD BASED FX TRANSACTIONS FOR RISK MANAGEMENT

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

	2021		2020	
	Notional Amount BD '000	Fair Value BD '000	Notional Amount BD '000	Fair Value BD '000
FX Wa'ad instruments				
Assets position	57,163	619	27,584	299
Liabilities position	19,488	402	9,404	194

31 RISK MANAGEMENT

31.1 Introduction

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

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

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

Board of Directors

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

Shari'a Supervisory Board

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

Credit Risk Committee

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

Asset and Liability Committee

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

Operational Risk Committee

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

31 RISK MANAGEMENT (continued)

31.1 Introduction (continued)

Information Security Committee

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

Audit and Risk Committee

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

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

Internal Audit

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

Risk measurement and reporting systems

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

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

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

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

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

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

31 RISK MANAGEMENT (continued)

31.2 Credit risk

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

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

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

Credit risk grades

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

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

	Gross maximum exposure 2021 BD '000	Gross maximum exposure 2020 BD '000
ASSETS		
Balances with other banks	194,313	181,132
Placements with financial institutions	133,860	37,965
Corporate Sukuk	26,285	16,395
Financing assets and finance lease assets	1,362,877	1,283,812
Non-trading investments-debt	-	8
Financing contracts under other assets	3,749	6,434
Total	1,721,084	1,525,746
Contingent liabilities and commitments	187,991	107,985
Total credit risk exposure	1,909,075	1,633,731

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

Type of credit risk

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

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

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

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

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

The uncertainties due to COVID-19 and resultant economic volatility has impacted the Group's financing operations and is expected to affect most of the customers and sectors to some degree. Although it is difficult to assess at this stage the degree of impact faced by each sector, the main industries impacted are hospitality, tourism, leisure, airlines/transportation and retailers. In addition, some other industries are expected to be indirectly impacted such as contracting, real estate and wholesale trading. Though the oil prices reflected an increasing trend in 2021, it was volatile seeing drops at irregular intervals, the same continued to have a regional impact due to its contribution to regional economies.

Considering this evolving situation, the Group has taken preemptive measures to mitigate credit risk by adopting more cautious approach for credit approvals thereby tightening the criteria for extending credit to impacted sectors. Payment holidays have been extended to customers, including private and SME sector, in line with the instructions of CBB. These measures may lead to lower disbursement of financing facilities, resulting in lower net financing income and decrease of other revenue.

The risk management department has also enhanced its monitoring of financing portfolio by reviewing the performance of exposures to sectors expected to be directly or indirectly impacted by COVID-19 to identify potential SICR on a qualitative basis.

Measurement of ECL

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

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

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

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

Definition of default

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

Probability of default

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

Generating the term structure PD

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

Incorporation of forward - looking information

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

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Incorporation of forward - looking information (continued)

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

Loss Given Default

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

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

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

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

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

Exposure At Default

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

Significant Increase in Credit Risk

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

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

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

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

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

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

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Renegotiated financial assets

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

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

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

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

Backward transition

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

Credit Conversion Factor

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

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

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

Expected credit Losses

The economic uncertainties caused by COVID-19, have required the Group to update the inputs and assumptions used for the determination of expected credit losses ("ECLs") as at 31 December 2021. ECLs were estimated based on a range of forecast economic conditions as at that date and considering that the situation is fast evolving, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

The following table summarizes the key judgements and assumptions in relation to the model inputs and the interdependencies between those inputs during the current year.

Key model inputs	**Model assumptions**
Probability of default (PD's)	Point-in-time PD's updated using latest available macro-economic forecasts by using historical correlation to Gross domestic product, Oil price, Unemployment rate, Gross national savings Percent of GDP, Inflation and Volume of exports of goods and services.
Probability weighted outcomes	Probability weights - Base 65, Stressed 25, Improved 10
Loss Given Default (LGD)	Unsecured LGD 65% collateral haircuts are consistent with those used in 2020 and these were stressed by 10% when compared to 2019.

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

Expected credit Losses (continued)

The Group has also stressed financing exposures with regards to specific industries which are expected to be most impacted due to Covid-19 and considered for ECL in its probability weighted scenarios. However, the staging of these exposures reported in the tables below reflect their account position on the reporting date. The Group continues to individually assess significant corporate exposures to adequately safeguard against any adverse movements due to Covid-19.

The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio and expert judgement has also been applied in this process. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument.

Judgement is involved in determining which forward looking information variables are relevant for particular financing portfolios and for determining the sensitivity of the parameters to movements in these forward-looking variables. As with any economic forecasts, the projections and likelihoods of the occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

Any changes made to ECL to estimate the overall impact of COVID-19 is subject to very high levels of uncertainty as limited forward-looking information is currently available on which to base those changes. The judgements and associated assumptions have been made within the context of the impact of COVID-19 and reflect historical experience and other factors that are relevant, including expectations of future events that are believed to be reasonable under the circumstances. In relation to COVID-19, judgements and assumptions include the extent and duration of the pandemic, the impacts of actions of governments and other authorities, and the responses of businesses and consumers in different sectors, along with the associated impact on the global economy. Accordingly, the Group's ECL estimates are inherently uncertain and, as a result, actual results may differ from these estimates.

a) The credit quality of balances with banks and placements with financial institutions subject to credit risk is as follows:

	2021			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	230,380	-	-	230,380
Satisfactory (R5-R7)	97,880	-	-	97,880
Allowance for credit losses	(87)	-	-	(87)
	328,173	-	-	328,173

	2020			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	211,392	-	-	211,392
Satisfactory (R5-R7)	7,922	-	-	7,922
Allowance for credit losses	(217)	-	-	(217)
	219,097	-	-	219,097

Notes to the Consolidated Financial Statements (continued)

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31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

b) The following tables sets out information about the credit quality of financial assets. For financing commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed.

i) Corporate Sukuk

	2021			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	10,759	-	-	10,759
Satisfactory (R5-R7)	15,540	-	-	15,540
Allowance for credit losses	(14)	-	-	(14)
	26,285	-	-	26,285

	2020			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	16,426	-	-	16,426
Allowance for credit losses	(31)	-	-	(31)
	16,395	-	-	16,395

ii) Financing assets and receivable from finance lease assets

	2021			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	1,223,636	37,622	-	1,261,258
Satisfactory (R5-R7)	77,272	38,123	-	115,395
Default (D8-D10)	-	-	21,988	21,988
Allowance for credit losses and impairment	(15,028)	(7,279)	(13,457)	(35,764)
	1,285,880	68,466	8,531	1,362,877

	2020			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	1,122,092	43,207	14,483	1,179,782
Satisfactory (R5-R7)	81,282	17,486	29,939	128,707
Default (D8-D10)	-	280	15,074	15,354
Allowance for credit losses and impairment	(13,539)	(5,849)	(20,643)	(40,031)
	1,189,835	55,124	38,853	1,283,812

As 31 December 2021, profit in suspense amounted to BD 41,799 thousands (2020: 42,209 thousands).

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

iii) Financial contracts under other assets

	2021			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	1,105	138	-	1,243
Satisfactory (R5-R7)	20	-	-	20
Default (D8-D10)	-	-	8,113	8,113
Allowance for credit losses	(20)	(1)	(5,606)	(5,627)
	1,105	137	2,507	3,749

	2020			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	1,132	-	30	1,162
Satisfactory (R5-R7)	674	485	-	1,159
Default (D8-D10)	-	-	7,877	7,877
Allowance for credit losses	(17)	(145)	(3,602)	(3,764)
	1,789	340	4,305	6,434

iv) Financing commitments and financial guarantee contracts

	2021			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	169,063	1	-	169,064
Satisfactory (R5-R7)	14,910	1,946	-	16,856
Default (D8-D10)	-	-	2,693	2,693
Allowance for credit losses	(291)	(52)	(279)	(622)
	183,682	1,895	2,414	187,991

	2020			
	Stage 1: 12-month ECL BD '000	Stage 2: Lifetime ECL not credit-impaired BD '000	Stage 3: Lifetime ECL credit-impaired BD '000	Total BD '000
Good (R1-R4)	89,774	1,985	-	91,759
Satisfactory (R5-R7)	11,201	3,437	-	14,638
Default (D8-D10)	-	-	2,371	2,371
Allowance for credit losses	(449)	(41)	(293)	(783)
	100,526	5,381	2,078	107,985

Notes to the Consolidated Financial Statements (continued)

31 December 2021

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

The aging analysis of Financing Assets:

	2021			
	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000
Current	1,262,354	73,462	1,938	1,337,754
< 30 days	36,336	542	-	36,878
30 to 90 Days	3,343	1,879	111	5,333
> 90 days	-	-	28,052	28,052
	1,302,033	75,883	30,101	1,408,017

	2020			
	Stage 1 BD '000	Stage 2 BD '000	Stage 3 BD '000	Total BD '000
Current	1,161,275	59,306	31,029	1,251,610
< 30 days	22,195	546	43	22,784
30 to 90 Days	21,710	1,606	9	23,325
> 90 days	-	-	36,322	36,322
	1,205,180	61,458	67,403	1,334,041

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the consolidated statement of financial position plus commitments to customers disclosed in note 29 except capital commitments.

During the year BD 41,889 thousands (2020: BD 46,896 thousands) of financing facilities were renegotiated. Most of the renegotiated facilities are performing and are secured.

Write-off policy

The Group writes off an asset/security balance (net of any related allowances for impairment losses) when it determines that the asset/security are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that they can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the year, the Group has written off financing facilities amounting to BD 11,961 thousands (2020: BD 3,239 thousands) which were fully impaired.

Collateral held and other credit enhancements

The Group accepts the following type of collateral, as defined in CBB rule book. The collateral can be in Bahraini Dinars or other Foreign Currencies-in such cases, haircut as appropriate as per the credit risk policy shall be effected.

- Cash Margin and deposits
- Sukuk-Long Term – rated & unrated
- Equities listed and not listed in main index
- Units in collective investment schemes
- Other physical assets including real estate

31 RISK MANAGEMENT (continued)

31.2 Credit risk (continued)

The Group holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure	Principal type of collateral held	2021 BD '000	2020 BD '000
Financing assets to corporates	Cash, Property, Shares and Sukuk	986,300	864,158
Financing assets to retail customers	Cash, Property, Shares and Sukuk	785,478	624,657

FTV ratio

Financing to value (FTV) is calculated as the ratio of the gross amount of the financing or the amount committed for financing commitments to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

	2021 BD '000	2020 BD '000
Less than 50%	615,849	605,305
51-70%	165,835	161,212
71-90%	217,989	205,527
91-100%	114,812	96,049
More than 100%	289,361	262,476
	1,403,846	1,330,569

Key drivers of credit risk and credit losses

Credit risk arises from all transactions that give rise to actual, contingent or potential claims against any counterparty, obligor or client (which is referred to collectively as "counterparties"). This is the most frequent and substantial risk faced by any financing Bank.

