

Al Salam Bank B.S.C.
CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION
30 June 2022

Al Salam Bank B.S.C.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months period ended 30 June 2022

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Independent auditors' report on review of condensed consolidated interim financial information

To the Board of Directors of
Al Salam Bank B.S.C.
Kingdom of Bahrain

Introduction

We have reviewed the accompanying 30 June 2022 condensed consolidated interim financial information of Al Salam Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group"), which comprises:

- the condensed consolidated statement of financial position as at 30 June 2022;
- the condensed consolidated income statement for the three-month and six-month periods ended 30 June 2022;
- the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2022;
- the condensed consolidated statement of cash flows for the six-month period ended 30 June 2022; and
- notes to the condensed consolidated interim financial information.

The Board of Directors of the Bank is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with the basis of preparation and presentation as stated in note 2 of this condensed consolidated interim financial information. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing standards for Islamic Financial Institutions and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2022 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with the basis of preparation and presentation as stated in note 2 of this condensed consolidated interim financial information.

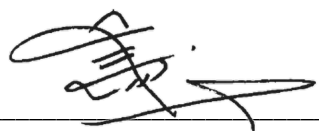
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Al Salam Bank B.S.C.

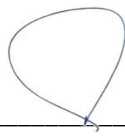
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

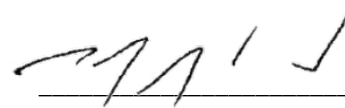
		30 June 2022 (Reviewed)	31 December 2021 (Audited)
	Note	BD '000	BD '000
ASSETS			
Cash and balances with banks and central bank		249,517	309,149
Placements with financial institutions	3	112,964	133,860
Sovereign sukuk	4	690,215	613,403
Corporate sukuk	4	29,084	26,285
Financing assets	5	923,234	808,543
Finance lease assets	6	601,225	555,909
Non-trading investments	8	89,143	91,591
Investment properties		56,702	57,961
Development properties		-	2,943
Investment in associates		14,836	14,533
Other assets	9	44,394	44,423
Goodwill		25,971	25,971
TOTAL ASSETS		2,837,285	2,684,571
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST			
LIABILITIES			
Placements from financial institutions	3	121,189	126,891
Customers' current accounts		520,530	482,739
Murabaha term financing	4	156,768	100,216
Other liabilities	10	53,468	53,789
TOTAL LIABILITIES		851,955	763,635
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Wakala from financial institutions	11	286,586	299,607
Wakala and mudaraba from customers	11	1,409,666	1,324,570
TOTAL EQUITY OF INVESTMENT ACCOUNTHOLDERS		1,696,252	1,624,177
OWNERS' EQUITY			
Share capital		249,231	241,972
Treasury shares		(12,017)	(12,473)
Share premium		209	209
Retained earnings		16,776	19,531
Reserves		34,141	47,012
Total owners' equity		288,340	296,251
Non-controlling interest		738	508
TOTAL EQUITY		289,078	296,759
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST		2,837,285	2,684,571



H.E. Shaikh Khalid bin Mustahil Al Mashani
Chairman



Matar Mohamed Al Blooshi
Deputy Chairman



Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 22 form part of the condensed consolidated interim financial information.

Al Salam Bank B.S.C.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months period ended 30 June 2022

	<i>Three months ended 30 June 2022 (Reviewed)</i>	<i>Three months ended 30 June 2021 (Reviewed)</i>	<i>Six months ended 30 June 2022 (Reviewed)</i>	<i>Six months ended 30 June 2021 (Reviewed)</i>
<i>Note</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
OPERATING INCOME				
Finance income	19,411	18,333	37,428	38,146
Income from sukuk	8,163	5,502	15,255	10,394
Loss from non-trading investments, net	(1,338)	(424)	(3,656)	(1,304)
(Loss) / income from properties, net	(127)	472	(230)	616
Fees and commission, net	2,582	2,042	4,601	3,812
Share of profit from associates	447	381	895	1,928
Other income	51	(366)	896	377
	29,189	25,940	55,189	53,969
Total operating income				
Finance expense on placements				
from financial institutions	(614)	(1,059)	(1,406)	(2,106)
Finance expense on murabaha term financing	(687)	(931)	(1,158)	(2,012)
Return on equity of investment accountholders				
before Group's share as a mudarib and wakil	(18,673)	(19,357)	(35,294)	(34,467)
Group's share as a mudarib	45	75	348	108
Group's wakala fee	9,595	10,425	16,793	18,076
Share of profit of investment accountholders	(9,033)	(8,857)	(18,153)	(16,283)
Net operating income	18,855	15,093	34,472	33,568
OPERATING EXPENSES				
Staff cost	5,077	4,480	9,434	8,596
Premises cost	419	503	809	1,045
Depreciation	319	311	645	585
Other operating expenses	3,495	3,034	6,171	5,955
Total operating expenses	9,310	8,328	17,059	16,181
PROFIT BEFORE IMPAIRMENT ALLOWANCES				
	9,545	6,765	17,413	17,387
Net impairment charge	(2,541)	(2,269)	(3,893)	(6,816)
NET PROFIT FOR THE PERIOD	7,004	4,496	13,520	10,571
ATTRIBUTABLE TO:				
- Shareholders of the bank	7,007	4,575	13,519	10,662
- Non-controlling interest	(3)	(79)	1	(91)
	7,004	4,496	13,520	10,571
Basic and diluted earnings per share (fils)	3.0	1.9	5.8	4.4