Credit risk may have the following consequences leading to credit losses:

- Delayed fulfilment of a payment obligation
- Partial loss of the credit exposure
- Complete loss of the credit exposure

The various types of credit risk are defined as follows:
- Default Risk
- Country Risk
- Settlement Risk
- Replacement cost-risk
- Concentration risk
- Residual risk (e.g. legal risk, documentation risk, or liquidity risk)

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used included the key indicators for Bahrain such as the oil price, net financing, population, GDP growth and government expenditure.

31.3 Legal risk and claims

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimised.

As at 31 December 2021, legal suits amounting to BD 3,203 thousands (2020: BD 2,379 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.

Notes to the Consolidated Financial Statements (continued)

31 December 2021

31 RISK MANAGEMENT (continued)

31.4 Operational risk management

In response to COVID 19 outbreak, there were various changes in the working model, interaction with customers, customer acquisition and executing contracts and carrying out transactions with and on behalf of the customers. The management of the Group has enhanced its monitoring to identify potential risk events arising out of the current situation and the changes in the way business is conducted. The operational risk department has also enhanced its monitoring processes to identify operational risks in the revised working pattern.

The BCP was thoroughly tested during the year, including the implemented measures like working from the BCP site and from home. The measures continued to work satisfactorily.

As of 31 December 2021, the Group did not have any significant issues relating to operational risks.

32 CONCENTRATIONS

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group manages its exposure through diversification of financing activities to avoid undue concentrations of risks with customers in specific locations or businesses.

The distribution of assets, liabilities and equity of investment accountholders by geographic region and industry sector was as follows:

	2021			2020		
	Assets BD '000	Liabilities and equity of investment account holders BD '000	Contingent liabilities and Commitments BD '000	Assets BD '000	Liabilities, and equity of investment account holders BD '000	Contingent liabilities and Commitments BD '000
Geographic region						
GCC	2,524,872	2,092,615	178,700	2,104,951	1,720,695	101,105
Arab World	17,423	154,736	9,129	30,578	82,175	6,920
Europe	31,101	81,350	45	31,482	105,984	-
Asia Pacific	10,453	31,514	739	12,194	44,059	743
North America	82,420	6,980	-	61,608	3,449	-
Others	18,302	20,617	-	20,540	23,824	-
	2,684,571	2,387,812	188,613	2,261,353	1,980,186	108,768

	2021			2020		
	Assets BD '000	Liabilities and equity of investment account holders BD '000	Contingent liabilities and Commitments BD '000	Assets BD '000	Liabilities, and equity of investment account holders BD '000	Contingent liabilities and Commitments BD '000
Industry sector						
Government and public sector	620,052	136,382	17,603	513,933	165,716	1,015
Banks and financial institutions	719,341	689,120	14,018	535,514	663,899	18,510
Real estate	350,537	165,382	42,395	360,618	157,207	20,257
Trading and manufacturing	296,316	320,734	102,159	268,417	282,882	53,487
Individuals	629,780	718,962	6,752	506,080	570,893	7,501
Others	68,545	357,232	5,686	76,791	139,589	7,998
	2,684,571	2,387,812	188,613	2,261,353	1,980,186	108,768

33 MARKET RISK

Market risk arises from fluctuations in global yields on financial contracts and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

33.1 Equity price risk

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the overall investment exposure of the Bank. This is monitored on an ongoing basis by the Group's Investment Committee and Risk Management.

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and fair value through equity investments) solely due to reasonably possible changes in equity prices, is as follows:

	2021			
	10% increase		10% decrease	
	Effect on net profit BD '000	Effect on equity BD '000	Effect on net profit BD '000	Effect on equity BD '000
Quoted:	412	-	(412)	-

	2020			
	10% increase		10% decrease	
	Effect on net profit BD '000	Effect on equity BD '000	Effect on net profit BD '000	Effect on equity BD '000
Quoted:	416	-	(416)	-

33.2 Profit return risk

Profit rate risk arises from the possibility that changes in profit rates will affect the future profitability or the fair values of financial assets. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Audit and Risk Committee as well as ALCO of the Group.

The Group manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities less than one year are as follows:

	2021			
	Change in rate %	Effect on net profit BD '000	Change in rate %	Effect on net profit BD '000
Bahraini dinars	0.10	560	(0.10)	(560)
US dollars	0.10	466	(0.10)	(466)

	2020			
	Change in rate %	Effect on net profit BD '000	Change in rate %	Effect on net profit BD '000
Bahraini dinars	0.10	447	(0.10)	(447)
US dollars	0.10	242	(0.10)	242

Notes to the Consolidated Financial Statements (continued)

31 December 2021

33 MARKET RISK (continued)

Profit rate benchmark reform (PBOR)

LIBOR is a benchmark rate at which banks estimate they can provide funding facilities to other banks on an unsecured basis. LIBOR was published for five different currencies and for seven different maturities. After 2021 it will not be mandatory for banks to participate in publishing LIBOR as per the Financial Conduct Authority, regulator of LIBOR. Alternatively, a new benchmarks will be published which will be a risk free rate for various currencies and will be monitored by the respective currencies regulators. The Group has contracts which are at variable profit rates based on LIBOR. The Group has assessed the impact of transition on systems and processes and is in the process of upgrading its infrastructure to address the requirement. Further, the group will follow the recommendation of Alternative Reference Rate Committee, The Central Bank, ISDA, IIFM to adopt new conventions for profit rate accrual for new exposures and or legacy contracts in line with the market practice. The group is in the process of transitioning legacy contracts following the recommended cessation spread adjustments to maintain economic equivalence and as per fallback language and or protocol as applicable.

33.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a yearly basis by the Audit and Risk Committee as well as ALCO to ensure positions are maintained within established limits.

Substantial portion of the Group's assets and liabilities are denominated in Bahraini Dinars, US Dollars or Saudi Riyals. As the Bahraini Dinar and Saudi Riyals are pegged to the US Dollars, positions in these currencies are not considered to represent significant currency risk as of 31 December 2021 and 2020.

The Group's net exposure for denominated in foreign currencies as at 31 December for its financial instruments are as follows:

	Long (short) 2021 BD '000	Long (short) 2020 BD '000
Sterling Pounds	(33)	4,051
Kenyan Shilings	-	109
Euro	(36,175)	(10,496)
Algerian Dinar	10,676	8,773
Others	199	(3,445)

Standard scenarios that are considered include a 10% increase or decrease in exchange rates other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables primarily profit rates, remain constant) is as follows:

	Change in currency rate %	Effect on profit 2021 BD '000	Effect on equity 2021 BD '000	Change in currency rate %	Effect on profit 2020 BD '000	Effect on equity 2020 BD '000
Sterling Pounds	10	(3)	-	10	405	-
Kenyan Shilings	10	-	-	10	11	-
Euro	10	(3,618)	-	10	(1,050)	-
Algerian Dinar	10	-	1,068	10	-	877
Others	10	20	-	10	(345)	-
Total		(3,601)	1,068		(979)	877

34 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily convertible marketable securities. Liquidity position is monitored on an ongoing basis by the Risk and Audit Committee as well as ALCO of the Group.

34 LIQUIDITY RISK (continued)

The Bank has computed the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) as per the requirements of the CBB rulebook. The LCR at the Group level as at 31 December 2021 is 322.93% and the simple average of the daily consolidated LCRs of the last three months is 343.93%. The NSFR as at 31 December 2021 is 117.75%.

The CBB announced various measures to combat the effects of COVID-19 on the banking sector in the Kingdom of Bahrain. These were aimed to ease liquidity in the economy as well as to assist banks in complying with regulatory requirements. These measures included the following:

- Reduction of cash reserve ratio from 5% to 3%.
- Reduction of LCR and NSFR from 100% to 80%.

The maturity profile of sovereign and corporate sukuk, placements with or from financial institutions, financing assets, finance lease assets and murabaha term financing has been presented using the contractual maturity year. For other balances, maturity profile is based on expected cash flows / settlement profile of the respective assets and liabilities.

The management of the Group has enhanced its monitoring of the liquidity and funding requirements. ALCO meetings are convened more frequently in order to carryout granular assessment of funding requirements with the objective to explore available sources of funding and to drawdown the existing funding sources as and when necessary to maintain enough liquidity at a reasonable cost of funding.

As at the reporting date the liquidity and funding position of the Group remains strong and is well placed to absorb and manage the impacts of this disruption. Further information on the regulatory liquidity and capital ratios as at 31 December 2021 have been disclosed in Note 43 to the consolidated financial statement.

	2021				
	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
ASSETS					
Cash and balances with banks and Central Bank	309,149	-	-	-	309,149
Placements with financial institutions	129,189	4,671	-	-	133,860
Sovereign Sukuk	15,293	66,725	294,905	236,480	613,403
Corporate Sukuk	8,687	1,875	12,574	3,149	26,285
Financing assets	172,812	170,283	372,765	91,108	806,968
Finance lease assets	6,836	47,209	129,023	372,841	555,909
Non-trading investments	-	-	-	91,591	91,591
Investment properties	-	-	-	57,961	57,961
Development properties	-	-	-	2,943	2,943
Investment in associates	-	-	-	14,533	14,533
Other assets	10,145	135	535	35,183	45,998
Goodwill	-	-	-	25,971	25,971
	652,111	290,898	809,802	931,760	2,684,571
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Placements from financial institutions	69,763	56,726	402	-	126,891
Customers' current accounts	482,739	-	-	-	482,739
Murabaha term financing	55,240	27,518	2,211	15,247	100,216
Other liabilities	24,976	-	-	28,813	53,789
Equity of investment accountholders	977,655	538,919	101,411	6,192	1,624,177
	1,610,373	623,163	104,024	50,252	2,387,812

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34 LIQUIDITY RISK (continued)

	2020				
	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
ASSETS					
Cash and balances with banks and Central Bank	288,266	-	-	-	288,266
Placements with financial institutions	32,670	5,295	-	-	37,965
Sovereign Sukuk	18,035	39,157	268,005	67,911	393,108
Corporate Sukuk	1,285	8,974	6,136	-	16,395
Financing assets	119,917	185,121	398,566	110,845	814,449
Finance lease assets	31,293	28,646	154,565	254,859	469,363
Non-trading investments	-	-	-	98,034	98,034
Investment properties	-	-	-	67,586	67,586
Development properties	-	-	-	2,943	2,943
Investment in associates	-	-	-	12,036	12,036
Other assets	12,032	397	1,166	21,642	35,237
Goodwill	-	-	-	25,971	25,971
	503,498	267,590	828,438	661,827	2,261,353
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Placements from financial institutions	59,283	57,298	302	-	116,883
Customers' current accounts	363,970	-	-	-	363,970
Murabaha term financing	137,461	66,752	2,211	15,247	221,671
Other liabilities	41,404	68	4,673	6,137	52,282
Equity of investment accountholders	734,904	407,881	82,272	323	1,225,380
	1,337,022	531,999	89,458	21,707	1,980,186

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2021 and 2020 based on contractual undiscounted payment obligation:

	2021					
	On demand BD '000	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Placements from financial institutions	-	69,955	57,552	419	-	127,926
Customers' current accounts	482,739	-	-	-	-	482,739
Murabaha term financing	-	55,722	28,136	3,685	15,418	102,961
Equity of investment accountholders	435,663	543,223	546,893	109,188	7,476	1,642,443
Contingent liabilities and commitments	-	35,431	58,904	13,113	81,165	188,613
Other financial liabilities	13,654	-	-	-	-	13,654
	932,056	704,331	691,485	126,405	104,059	2,558,336

34 LIQUIDITY RISK (continued)

	2020					
	On demand BD '000	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Placements from financial institutions	-	59,512	58,207	327	-	118,046
Customers' current accounts	363,970	-	-	-	-	363,970
Murabaha term financing	-	139,085	68,223	3,733	15,761	226,802
Equity of investment accountholders	246,131	489,823	416,664	88,801	428	1,241,847
Contingent liabilities and commitments	-	25,617	43,948	18,003	21,200	108,768
Other financial liabilities	12,353	16,965	-	-	-	29,318
	622,454	731,002	587,042	110,864	37,389	2,088,751

35 SEGMENT INFORMATION

Primary segment information

For management purposes, the Group is organised into three major business segments:

Banking	Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking, private banking and wealth management.
Treasury	Principally handling Shari'a compliant money market, trading and treasury services including short-term commodity Murabaha.
Investments	Principally the Group's proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.

Transactions between segments are conducted at estimated allocated internal rates. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	2021				
	Banking BD '000	Treasury BD '000	Investments BD '000	Unallocated BD '000	Total BD '000
Net operating income	55,414	11,229	(2,399)	-	64,244
Segment result	16,823	8,763	(4,362)	-	21,224
Segment assets	1,419,859	1,075,488	185,799	3,425	2,684,571
Segment liabilities, and equity	1,899,701	480,239	7,617	297,014	2,684,571

Goodwill resulting from BMI acquisition is allocated to banking segment.

	2020				
	Banking BD '000	Treasury BD '000	Investments BD '000	Unallocated BD '000	Total BD '000
Net operating income	55,661	10,726	(8,967)	-	57,420
Segment result	12,473	7,764	(11,119)	-	9,118
Segment assets	1,338,978	727,651	192,012	2,712	2,261,353
Segment liabilities, and equity	1,311,031	660,947	7,469	281,906	2,261,353

Goodwill resulting from BMI acquisition is allocated to banking segment.

Notes to the Consolidated Financial Statements (continued)

31 December 2021

35 SEGMENT INFORMATION (continued)

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

36 FIDUCIARY ASSETS

Funds under management at the yearend amounted to BD 141,004 thousands (2020: BD 158,458 thousands). These assets are held in a fiduciary capacity, measured at remaining subscription amounts and are not included in the consolidated statement of financial position. Further, the Group through its SPV's, acts as an agent/custodian on behalf of certain clients to facilitate transactions as per terms and instructions from their customers.

37 SHARI'A SUPERVISORY BOARD

The Bank's Shari'a Supervisory Board ("SSB") consists of four Islamic scholars who review the Bank's compliance with general Shari'a rules and principles, specific fatwas and rulings issued by SSB and the guidelines of the Central Bank of Bahrain ("CBB") in relation to Shari'a governance and compliance. Their review includes examination and approval of products, documentation, procedure manuals and policies, services and related charges and fees that are presented to it to ensure that the Bank's adopted activities are conducted in accordance with Shari'a rules and principles, and consequently, issue report on the bank's compliance following the review and approval of the financial statements.

38 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year, the Group earned Shari'a prohibited income totalling BD 291 thousands (2020: BD 209 thousands). These include income earned from the conventional financing and investments due to acquiring BMI, ASBS and BSB, penalty charges from customers and interest on balances held with correspondent banks. These funds were allocated to charitable contributions.

39 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to individuals and organisations which are used for charitable purposes. During the year, the Group paid an amount of BD 554 thousands (2020: 920 thousands) out of which BD 271 thousands (2020: BD 745 thousands) was paid from Sharia prohibited income pool.

40 ZAKAH

Pursuant to a resolution of the shareholders in an Extra-ordinary General Meetings (EGM) held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognised in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2021 has been determined by the Shari'a supervisory board as 2.6 fils (2020: 2.3 fils) per share. Under FAS 9, Zakah payble for the year ended 2021 was calculated at 2.577% of the Zakah base of BD 233,146 thousands (2020: BD 187,369 thousands) which was determined on the Net Invested Funds method.

41 FAIR VALUE HIERARCHY

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; or

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

41 FAIR VALUE HIERARCHY (continued)

Financial instruments measured at fair value

The following table shows an analysis of the non-trading investments and sukuk portfolio carried at fair value in the consolidated statement of financial position:

31 December 2021	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Sovereign Sukuk	455,723	157,680	-	613,403
Corporate Sukuk	14,132	379	11,774	26,285
Financial assets at fair value through profit or loss	4,116	302	86,823	91,241
Financial assets at fair value through equity	-	-	350	350
	473,971	158,361	98,947	731,279

31 December 2020	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Sovereign Sukuk	67,704	325,404	-	393,108
Corporate Sukuk	1,866	3,978	10,551	16,395
Financial assets at fair value through profit or loss	4,162	3,313	90,209	97,684
Financial assets at fair value through equity	-	-	350	350
	73,732	332,695	101,110	507,537

The movements in fair value of non-trading investments classified in Level 3 of the fair value hierarchy are as follows:

	2021 BD '000	2020 BD '000
At 1 January	90,559	98,933
Fair value changes	(3,386)	(10,434)
Repayments	-	(231)
Additions	-	2,291
At end of the year	87,173	90,559

The sensitivity analysis for Level 3 of non-trading investments are summarized below:

Valuation technique used	Key unobservable inputs	Fair value at 31 December 2021 BD'000	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Asset Valuation	Underlying real estate	117,065	+/- 5%	5,853 / (5,853)
Discounted Cash Flow	Occupancy and Discount rate	15,109	+/- 5% and +/-1%	1,095 / (1,197)

The movements in fair value of sukuk portfolio classified in Level 3 of the fair value hierarchy are as follows:

	2021 BD '000	2020 BD '000
At 1 January	10,551	11,320
Additions	10,994	13,411
Fair value changes	-	(3,426)
Disposals	(9,771)	(10,754)
At end of the year	11,774	10,551

The estimated fair value of yielding financing assets and financing liabilities approximates their carrying value as their pricing is not materially different to expected market return on such contracts.

The estimated fair values of other financial assets are not expected to be materially different from their carrying values as of 31 December 2021 and 31 December 2020 due to their short term nature.

Notes to the Consolidated Financial Statements (continued)

31 December 2021

42 DEPOSIT PROTECTION SCHEME

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

43 REGULATORY RATIOS

1) Liquidity Coverage Ratio (LCR)

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The LCR requirements aim to ensure that a bank has an adequate stock of unencumbered high quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day stressed liquidity year. The stock of unencumbered HQLA should enable the Bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis.

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows. The average Consolidated LCR for three months calculated as per the requirements of the CBB rulebook, as of 31 December 2021 and 31 December 2020, is as follows:

	Total weighted value	
	2021 BD '000	2020 BD '000
Stock of HQLA	579,523	195,494
Net cashflows	180,147	157,730
LCR %	343.93%	126.41%
Minimum required by CBB	80%	80%

2) Capital Adequacy Ratio

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

43 REGULATORY RATIOS (continued)

2) Capital Adequacy Ratio (continued)

The regulatory capital and risk-weighted assets have been calculated in accordance with Basel III as adopted by the CBB.

	As at	
	2021 BD '000	2020 BD '000
CET 1 Capital before regulatory adjustments	295,333	277,655
Less: regulatory adjustments	25,971	25,971
CET 1 Capital after regulatory adjustments	269,362	251,684
AT 1 Capital	36	26
T 2 Capital adjustments	34,596	35,745
Regulatory Capital	303,994	287,455
Risk weighted exposure:		
Credit Risk Weighted Assets	934,629	988,982
Market Risk Weighted Assets	27,314	250
Operational Risk Weighted Assets	103,250	97,200
Total Regulatory Risk Weighted Assets	1,065,193	1,086,432
Total Adjusted Risk Weighted Exposures	1,065,193	1,086,432
Capital Adequacy Ratio	28.54%	26.46%
Tier 1 Capital Adequacy Ratio	25.29%	23.17%
Minimum required by CBB	12.50%	12.50%

As of 31 December 2021, aggregate of modification loss of BD 24,768 thousands has been added back to Tier 1 capital.

As per CBB instructions, the above concessional treatment would be followed for two years ending 31 December 2020 and 31 December 2021, thereafter this amount will be proportionately deducted from Tier 1 capital for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

3) Net Stable Funding Ratio (NSFR)

The objective of the NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivize a more resilient banking sector over a longer time horizon. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

NSFR is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by CBB and its affective from 2019. The minimum NSFR ratio as per CBB is 100%. However, as per CBB circular OG/106/2020 dated 17 March 2020, OG/296/2020 dated 26 August 2020 and OG/431/2020 dated 29 December 2020, the limit has been reduced to 80% until June 2022, to contain the financial repercussions of COVID-19.

Notes to the Consolidated Financial Statements (continued)

31 December 2021

43 REGULATORY RATIOS (continued)

3) Net Stable Funding Ratio (NSFR) (continued)

The NSFR (as a percentage) as at 31 December 2021 is calculated as follows:

BD'000	Unweighted Values (before applying relevant factors)				
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Item					
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	272,744	-	-	34,596	307,340
Retail deposits and deposits from small business customers:					
Stable deposits	-	85,820	3,048	6,445	90,869
Less stable deposits	-	501,988	113,787	80,423	634,621
Wholesale funding:					
Other wholesale funding	-	1,322,106	149,710	56,041	522,229
Other liabilities:					
All other liabilities not included in the above categories	-	67,695	-	-	-
Total ASF	272,744	1,977,609	266,545	177,505	1,555,059
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	29,612
Deposits held at other financial	-	-	-	-	-
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	366,087	6,367	5,878	63,974
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	227,810	153,681	756,908	812,050
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	110,335	71,718
Performing residential mortgages, of which:	-	-	-	188,086	122,256
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	188,086	122,256
Securities/ sukuk that are not in default and do not qualify as HQLA including exchange-traded equities	-	12,743	-	3,151	9,050
Other assets:					
All other assets not included in the above categories	241,383	5,809	-	30,018	274,306
OBS items	-	188,333	-	-	9,417
Total RSF	241,383	800,782	160,048	984,041	1,320,665
NSFR (%)	-	-	-	-	117.75%

43 REGULATORY RATIOS (continued)

3) Net Stable Funding Ratio (NSFR) (continued)

The NSFR (as a percentage) as at 31 December 2020 is calculated as follows:

BD'000	Unweighted Values (before applying relevant factors)				
	No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Item					
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	255,056	-	-	35,745	290,801
Retail deposits and deposits from small business customers:					
Less stable deposits	-	442,336	125,503	66,951	578,006
Wholesale funding:					
Other wholesale funding	-	1,032,384	189,353	58,126	374,683
Other liabilities:					
All other liabilities not included in the above categories	-	64,101	-	-	-
Total ASF	255,056	1,538,821	314,856	160,822	1,243,490
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	17,604
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	245,585	416	4,911	41,956
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	225,592	133,368	740,303	775,213
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	167,627	108,958
Performing residential mortgages, of which:	-	-	-	131,367	85,388
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	131,367	85,388
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	7,386	6,567	780	3,337
Other assets:					
All other assets not included in the above categories	292,513	3,980	-	24,007	308,941
OBS items	-	145,464	-	-	7,273
Total RSF	292,513	628,007	140,351	901,368	1,244,015
NSFR (%)	-	-	-	-	99.96%

44 SUBSEQUENT EVENT

Subsequent to the balance sheet date, Al Salam Bank and Ithmaar Holding B.S.C. have agreed the acquisition by Al Salam Bank of the consumer banking business of Ithmaar Bank, and Ithmaar Holdings' ownership stake in both Bank of Bahrain and Kuwait B.S.C (BBK) and Solidarity Group Holding BSC (c) respectively. A memorandum of understanding between the two entities was executed in October 2021. The transaction remains subject to the approval of Ithmaar Holding's shareholders and the signing of definitive agreements.