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 22 form part of the condensed consolidated interim financial information.

Al Salam Bank B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months period ended 30 June 2022 (Reviewed)

Amounts in BD '000s

	<i>Attributable to shareholders of the Bank</i>											
	<i>Share capital</i>	<i>Treasury stock</i>	<i>Share premium</i>	<i>Retained earnings</i>	<i>Statutory reserve</i>	<i>Reserves</i>			<i>Total reserves</i>	<i>Total owners' equity</i>	<i>Non-controlling interest</i>	<i>Total equity</i>
						<i>Investment fair value reserve</i>	<i>Real estate fair value reserve</i>	<i>Foreign exchange translation reserve</i>				
Balance as of 1 January 2022	241,972	(12,473)	209	19,531	18,600	9,532	22,865	(3,985)	47,012	296,251	508	296,759
Net profit for the period	-	-	-	13,519	-	-	-	-	-	13,519	1	13,520
Movement in fair value, net	-	-	-	-	-	(7,611)	(57)	-	(7,668)	(7,668)	-	(7,668)
Reclassified to amortized cost	-	-	-	-	-	(4,612)	-	-	(4,612)	(4,612)	-	(4,612)
Foreign currency re-translation	-	-	-	-	-	-	-	(591)	(591)	(591)	-	(591)
Total recognised income and expense	-	-	-	13,519	-	(12,223)	(57)	(591)	(12,871)	648	1	649
Bonus shares issued	7,259	-	-	(7,259)	-	-	-	-	-	-	-	-
Cash dividend for the year 2021	-	-	-	(9,121)	-	-	-	-	-	(9,121)	-	(9,121)
Movement of treasury shares, net	-	456	-	106	-	-	-	-	-	562	-	562
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	229	229
Balance at 30 June 2022	249,231	(12,017)	209	16,776	18,600	(2,691)	22,808	(4,576)	34,141	288,340	738	289,078
Balance as of 1 January 2021	230,450	(7,530)	12,209	(5,549)	21,778	9,844	23,348	(3,784)	51,186	280,766	401	281,167
Impact of adopting FAS 32	-	-	-	57	-	-	-	-	-	57	-	57
Balance as at 1 January 2021 (restated)	230,450	(7,530)	12,209	(5,492)	21,778	9,844	23,348	(3,784)	51,186	280,823	401	281,224
Net profit for the period	-	-	-	10,662	-	-	-	-	-	10,662	(91)	10,571
Movement in fair value	-	-	-	-	-	3,529	(483)	-	3,046	3,046	-	3,046
Foreign currency re-translation	-	-	-	-	-	-	-	(117)	(117)	(117)	-	(117)
Total recognised income and expense	-	-	-	10,662	-	3,529	(483)	(117)	2,929	13,591	(91)	13,500
Bonus share issued	11,522	-	-	(11,522)	-	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	(12,000)	17,315	(5,315)	-	-	-	(5,315)	-	-	-
Transfer to statutory reserve	-	-	-	(243)	243	-	-	-	243	-	-	-
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	154	154
Balance at 30 June 2021	241,972	(7,530)	209	10,720	16,706	13,373	22,865	(3,901)	49,043	294,414	464	294,878

The attached notes 1 to 22 form part of the condensed consolidated interim financial information.