45 COMPARATIVE FIGURES

Certain of the prior year figures have been regrouped to conform to the current year presentation. Such grouping did not affect previously reported net profit, total assets, total liabilities and total equity of the Group. FAS 32 has been adopted on a retrospective basis and comparatives have not been restated.

Unaudited Supplementary Disclosures

31 December 2021

In line with the Central Bank of Bahrain's ("CBB") direction as per circular OG/417/2021 of 23 December 2021 which aims to maintain transparency amidst the current financial implications of Coronavirus (COVID-19) outbreak, the Bank has provided additional supplementary information on the impact of COVID 19 on its financial statements and the results of its operations.

On 11 March 2020, the COVID-19 outbreak was declared as a pandemic by the World Health Organization ("WHO") and has rapidly evolved globally. This has resulted in an economic slowdown with uncertainties in the economic environment across the globe. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities all over the world have taken various steps to contain the spread of COVID-19 including implementation of travel restrictions as well as lockdown and quarantine measures. The pandemic as well as the resulting measures have had a significant knock-on impact on Al Salam Bank and its principal subsidiaries (collectively the "Group") and its associates. The Group is actively monitoring the COVID-19 situation and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

The CBB announced various measures to combat the effects of COVID-19 on the banking sector in the Kingdom of Bahrain. These were aimed to ease liquidity in the economy as well as to assist banks in complying with regulatory requirements. These measures included the following:

- Reduction of cash reserve ratio from 5% to 3%.
- Reduction of liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR") from 100% to 80%.
- Capital relief by allowing the aggregate of modification loss and incremental expected credit losses ("ECL") from March to December 2020 to be added back to Tier 1 capital for the two financial years ending 31 December 2020 and 31 December 2021 and deducted proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

The aforesaid measures have resulted in the following effects on the Group:

- The CBB mandated 6-month payment holidays requires impacted banks to recognize a one-off modification loss directly in equity. The modification loss has been calculated as difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of the modification.
- The mandated 6-month payments holiday included the requirement to suspend minimum payments, service fees and outstanding credit card balances. In addition, COVID-19 also resulted in lower transaction volumes and related fees. This resulted in a significant decline in the Group's fee income.
- The Government of the Kingdom of Bahrain have announced various economic stimulus program ("packages") to support business in these challenging times. The Bank received regulatory directive financial assistance representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges as well as zero cost funding received from the Government and/or the regulators in response to its COVID-19 support measures. This has been recognized directly in the Group's equity as per the instructions of the CBB.
- The Group also maintained a lower cash reserve due to reduction in cash reserve ratio to 3%.
- Due to the stressed liquidity scenario in the market, the Bank also had to incur higher funding costs for sourcing new deposits and foreign exchange.

Subsequent to the first deferment, the CBB announced four further terms of deferment from September 2020 to June 2022, wherein the payments were deferred and the Bank was allowed to accrue the profits on deferred amounts. The same resulted in additional impact on Bank's liquidity and ECL provisions.

Unaudited Supplementary Disclosures (continued)

A summary of the financial impact of the above effects are as follows:

	Net impact on the Group - Accumulated		
Amounts in BD '000	Consolidated Income statement	Consolidated financial position	Consolidated Owners equity
Modification loss	–	–	(24,768)
Modification loss amortization	–	24,768	–
Lower Credit card fee	–	–	(282)
Government grants	–	–	2,143
Concessionary repo @ 0%	–	121,613	–
Average reduction of cash reserve	–	412,297	–
Stressed liquidity	–	–	(371)
ECL attributable to COVID -19	(2,423)	(9,053)	–

The Group continues to meet the regulatory requirement of capital adequacy ratio ("CAR"), LCR and NSFR. The consolidated CAR, LCR and NSFR as at 31 December 2021 stands at 28.54%, 322.93% and 117.75% respectively.

Information reported in the table above only include areas or line items where impact was quantifiable and material. Some of the amounts reported above include notional loss of income or an incremental cost measure and hence may not necessarily reconcile with amounts reported in the consolidated financial statements for the year ended 31 December 2021.

The information provided in this supplementary disclosure should not be considered as an indication for the results of the entire year or relied upon for any other purposes. Since the situation of COVID-19 is uncertain and is still evolving, the above assessment is as at the date of preparation of this information and only considers significant areas of impact. Circumstances may change which will result in this information being out of date. In addition, this information does not represent a full comprehensive assessment of COVID-19 impact on the Group. This information has not been subject to an audit by external auditors.

Basel III - Pillar III Disclosures

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Basel III - Pillar III - Disclosures

31 December 2021

1 INTRODUCTION

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

The Basel III accord is built on three pillars:

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

Pillar II involves the process of supervisory review of a financial institution's risk management framework and its capital adequacy.

Pillar III relates to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process.

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

2 FINANCIAL PERFORMANCE AND POSITION

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

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

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

During 2016, the Bank acquired 70% stake in Al Salam Bank Seychelles Limited ("ASBS"), (previously "BMIO") an offshore bank in Seychelles. ASBS operates under an offshore banking license issued by the Central Bank of Seychelles. BMIO used to operate under an offshore banking license issued by the Central Bank of Seychelles. From 20 May 2016, ASBS was granted a Banking Business License which permits onshore as well as offshore banking activities. All legal formalities in relation to the share allotment have been completed and the process of converting ASBS into fully compliant Islamic operations is in progress. In accordance with CA-B.1.4 of the CBB Rulebook, for the purpose of disclosure of risk weighted exposures and for capital adequacy calculation, the Bank has obtained an approval from the CBB to aggregate the risk weighted exposures of ASBS and hence, the risk weighted exposures of ASBS do not form part of all disclosures in this Basel III - Pillar III Disclosure Document.

The Bank and its principal banking subsidiary operates through 9 branches in the Kingdom of Bahrain and 1 branch in Seychelles and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial contracts as principal / agent, managing Shari'a-compliant financial contracts and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework. The Bank together with its subsidiaries are referred to as the "Group".

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

Basel III - Pillar III - Disclosures (continued)

31 December 2021

2 FINANCIAL PERFORMANCE AND POSITION (continued)

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

(BD '000s)

	Dec-2021	Dec-2020	Dec-2019	Dec-2018	Dec-2017	Dec-2016
Net operating income	64,244	57,420	53,527	56,719	62,190	63,000
Net profit	21,224	9,118	21,130	18,520	18,055	16,096
Total assets	2,684,571	2,261,353	2,042,803	1,710,310	1,589,228	1,681,293
Total equity	296,759	281,167	320,074	304,822	303,837	324,899
Key Ratios	**Dec-2021**	**Dec-2020**	**Dec-2019**	**Dec-2018**	**Dec-2017**	**Dec-2016**
Earnings per share (fils)	9.1	4.3	9.7	8.7	8.5	7.6
Return on average assets (%)	0.9	0.4	1.1	1.1	1.1	1.0
Return on average equity (%)	7.4	3.0	6.8	6.1	5.7	5.0
Cost to Net operating income (%)	52.7	52.3	55.6	48.9	39.0	41.4
Dividend payout ratio (%)	79.8	126.4	83.9	81.0	83.0	66.5
Dividend yield ratio (%)	4.0	6.8	8.0	7.0	6.1	4.2
Net profit margin on average Islamic assets (%)	2.9	3.4	2.7	2.9	3.2	2.7

Table 2.2 Financial Summary

(BD '000s)

Consolidated Financial Position	**Dec-2021**	**Dec-2020**	**Dec-2019**	**Dec-2018**	**Dec-2017**	**Dec-2016**
Cash and balances with banks and Central Bank	309,149	288,266	219,456	82,587	66,351	131,990
Sovereign Sukuk	613,403	393,108	345,305	354,215	363,569	358,269
Placements with financial institutions	133,860	37,965	114,803	163,305	141,225	182,452
Corporate Sukuk	26,285	16,395	22,162	9,222	10,419	28,934
Financing assets	806,968	814,449	685,756	568,905	532,535	478,798
Finance lease assets	555,909	469,363	389,742	256,892	213,238	188,485
Non-trading investments	91,591	98,034	108,991	107,508	111,325	122,073
Investment properties	57,961	67,586	72,774	74,261	66,782	51,863
Development properties	2,943	2,943	2,943	6,290	6,448	17,781
Investment in associates	14,533	12,036	10,640	15,972	16,835	10,561
Other assets	45,998	35,237	44,260	45,182	34,530	64,276
Goodwill	25,971	25,971	25,971	25,971	25,971	25,971
Assets classified as held-for-sale	-	-	-	-	-	19,840
Placements from financial institutions	126,891	116,883	211,459	144,125	154,765	132,032
Placements from customers	-	-	-	705,924	602,784	723,439
Customer current accounts	482,739	363,970	289,456	251,842	283,886	279,609
Murabaha term financing	100,216	221,671	145,590	155,543	79,986	91,837
Other liabilities	53,789	52,282	41,481	48,293	45,089	49,260
Liabilities relating to assets classified as held-for-sale	-	-	-	-	-	11,421
Equity of Investment Accountholders (EIAH)	1,624,177	1,225,380	1,034,743	99,761	118,881	68,796
of which: Wakala from financial institutions	299,607	264,784	210,887	-	-	-
of which: Wakala and Mudaraba from customers	1,324,570	960,596	823,856	-	-	-
Capital	**Dec-2021**	**Dec-2020**	**Dec-2019**	**Dec-2018**	**Dec-2017**	**Dec-2016**
Capital adequacy (%)	28.5	26.5	21.2	20.6	21.4	21.6
Equity / Total assets (%)	11.1	12.4	15.7	17.8	19.1	19.3
Total customer deposits / Equity (times)	6.1x	4.7x	3.5x	3.5x	3.3x	3.3x

2 FINANCIAL PERFORMANCE AND POSITION (continued)

Table 2.2 Financial Summary (continued)

(BD '000s)

Liquidity and Other Ratios	Dec-2021	Dec-2020	Dec-2019	Dec-2018	Dec-2017	Dec-2016
Islamic financing contracts / Total assets (%)	50.8	56.8	52.6	48.3	46.9	39.7
Investments / Total assets (%)	30.1	26.1	27.6	33.2	36.2	36.2
Liquid assets / Total assets (%)	32.7	18.3	22.7	23.2	26.9	29.2
Liquid assets / Current and URIA deposits (%)	41.7	26.0	35.0	112.8	106.2	141.1
Customer Deposits / Total assets (%)	67.3	58.6	54.5	61.8	63.3	63.8
Due from banks and financial institutions/ Total Assets (%)	5.0	1.7	5.6	9.5	8.9	10.9
Interbank Assets / Interbank Liabilities (%)	105.5	32.5	54.3	113.3	91.3	138.2
Islamic financing contracts / Customer deposits (%)	75.4	96.9	96.6	78.1	74.2	62.3
Number of employees	376	363	355	341	322	333

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 2021 and their treatment for capital adequacy purposes are as follows:

	Entity classification as per CA Module	Treatment by the Bank
Subsidiary		
Al Salam Bank Seychelles	Banking subsidiary	Aggregation of risk weighted assets approved by the CBB on 28 June 2016
Kenaz Al Kadam Real Estate Investment W.L.L.	Commercial entity	Risk weighting of investment exposure
Kenaz Al Hamala Real Estate Investment W.L.L.		
Wahat Al Muharraq Real Estate Investment W.L.L.		
ASB Biodiesel 1		
Associates		
Al Salam Bank Algeria	Financial entity	Risk weighting of investment exposure
Gulf African Bank		
Bareeq Al Retaj Real Estate Services W.L.L	Commercial entity	Risk weighting of investment exposure
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 303,994 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 241,972 thousands at 31 December 2021, comprising of 2,419,723 thousand shares of BD 0.100 each. (PD 1.3.11)

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

Basel III - Pillar III - Disclosures (continued)

31 December 2021

3 GROUP AND CAPITAL STRUCTURE (continued)

3.2 CAPITAL STRUCTURE (continued)

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

(BD '000s)

	CET1	AT1	T2
Issued and fully paid up ordinary shares	241,972		
Treasury shares	(12,473)		
Legal/statutory reserves	18,600		
Share premium	209		
Retained earnings	19,097		
Current interim cumulative net income / losses	22,213		
Unrealized gains and losses on available for sale financial instruments	9,532		
Gains and loss resulting from converting foreign currency subsidiaries to the parent currency	(3,985)		
Total Minority Interest in banking subsidiaries given recognition in CET1 capital	168		
Total CET1 capital prior to regulatory adjustments	**295,333**		
Less:			
Goodwill	(25,971)		
Total Common Equity Tier 1 capital after the regulatory adjustments above	**269,362**		
Instruments issued by banking subsidiaries to third parties		36	48
Asset revaluation reserve - Property, plant, and equipment		-	22,865
General financing loss provisions		-	11,683
Total Available AT1 & T2 Capital		**36**	**34,596**
Total Tier 1		**269,398**	
Total Capital (PD 1.3.20 a)			**303,994**

Table 3.2

(BD '000s)

	Risk Weighted Exposures		
	Credit	**Operational**	**Market**
Risk Weighted Exposures (self-financed)	724,046	102,426	27,314
Risk Weighted Exposures (URIA)	203,389	-	-
Aggregation of Risk Weighted Exposures	7,195	824	-
Risk Weighted Exposures after Aggregation	**934,629**	**103,250**	**27,314**
Total Risk Weighted Exposures			**1,065,193**
	CET 1	**T1**	**Total Capital**
% of Total Risk Weighted Exposures (CAR) (PD 1.3.20 a)	**25.29%**	**25.29%**	**28.54%**
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 2021.

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%.

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 CREDIT RISK (continued)

e. Claims on regulatory retail portfolio

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

f. Mortgages

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

g. Past due receivables (PD 1.3.22 a)

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

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

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

h. Investment in securities and sukuk

Investments in listed equities are risk weighted at 100% while unlisted equities are risk weighted at 150%. Investments in sukuk are risk weighted based on respective counterparty's credit ratings.

i. Holding of real estate

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

j. Other assets

These are risk weighted at 100%.

Table 5.1 Funded and Unfunded Exposures

(BD '000s)

Contribution by Equity and Current Accounts

Exposure type	Gross Credit Exposure	CRM	Net Credit Exposure	Risk-Weighted Assets (RWA)	Minimum Capital Charge
Cash and balances with banks and Central Bank	117,694	-	117,694	34,030	4,254
Sovereign Sukuk	613,546	-	613,546	1,445	181
Placements with financial institutions	-	-	-	-	-
Corporate Sukuk	23,148	-	23,148	19,914	2,489
Murabaha financing	29,191	1,447	27,744	27,771	3,471
Mudaraba financing	21,923	2,912	19,011	18,646	2,331
Musharaka	29	-	29	29	4
Credit Cards	34	-	34	26	3
Finance lease assets	36,601	36,036	565	440	55
Non-trading investments	92,354	-	92,354	363,021	45,378
Investment properties	57,961	-	57,961	115,922	14,490
Development properties	2,943	-	2,943	5,886	736
Investment in associates	14,533	-	14,533	36,332	4,542
Other assets	39,518	-	39,518	40,443	5,055
Total funded exposures	**1,049,475**	**40,395**	**1,009,079**	**663,905**	**82,988**
Contingent Liabilities & Commitments	94,092	-	94,092	60,141	7,518
Total unfunded exposures	**94,092**	**-**	**94,092**	**60,141**	**7,518**
Aggregation of Risk Weighted Exposures for AlSalam Bank Seychelles Limited	-	-	-	7,195	899
Total exposures	**1,143,566**	**40,395**	**1,103,171**	**731,241**	**91,405**

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 CREDIT RISK (continued)

Table 5.1 Funded and Unfunded Exposures (continued)

(BD '000s)

Contribution by Equity of Investment Accountholders

Exposure Type	Gross Credit Exposure	CRM	Net Credit Exposure	Risk-Weighted Assets (RWA)*30%	Minimum Capital Charge
Cash and balances with banks and Central Bank	189,747	-	189,747	4,599	575
Placements with financial institutions	131,211	-	131,211	12,019	1,502
Murabaha financing	357,864	31,467	326,397	49,906	6,238
Mudaraba financing	379,555	59,618	319,937	70,991	8,874
Musharaka	32,950	-	32,950	9,808	1,226
Credit Cards	3,552	-	3,552	917	115
Finance lease assets	520,078	132,311	387,768	55,148	6,894
Total funded exposures	**1,614,957**	**223,396**	**1,391,562**	**203,388**	**25,424**
Contingent Liabilities & Commitments	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**
Total exposures	**1,614,957**	**223,396**	**1,391,562**	**203,388**	**25,424**

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 2021 is BD 188,613 thousands.

Excessive risk concentration (PD 1.3.26 a)

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

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

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

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 CREDIT RISK (continued)

Table 5.2 Gross Credit Exposures (PD 1.3.26 b)

(BD '000s)

Current Credit Exposure by Type of Islamic Financing Contracts	Gross Positive Fair Value (Net of specific provision)	Netting Benefits	Netted Current Credit Exposures	Eligible Collaterals Held (after appropriate haircuts) *				
				Cash	Govt. Securities	Guarantees	Real Estate	Total
Murabaha financing	387,055	-	387,055	13,108	29,815	-	-	42,923
Mudaraba financing	401,478	-	401,478	72,093	-	-	-	72,093
Finance lease assets (Ijarah Muntahia Bittamleek)	556,679	-	556,679	5,841	-	-	349,327	355,168
Musharaka	32,978	-	32,978	-	-	-	-	-
Credit Cards	3,586	-	3,586	-	-	-	-	-
Total	**1,381,776**	**-**	**1,381,776**	**91,042**	**29,815**	**-**	**349,327**	**470,184**

* 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 15 percent of total capital.

As at 31 December 2021, 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. (PD 1.3.23 f)

Table 5.3 Gross Credit Exposures (PD 1.3.23 a)

(BD '000s)

Contribution by Equity and Current Accounts

Exposure Type	Gross Credit Exposure	Average Gross Credit Exposure*
Cash and balances with banks and Central Bank	119,746	153,145
Sovereign Sukuk	613,403	516,252
Corporate Sukuk	26,285	20,819
Financing assets	40,720	51,337
Finance lease assets	36,277	81,248
Non-trading investments	91,591	95,343
Investment properties	57,961	59,545
Development properties	2,943	2,943
Investment in associates	14,533	14,607
Other assets	45,998	45,812
Goodwill	25,971	25,971
Total funded exposures	**1,075,428**	**1,067,020**
Contingent Liabilities & Commitments	188,613	148,610
Total unfunded exposures	**188,613**	**148,610**
Total exposures	**1,264,041**	**1,215,630**

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 CREDIT RISK (continued)

Table 5.3 Gross Credit Exposures (PD 1.3.23 a) (continued)

(BD '000s)

Contribution by Equity of Investment Accountholders

Exposure Type	Gross Credit Exposure	Average Gross Credit Exposure *
Cash and balances with banks and Central Bank	189,403	150,981
Placements with financial institutions	133,860	136,890
Financing assets	766,248	754,908
Finance lease assets	519,632	452,782
Total funded exposures	**1,609,143**	**1,495,561**
Contingent Liabilities & Commitments	-	-
Total unfunded exposures	**-**	**-**
Total exposures	**1,609,143**	**1,495,561**

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

Risk mitigation, collateral and other credit enhancements

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly include cash, lien on property and guarantees from directors, corporates and high net worth individuals and banks. As at 31 December 2021, the collaterals eligible for CRM (after applying regulatory haircuts) amounted to BD 470,184 thousands.

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

The main types of guarantors include rated banks and other financial institutions, 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.

5.1.1 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:

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 CREDIT RISK (continued)

5.1.1 Geographical Distribution of Exposures (continued)

Table 5.4 (PD 1.3.23 b)

(BD '000s)

Contribution by Equity and Current Accounts

Exposure type	GCC Countries	Arab World	Europe	Asia Pacific	North America	Others	Total
Cash and balances with banks and Central Bank	16,828	21	21,314	370	80,818	394	**119,746**
Sovereign Sukuk	608,620	-	-	4,783	-	-	**613,403**
Corporate Sukuk	26,285	-	-	-	-	-	**26,285**
Murabaha financing	22,261	-	-	-	-	3,028	**25,289**
Mudaraba financing	15,156	-	-	-	-	247	**15,403**
Musharaka	28	-	-	-	-	-	**28**
Finance lease assets	36,277	-	-	-	-	-	**36,277**
Non-trading investments	88,951	-	2,641	-	-	-	**91,591**
Investment properties	57,961	-	-	-	-	-	**57,961**
Development properties	-	-	2,943	-	-	-	**2,943**
Investment in associates	-	10,676	-	-	-	3,857	**14,533**
Other assets	32,869	6,496	7	5,300	180	1,146	**45,998**
Goodwill	25,971	-	-	-	-	-	**25,971**
Total funded exposures	**931,207**	**17,193**	**26,905**	**10,453**	**80,998**	**8,672**	**1,075,428**
Contingent Liabilities & Commitments	178,700	9,129	45	739	-	-	**188,613**
Total unfunded exposures	**178,700**	**9,129**	**45**	**739**	**-**	**-**	**188,613**
Total exposures	**1,109,907**	**26,322**	**26,950**	**11,192**	**80,998**	**8,672**	**1,264,041**

Table 5.5 (PD 1.3.23 b)

(BD '000s)

Contribution by Equity of investment account holders

Exposure type	GCC Countries	Arab World	Europe	Asia Pacific	North America	Others	Total
Cash and balances with banks and Central Bank	187,680	-	-	-	-	1,724	**189,403**
Placements with financial institutions	129,786	-	-	-	1,422	2,653	**133,860**
Murabaha financing	351,438	-	4,196	-	-	-	**355,634**
Mudaraba financing	371,587	230	-	-	-	2,434	**374,252**
Musharaka	32,948	-	-	-	-	-	**32,948**
Credit Cards	3,414	-	-	-	-	-	**3,414**
Finance lease assets	516,812	-	-	-	-	2,819	**519,632**
Total funded exposures	**1,593,665**	**230**	**4,196**	**-**	**1,422**	**9,630**	**1,609,143**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**1,593,665**	**230**	**4,196**	**-**	**1,422**	**9,630**	**1,609,143**

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 CREDIT RISK (continued)

5.1.1 Geographical Distribution of Exposures (continued)

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

(BD '000s)

	Gross Past Due Financing Contracts	12 month ECL and Lifetime ECL not impaired (Stage 1 & 2)	Gross Impaired Financing Contracts	Life time ECL credit impaired (Stage 3)
GCC Countries	41,774	(868)	30,100	(19,063)
Others	-	-	1	(1)
Total	**41,774**	**(868)**	**30,101**	**(19,064)**

5.1.2 Exposure by Industry

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

(BD '000s)

	Contribution by Equity and Current Account						
Exposure Type	**Trading and Manufacturing**	**Banks and Financial Institutions**	**Real Estate**	**Individuals**	**Government**	**Others**	**Total**
Cash and balances with banks and Central Bank	-	17,467	-	-	102,279	-	**119,746**
Sovereign Sukuk	36,532	256,147	-	-	320,724	-	**613,403**
Corporate Sukuk	-	26,285	-	-	-	-	**26,285**
Murabaha financing	1,185	22,554	-	1,494	-	56	**25,289**
Mudaraba financing	9,006	1,289	169	1,259	-	3,680	**15,403**
Musharaka	-	-	-	28	-	-	**28**
Finance lease assets	3,474	-	22,975	9,827	-	-	**36,277**
Non-trading investments	-	-	88,213	-	-	3,378	**91,591**
Investment properties	-	-	57,961	-	-	-	**57,961**
Development properties	-	-	2,943	-	-	-	**2,943**
Investment in associates	-	14,533	-	-	-	-	**14,533**
Other assets	7,473	15,980	-	937	-	21,609	**45,998**
Goodwill	-	25,971	-	-	-	-	**25,971**
Total funded exposures	**57,670**	**380,226**	**172,261**	**13,545**	**423,003**	**28,723**	**1,075,428**
Contingent Liabilities & Commitments	102,159	14,018	42,395	6,752	17,603	5,687	**188,613**
Total unfunded exposures	**102,159**	**14,018**	**42,395**	**6,752**	**17,603**	**5,687**	**188,613**
Total exposures	**159,829**	**394,244**	**214,656**	**20,296**	**440,605**	**34,410**	**1,264,041**

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 CREDIT RISK (continued)

5.1.2 Exposure by Industry (continued)

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

(BD '000s)

	Contribution by Equity of Investment Accountholders						
Exposure Type	**Trading and Manufacturing**	**Banks and Financial Institutions**	**Real Estate**	**Individuals**	**Government**	**Others**	**Total**
Cash and balances with banks and Central Bank	-	189,403	-	-	-	-	**189,403**
Placements with financial institutions	-	87,364	-	-	46,496	-	**133,860**
Murabaha financing	22,858	46,942	26,686	162,147	91,204	5,796	**355,634**
Mudaraba financing	120,628	12,586	93,897	61,630	56,948	28,564	**374,252**
Musharaka	12,629	-	12,828	7,491	-	-	**32,948**
Credit Cards	-	-	-	3,414	-	-	**3,414**
Finance lease assets	82,531	2,820	44,865	381,553	2,401	5,462	**519,632**
Total funded exposures	**238,646**	**339,115**	**178,276**	**616,235**	**197,049**	**39,822**	**1,609,143**
Contingent Liabilities & Commitments	-	-	-	-	-	-	**-**
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**238,646**	**339,115**	**178,276**	**616,235**	**197,049**	**39,822**	**1,609,143**

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

(BD '000s)

	Gross Past Due Financing Contracts	**12 month ECL and Lifetime ECL not impaired (Stage 1 & 2)**	**Gross Impaired Financing Contracts**	**Life time ECL credit impaired (Stage 3)**
Trading and Manufacturing	1,084	(37)	10,770	(7,100)
Real Estate	19,465	(504)	6,717	(2,758)
Individuals	11,722	(322)	10,856	(8,528)
Government	9,286	-	-	-
Others	217	(5)	1,758	(678)
Total	**41,774**	**(868)**	**30,101**	**(19,064)**

Table 5.10 Ageing Analysis (PD 1.3.24 b (i))

(BD '000s)

	Gross Impaired and Past Due Contracts					
	Up to 1 Year	**Over 1 year up to 3 years**	**Over 3 years**	**Expected Credit Losses (ECL) / Specific Provisions**	**Net Outstanding**	**Market Value of Collateral**
Trading and Manufacturing	2,276	5,956	3,622	(7,137)	4,717	8,571
Real Estate	23,820	858	1,504	(3,262)	22,920	39,785
Individuals	14,511	1,301	6,766	(8,849)	13,728	25,767
Government	9,286	-	-	-	9,286	-
Others	218	1,132	624	(683)	1,292	2,607
Total	**50,111**	**9,247**	**12,516**	**(19,931)**	**51,943**	**76,730**

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 CREDIT RISK (continued)

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

Table 5.11 The balance of allowance for credit loss in the below table includes all financial assets and off-balance sheet exposures in addition to financing assets:

(BD '000s)

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

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	7,772	-	7,772
Claims on sovereigns	829,738	3,641	826,097
Claims on banks	316,237	272,273	43,964
Claims on corporate portfolio	398,142	-	398,142
Regulatory retail portfolio	112,401	-	112,401
Mortgages	789,882	-	789,882
Past due receivables over 90 days	15,003	-	15,003
Investments in Securities and Sukuk	15,027	-	15,027
Holding of Real Estate	152,957	-	152,957
Other assets and Specialized financing	121,364	-	121,364
Total	**2,758,523**	**275,914**	**2,482,609**

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

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

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

Note b: The gross credit exposure is arrived at after considering the following:

- inclusion of unfunded exposure (after CCF);

- risk weighting of excess amount over maximum permitted large exposure limit at 800%.

Basel III - Pillar III - Disclosures (continued)

31 December 2021

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	59,728	43,535
Irrevocable unutilised commitments	128,885	50,557
Total	**188,613**	**94,092**

* Credit exposure is after applying CCF.

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

(BD '000s)

Exposure Type	Up to 3 months	3 months to 1 year	Total within 12 months	1 – 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total Over 12 months	Total
Cash and balances with banks and Central Bank	309,149	-	**309,149**	-	-	-	-	**-**	**309,149**
Sovereign Sukuk	15,293	66,725	**82,018**	294,905	222,561	-	13,919	**531,385**	**613,403**
Placements with financial institutions	129,189	4,671	**133,860**	-	-	-	-	**-**	**133,860**
Corporate Sukuk	8,687	1,875	**10,562**	12,574	3,149	-	-	**15,723**	**26,285**
Financing assets and finance lease assets	179,648	217,492	**397,140**	501,788	250,964	158,312	54,673	**965,737**	**1,362,877**
Non-trading investments	-	-	**-**	-	91,591	-	-	**91,591**	**91,591**
Investment properties	-	-	**-**	-	57,961	-	-	**57,961**	**57,961**
Development properties	-	-	**-**	-	2,943	-	-	**2,943**	**2,943**
Investment in associates	-	-	**-**	-	14,533	-	-	**14,533**	**14,533**
Other assets	10,145	135	**10,280**	535	35,175	2	6	**35,718**	**45,998**
Goodwill	-	-	**-**	-	25,971	-	-	**25,971**	**25,971**
Total	**652,111**	**290,898**	**943,009**	**809,802**	**704,849**	**158,314**	**68,597**	**1,741,562**	**2,684,571**

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	27,082	39,939	**67,021**	2,423	43,746	13,529	2,166	**61,864**	**128,885**
Contingent liabilities	8,349	18,965	**27,313**	10,690	7,601	14,123	-	**32,414**	**59,727**
Total	**35,431**	**58,904**	**94,334**	**13,113**	**51,347**	**27,652**	**2,166**	**94,278**	**188,613**

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

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.1 CREDIT RISK (continued)

5.1.5 Maturity Analysis of Exposures (continued)

Table 5.15 Contractual maturity analysis by major type of funding

(BD '000s)

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	69,763	56,726	**126,489**	402	-	-	-	**402**	**126,891**
Customer current accounts	482,739	-	**482,739**	-	-	-	-	**-**	**482,739**
Murabaha term financing	55,240	27,518	**82,758**	2,211	15,247	-	-	**17,459**	**100,216**
Other liabilities	24,976	-	**24,976**	-	28,813	-	-	**28,813**	**53,789**
Equity of Investment Accountholders	977,655	538,919	**1,516,574**	101,411	6,192	-	-	**107,603**	**1,624,177**
Total	**1,610,373**	**623,163**	**2,233,535**	**104,024**	**50,252**	**-**	**-**	**154,276**	**2,387,812**

5.2 MARKET RISK

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

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

(BD '000s)

	Risk Weighted Asset	Capital Requirement	Year End Capital Charge	Capital Requirement – Minimum*	Capital Requirement – Maximum*
Foreign exchange risk	27,314	3,414	2,185	2,051	2,233
Total market risk	**27,314**	**3,414**	**2,185**	**2,051**	**2,233**

* 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 2021.

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

5.3 OPERATIONAL RISK

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

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.3 OPERATIONAL RISK (continued)

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

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

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

In accordance with the basic indicator approach methodology of Basel III, the total consolidated minimum capital charge in respect of operational risk was BD 12,906 thousands. This capital charge was computed by categorizing the Group's activities into its specific business lines (as defined by the Basel III framework) and multiplying the business line's average gross income for the last three financial years by a predefined beta factor and adding the aggregation of operational risk weighted exposures of ASB Seychelles. (PD 1.3.19)

Table 5.17

	(BD '000s)
	Dec-2021
Average gross income	54,627
Risk weighted exposures	102,426
Minimum capital charge	12,803

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 2021 amounted to BD 291 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 2021. (PD 1.3.30 a, b)

5.4 RATE OF RETURN RISK (PD 1.3.39)

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

This risk is minimized as the Group's rate sensitive assets and liabilities are mostly for short tenures. In addition, the Group's cautious asset liability strategy avoids funding 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).

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.4 RATE OF RETURN RISK (PD 1.3.39) (continued)

The below tables provide the asset and liability re-pricing profile on the contractual repricing or maturity dates, whichever is earlier for the year ended 31 December 2021 . (PD 1.3.27 c)

Table 5.18

(BD '000s)

Assets	Total	Upto 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 2 years	>2 to 3 years	>3 years	Profit insensitive
Cash and balances with banks and Central Bank	309,149	-	-	-	-	-	-	-	309,149
Sovereign Sukuk	613,403	6,049	9,244	20,736	45,989	17,114	89,198	425,072	-
Placements with financial institutions	133,860	129,189	-	4,671	-	-	-	-	-
Corporate Sukuk	26,285	8,625	61	1,875	-	-	3,881	11,842	-
Murabaha financing	380,940	30,944	49,304	13,491	23,577	27,061	28,877	207,687	-
Mudaraba financing	389,655	16,585	70,993	34,810	83,377	54,508	71,763	57,619	-
Musharaka	32,976	12	1,577	538	14,490	3,239	7,057	6,064	-
Credit Cards	3,397	3,397	-	-	-	-	-	-	-
Finance lease assets	555,909	2,721	4,116	12,279	34,930	32,212	32,901	436,750	-
Non-trading investments	91,591	-	-	-	-	-	-	-	91,591
Investment properties	57,961	-	-	-	-	-	-	-	57,961
Development properties	2,943	-	-	-	-	-	-	-	2,943
Investment in associates	14,533	-	-	-	-	-	-	-	14,533
Other assets	45,998	19	46	34	101	191	147	269	45,191
Goodwill	25,971	-	-	-	-	-	-	-	25,971
Total Assets (A)	**2,684,571**	**197,541**	**135,341**	**88,434**	**202,464**	**134,325**	**233,824**	**1,145,303**	**547,339**
Liabilities									
Placements from financial institutions	126,891	37,624	32,139	27,170	29,556	402	-	-	-
Customer current accounts	482,739	-	-	-	-	-	-	-	482,739
Murabaha term financing	100,216	25,444	29,795	27,518	-	-	2,211	15,247	-
Other liabilities	53,789	-	-	-	-	-	-	-	53,789
Equity of investment accountholders	1,624,177	688,469	283,888	298,270	240,649	66,977	11,796	28,829	5,300
Total Liabilities	2,387,812	751,537	345,822	352,958	270,205	67,379	14,007	44,076	541,828
Shareholders funds	296,759	-	-	-	-	-	-	-	2,96,759
Total Liabilities & Shareholders Funds	**2,684,571**	**751,537**	**345,822**	**352,958**	**270,205**	**67,379**	**14,007**	**44,076**	**838,587**
Off-Balance Sheet Liabilities	188,613	15,188	15,188	30,375	30,375	30,375	-	-	67,112
Total liabilities with Off-Balance Sheet Items (B)	**2,873,184**	**766,725**	**361,010**	**383,333**	**300,580**	**97,754**	**14,007**	**44,076**	**905,698**
Gap (A - B)		(569,184)	(225,669)	(294,898)	(98,116)	36,571	219,817	1,101,226	
Cumulative Gap		**(569,184)**	**(794,852)**	**(1,089,751)**	**(1,187,867)**	**(1,151,297)**	**(931,480)**	**169,747**	

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.4 RATE OF RETURN RISK (PD 1.3.39) (continued)

Table 5.18 (a)

(BD '000s)

Profit rate risk in the Banking Book 200bp Profit Rate Shocks	
Upward rate shocks on net profit	8,852
Downward rate shocks on net profit	(8,852)
Impact on Economic Value of Equity	3.8%

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.

5 PROFILE OF RISK-WEIGHTED ASSETS AND CAPITAL CHARGE (continued)

5.5 EQUITY POSITION RISK (PD 1.3.21 D) (PD 1.3.31) (continued)

Table 5.19 Equity positions in the Banking Book

(BD '000s)

	Gross Credit Exposure
Quoted Equities	4,117
Unquoted Equities	87,474
Investment in associates - equity accounted	14,533
Net realized gain/ (loss) during the year	346
Net unrealized gain/ (loss) during the year	(3,397)

(BD '000s)

Asset Categories for Credit Risk	Gross Credit Exposure	Risk-Weighted Assets (RWA)	Minimum Capital Charge
Equity Investments - Unlisted	170	255	32
Significant investment in the common shares of financial entities >10%	14,533	36,332	4,542
Investment in listed real estate companies	4,117	12,350	1,544
Investment in unlisted real estate companies	87,173	348,692	43,586

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 2021 was 322.93%.

5.8 OTHER RISKS

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

6 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH)

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.

6 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH) (continued)

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

According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested. In order to avoid excessive risk concentration the Group invests the commingled funds in such a way so as to comply with the CBB's large exposures limits. All Equity of investment accounts are classified as Mudarabas where fees are deducted before profit allocation, as there is no limit against their withdrawal. It should however be noted that Mudaraba account fees are subject to being partially or totally waived in order to match investment account holder market returns. **(PD 1.3.32 c, j, k)**

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

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

There is no variation between Mudarib agreed sharing and contractual agreed ratio. Profit earned and paid and rate of return comparatives for the Equity of investment account holders for the years ended 31 December 2021, 2020,2019, 2018,2017 and 2016 are as follows: (**PD 1.3.33 d, e, l, m, n**)

Table 6.1

(BD '000s)

	Dec-2021	Dec-2020	Dec-2019	Dec-2018	Dec-2017	Dec-2016
Profit earned for EIAH before smoothing	68,425	60,186	50,271	492	230	216
Profit paid for EIAH after smoothing	35,977	29,335	28,425	246	119	119
Balance of:						
PER	N/A	N/A	N/A	N/A	N/A	N/A
IRR	N/A	N/A	N/A	N/A	7	7
Annual Rate of Return Benchmark	3%	3%	3%	3%	3%	3%
Annual Rate of Return (EIAH) - Profit earned	4.21%	4.91%	4.86%	0.53%	0.23%	0.18%
Annual Rate of Return (EIAH) - Profit paid	2.22%	2.39%	2.75%	0.27%	0.12%	0.10%
PER Amount	-	-	-	-	-	-
PER %	-	-	-	-	-	-
IRR Amount	-	-	-	-	7	7
IRR %	-	-	-	-	-	-
Reconciliation						
Mudaraba Profit Earned	68,425	60,186	50,271	492	230	216
Mudarib fees	(32,448)	(30,851)	(21,846)	(246)	(111)	(97)
Profit credited to EIAH accounts	**35,977**	**29,335**	**28,425**	**246**	**119**	**119**
IRR movements	-	-	-	-	-	-
Profit on EIAH accounts	**35,977**	**29,335**	**28,425**	**246**	**119**	**119**
Mudarib fee as a percentage of total investment profit	47%	51%	43%	50%	48%	45%
EIAH Balance	1,624,177	1,225,380	1,034,743	99,761	118,881	68,796
RWA as per PIRI Report	203,389	170,292	11,469	6,886	18,727	4,128

6 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH) (continued)

Table 6.2

(BD '000s)

	Dec-2021	Dec-2020	Dec-2019	Dec-2018	Dec-2017	Dec-2016
Rate of Return	2.22%	2.39%	2.75%	0.25%	0.10%	0.17%
Return on average EIAH assets (ROAA)	4.80%	5.45%	15.23%	0.49%	0.26%	0.32%
Return on average equity (Total Owner's Equity) (ROAE)	23.68%	20.89%	16.15%	0.16%	0.14%	0.07%

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

Total assets breakdown by EIAH & Self financed

(BD '000s)

	Total Exposures	Funded by EIAH	Self Financed	% of EIAH to Total
Sovereign	620,052	197,049	423,003	32%
Financial Institutions	719,341	339,115	380,226	47%
Corporate	715,398	456,744	258,654	64%
Retail	629,779	616,235	13,545	98%
Total	**2,684,570**	**1,609,143**	**1,075,428**	**60%**

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

(BD '000s)

	Cash and balances with banks and Central Bank		Placements with financial institutions		Financing Assets		Finance Lease Assets	
	EIAH	Self Financed	EIAH	Self Financed	EIAH	Self Financed	EIAH	Self Financed
Asset Allocation as on 31 December 2021	189,403	119,746	133,860	-	766,248	40,720	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	-	-	-	-
Asset Allocation as on 31 December 2016	-	-	68,796	113,656	-	-	-	-

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 2021.

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 28 titled Related Party Transactions in the consolidated financial statements for the year ended 31 December 2021. The intra-group and related party transactions are made at arms length basis during the year. (PD 1.3.10 e) (PD 1.3.23 d)

7 OTHER DISCLOSURES (continued)

7.3 RESTRUCTURED FACILITIES

As at 31 December 2021, the balance of the renegotiated financing facilities to individuals and corporate was BD 41,889 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 2021. (PD 1.3.23 k)

7.5 LEGAL RISK AND CLAIMS

As at 31 December 2021, legal suits amounting to BD 3,203 thousands (2020: BD 2,379 thousands) were pending against the Group. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group has also filed counter cases against these parties. (PD 1.3.30 c)

7.6 DEPOSIT PROTECTION SCHEME

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

7.7 EXPOSURE TO HIGHLY-LEVERAGED AND OTHER HIGH-RISK COUNTERPARTIES

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

7.8 EXPOSURES IN EXCESS OF REGULATORY LIMITS

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

As at 31 December 2021, 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. **(PD 1.3.23 f)**

7.9 CBB PENALTIES (PD 1.3.44)

During the year ended 2021 an amount of BD nil was paid as penalty to the Central Bank of Bahrain (CBB) for failure to comply with CBB requirements.

COMPOSITION OF CAPITAL DISCLOSURE

APPENDIX PD-2: RECONCILIATION REQUIREMENTS

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

There are no differences between the regulatory and accounting consolidation, with both following line by line consolidation approach using consistent account policies without excluding any entities. For the purpose of Capital Adequacy calculation; the Bank has obtained an approval from the CBB to aggregate the risk weighted exposures of 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:

	(BD '000s)
Balance sheet as per published financial statements	**2,684,571**
Collective provision impairment	22,959
Less: Provision related to Contingent Liabilities and Commitments	(343)
Balance sheet as in Regulatory Return	**2,707,187**

Step 2: Reconcilation of published financial balance sheet to regulatory reporting as at 31 December 2021

(BD '000s)

	Balance sheet as in published financial statements	Consolidated PIRI data	Reference
Assets			
Cash and balances with banks and Central Bank	**309,149**	**309,230**	
of which Self financed		119,827	
of which financed by URIA		189,403	
Placements with banks and similar financial institutions	**133,860**	**133,866**	
of which financed by URIA	-	133,866	
Financing assets	**806,968**	**1,385,183**	
Finance lease assets	**555,909**	-	
of which Self financed	-	84,275	
of which financed by URIA	-	1,300,908	
Available-for-sale investments	**639,688**	**639,845**	
of which Sovereign Sukuk	613,403		
of which Corporate Sukuk	26,285		
Investment properties	**60,904**	**60,904**	
of which Investments in real estate	57,961	-	
of which Development properties	2,943	-	
Investment in associates	**14,533**	**14,533**	
Property, plant, and equipment (PPE)	**3,609**	**3,609**	
Other Assets	**159,951**	**160,016**	
Non-Trading investment	91,591	-	
Other receivables and prepayments	42,389	-	
Goodwill	25,971	-	G
Total Assets	**2,684,571**	**2,707,187**	
Liabilities			
Customers' current accounts	**482,739**	**482,739**	
Placements from financial institutions	**126,891**	**126,891**	
Funding Liabilities (e.g. reverse commodity murabaha, etc.)	**100,216**	**100,216**	
of which Murabaha term financing	100,216	-	
Accruals, deferred income, other liabilities, current and deferred tax liabilities (DTLs)	**53,789**	**53,446**	
Unrestricted Investment Accounts	**1,624,177**	**1,624,177**	
Total Liabilities	**2,387,812**	**2,387,469**	

Basel III - Pillar III - Disclosures (continued)

31 December 2021

COMPOSITION OF CAPITAL DISCLOSURE (continued)

APPENDIX PD-2: RECONCILIATION REQUIREMENTS (continued)

(BD '000s)

	Balance sheet as in published financial statements	Consolidated PIRI data	Reference
Owners' Equity			
Total share capital	**229,499**	**229,499**	**A**
Share capital	241,972	241,972	
Treasury stock	(12,473)	(12,473)	
Reserves and retained earnings	**66,752**	**66,752**	
Share premium	209	209	**C-1**
Statutory reserve	18,600	18,600	**C-2**
Retained earnings (excluding profit for the year), of which:	(1,836)	(1,836)	
Amount eligible for CET1	(5,671)	(5,671)	**B-1**
Amount not eligible for CET1	1,692	1,692	
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	21,367	21,367	
of which amount eligible for CET1	22,213	22,213	**B-3**
of which amount not eligible for CET1	(846)	(846)	
Fx translation adjustment	(3,985)	(3,985)	**C-3**
Changes in fair value - amount eligible for CET1	9,532	9,532	**C-4**
Real estate fair value reserve - amount eligible for T2	22,865	22,865	**D**
Minority interest in subsidiaries' share capital	**508**	**508**	
of which amount eligible for CET1	-	168	**E-1**
of which amount eligible for AT1	-	36	**E-2**
of which amount eligible for T2	-	48	**E-3**
of which amount not eligible for regulatory capital	-	255	
Expected credit losses (Stages 1 & 2)	-	**22,959**	
of which amount eligible for T2	-	11,683	**F**
of which amount not eligible for regulatory capital	-	11,276	
Total Owners' Equity	**296,759**	**319,718**	
Total Liabilities + Owners' Equity	**2,684,571**	**2,707,187**	

COMPOSITION OF CAPITAL DISCLOSURE (continued)

APPENDIX PD-1: RECONCILIATION REQUIREMENTS & TEMPLATE

Step 3: Composition of Capital Common Template as at 31 December 2021

(BD '000s)

	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	229,499	A
2	Retained earnings	41,310	B1+B2+B3
3	Accumulated other comprehensive income (and other reserves)	24,356	C1+C2+C3+C4
4	Not Applicable		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	168	E1
6	**Common Equity Tier 1 capital before regulatory adjustments**	295,333	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	25,971	G
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Not applicable		
15	Defined-benefit pension fund net assets	-	
16	Investments in own shares	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	CBB specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common equity Tier 1**	25,971	
29	**Common Equity Tier 1 capital (CET1)**	**269,362**	

Basel III - Pillar III - Disclosures (continued)

31 December 2021

COMPOSITION OF CAPITAL DISCLOSURE (continued)

APPENDIX PD-1: RECONCILIATION REQUIREMENTS & TEMPLATE (continued)

Step 3: Composition of Capital Common Template as at 31 December 2021 (continued)

(BD '000s)

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Reference numbers of balance sheet under the regulatory scope of consolidation from step 2
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	36	E-2
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	**Additional Tier 1 capital before regulatory adjustments**	**36**	
	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)**	**36**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**269,398**	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	22,865	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)	48	E-3
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	11,683	F
51	**Tier 2 capital before regulatory adjustments**	**34,596**	
	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**	-	

COMPOSITION OF CAPITAL DISCLOSURE (continued)

APPENDIX PD-1: RECONCILIATION REQUIREMENTS & TEMPLATE (continued)

Step 3: Composition of Capital Common Template as at 31 December 2021 (continued)

(BD '000s)

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Reference numbers of balance sheet under the regulatory scope of consolidation from step 2
58	**Tier 2 capital (T2)**	**34,596**	
59	**Total capital (TC = T1 + T2)**	**303,994**	
60	**Total risk weighted assets**	**1,065,193**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	**25.29%**	
62	Tier 1 (as a percentage of risk weighted assets)	**25.29%**	
63	Total capital (as a percentage of risk weighted assets)	**28.54%**	
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)	**25.29%**	
	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)	22,959	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	11,683	
78	N/A		
79	N/A		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)		
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

Basel III - Pillar III - Disclosures (continued)

31 December 2021

COMPOSITION OF CAPITAL DISCLOSURE (continued)

APPENDIX PD-3: FEATURES OF REGULATORY CAPITAL

For the year ended 31 December 2021

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)	241.972 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

Net Stable Funding Ratio (NSFR) Disclosure

31 December 2021

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. CBB has relaxed this ratio to 80% until 30 June 2022 as part of concessionary measures following the COVID-19 pandemic. However, ASB still seeks to maintain the original 100% requirement.

The objective of NSFR is to improve the resiliency of banks by promoting long term funding stability. NSFR is designed to limit the risks emanating from excessive maturity mismatches over the medium to long term. More specifically, the NSFR requires 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 clientele base in Bahrain and across other key GCC markets where strong banking relationships have been successfully established. The main driver of this strategy is to fund bank's core business activities with the widest deposit base and hence maintaining conformable funding mix for the long-term assets and subsequently healthy NSFR.

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

As at 31 December 2021, the weighted value of the Available Stable Funding (ASF) stood at BD 1.555 billion, while the total weighted value of the Required Stable Funding (RSF) stood at BD 1.321 billion. The resultant NSFR stood at 117.75%, well above the current 80% threshold stipulated by CBB. The ASF is primarily driven by a strong capital base, substantial retail and private banking deposit base and deposits from non-financial corporate customers.

Post application of the relevant factors, the contribution of regulatory capital, retail deposits and deposits from non-financial corporates stood at 20%, 42% and 22% respectively. The bank does not rely on financial market funding sources (such as DCM) and interbank funding activities are primarily used for short term funding gaps.

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

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 accounts for 76% and 13% 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.

Net Stable Funding Ratio (NSFR) Report - Consolidated

31 December 2021

(BD '000s)

No.	Item	Unweighted Values (before applying relevant factors)				Total weighted value
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available Stable Funding (ASF):						
1	Capital:					
2	Regulatory Capital	272,744	-	-	34,596	**307,340**
3	Other Capital Instruments	-	-	-	-	**-**
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	85,820	3,048	6,445	**90,869**
6	Less stable deposits	-	501,988	113,787	80,423	**634,621**
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	**-**
9	Other wholesale funding	-	1,322,106	149,710	56,041	**522,229**
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities		-	-	-	
12	All other liabilities not included in the above categories	-	67,695	-	-	**-**
13	**Total ASF**					**1,555,059**
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	**29,612**
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	-	366,087	6,367	5,878	**63,974**
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:	-	227,810	153,681	756,908	**812,050**
20	With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	110,335	**71,718**
21	Performing residential mortgages, of which:	-	-	-	188,086	**122,256**
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	188,086	**122,256**
23	Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	12,743	-	3,151	**9,050**
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	241,383	5,809	-	30,018	**274,306**
30	OBS items		188,333	-	-	**9,417**
31	**Total RSF**		-	-	-	**1,320,665**
32	**NSFR (%)**					**117.75%**

Liquidity Coverage Ratio (LCR) Report - Consolidated

31 December 2021

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 banks must manage their assets and liabilities to create strong short-term resilience and sufficient liquidity that is enough to fund cash outflow for 30 days. Due to the impact of Covid19 pandemic on banks, CBB relaxed the LCR ratio to 80% until 30 June 2022.

Below is the bank's average consolidated LCR for the period:

(BD '000s)

		Q4-2021		Q3-2021	
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets					
1	Total HQLA		**579,523**		**491,304**
Cash outflows					
2	**Retail deposits and deposits from small business customers, of which:**				
3	Stable deposits	69,349	2,080	67,560	2,027
4	Less stable deposits	263,886	26,389	224,384	22,438
5	**Unsecured wholesale funding, of which:**				
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-
7	Non-operational deposits (all counterparties)	804,527	455,771	773,032	430,590
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	35,220	10,458	36,401	10,803
14	**Other contractual funding obligations**	-	**-**	-	-
15	**Other contingent funding obligations**	131,022	8,403	109,395	6,775
16	Total Cash Outflows		**503,101**		**472,633**
Cash inflows					
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	55,987	32,626	62,038	34,743
19	Other cash inflows	300,246	295,340	304,380	299,676
20	Total Cash Inflows	356,233	**327,966**	366,418	**334,419**

			Total adjusted Value		Total adjusted Value
21	**Total HQLA**		**579,523**		**491,304**
22	**Total net cash outflows**		**180,147**		**144,266**
23	**Liquidity Coverage Ratio (%)***		**343.93%**		**352.46%**

*Represents simple average of daily LCR

Leverage Ratio - Consolidated

31 December 2021

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 2021:

S.No.	Description	(BD '000s)
1	Total Self Financed Assets	1,058,677
2	Total URIA Financed Assets	1,625,036
3	Off Balance Sheet items - with relevant Credit Conversion Factors	95,229
4	**Leverage ratio exposure [(1) + (2)*30% + (3)]**	**1,641,417**
5	Regulatory Adjustments	25,971
6	**Total exposures for the calculation of the leverage ratio[(4)-(5)]**	**1,615,446**
7	**Tier 1 Capital**	**246,773**
	Leverage Ratio [(7)/(6)]	**15.28%**
	Minimum Leverage Ratio as required by CBB	3%

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