Al Salam Bank B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months period ended 30 June 2022

	<i>30 June</i> <i>2022</i> <i>(Reviewed)</i> <i>BD '000</i>	<i>30 June</i> <i>2021</i> <i>(Reviewed)</i> <i>BD '000</i>
OPERATING ACTIVITIES		
Net profit for the period	13,520	10,571
Adjustments:		
Depreciation	645	585
Amortisation of premium on sukuk - net	874	-
Loss from non-trading investments and properties	3,886	688
Net impairment charge	3,893	6,816
Share of results from associates	(895)	(1,928)
Operating income before changes in operating assets and liabilities	<u>21,923</u>	<u>16,732</u>
Changes in operating assets and liabilities:		
Mandatory reserve with central bank	(567)	(4,838)
Murabaha and wakala receivables from banks with original maturities of 90 days or more	-	(6,042)
Financing assets and finance lease assets	(163,007)	(70,109)
Other assets	(2,318)	(8,768)
Placements from financial institutions	(5,702)	40,202
Customers' current accounts	37,791	55,030
Other liabilities	(477)	4,471
Equity of investment accountholders	72,075	342,263
Net cash (used in) / from operating activities	<u>(40,282)</u>	<u>368,941</u>
INVESTING ACTIVITIES		
Acquisition of sovereign sukuk	(90,148)	(97,922)
Acquisition of corporate sukuk	(2,942)	(632)
Disposal of non-trading investments and properties	10,479	8,674
Purchase of premises and equipment	(2,196)	(1,060)
Net cash used in investing activities	<u>(84,807)</u>	<u>(90,940)</u>
FINANCING ACTIVITIES		
Drawdown / (repayment) of murabaha term financing	56,552	(82,191)
Dividends paid	(9,121)	(886)
Net movement in treasury shares	562	-
Net movements in non-controlling interest	229	154
Net cash from / (used in) financing activities	<u>48,222</u>	<u>(82,923)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(76,867)</u>	<u>195,078</u>
Cash and cash equivalents at 1 January	395,947	291,645
CASH AND CASH EQUIVALENTS AT 30 JUNE	<u><u>319,080</u></u>	<u><u>486,723</u></u>
Cash and cash equivalents comprise of:*		
Cash and other balances with central bank	89,954	97,278
Balances with other banks **	116,160	202,916
Placements with financial institutions with original maturities of less than 90 days	112,966	186,529
	<u><u>319,080</u></u>	<u><u>486,723</u></u>

* Cash and cash equivalents is gross of the expected credit loss of BD 79 thousand (2021: BD 254 thousand).

** Balances with other banks is net of restricted cash of BD 7,574 thousand which is not available for day to day operations.

The attached notes 1 to 22 form part of the condensed consolidated interim financial information.

As at 30 June 2022

1 REPORTING ENTITY

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

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

The principal subsidiary is as follows:

Name of entity	Country of incorporation	Principal activities	% holding	
			2022	2021
Al Salam Bank- Seychelles	Seychelles	Provide Banking services	70%	70%

The Bank and its principal banking subsidiary operates through 10 branches (2021: 9 branches) in the Kingdom of Bahrain and 1 branch (2021: 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.

These condensed consolidated interim financial information have been authorised for issue in accordance with a resolution of the Board of Directors dated 13 August 2022.

2 BASIS OF PREPARATION AND PRESENTATION

The condensed consolidated interim financial information of the Group has been prepared in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI) and applicable rules and regulations issued by the CBB.

In line with the requirements of AAOIFI and the CBB rule book, for matters not covered under AAOIFI standards the group uses guidance from the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). Accordingly, the condensed consolidated interim financial information of the Group has been presented in condensed form in accordance with the guidance provided by International Accounting Standard 34 – 'Interim Financial Reporting', using 'Financial Accounting Standards'.

The accounting policies used in the preparation of annual audited consolidated financial information of the Group for the year ended 31 December 2020 and 31 December 2021 were in accordance with FAS as modified by CBB (refer to the Group's audited financial statements for the year ended 31 December 2021 for the details of the COVID-19 related modifications applied). Since the CBB modification were specific to the financial year 2020 and no longer apply to both the current and comparative periods presented, the Group's interim financial information for the six months ended 30 June 2022 has been prepared in accordance with FAS issued by AAOIFI (without any modifications).

The condensed consolidated interim financial information of the Group does not contain all information and disclosures required for the annual consolidated financial statements and should be read in conjunction with the Group's audited annual consolidated financial statements for the year ended 31 December 2021. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended 31 December 2021.

2 BASIS OF PREPARATION AND PRESENTATION (continued)

2.1 PROPOSED BUSINESS COMBINATION

On 3 October 2021, Al Salam Bank B.S.C. had entered into a memorandum of understanding with Ithmaar Holding BSC, for acquisition of consumer banking business of Ithmaar Bank, and Ithmaar Holding B.S.C. ownership stake in certain entities subject to approval of shareholders of Ithmaar Holding B.S.C.

The shareholders of Ithmaar Holding B.S.C., at its EGM dated 17 March 2022 approved the acquisition by the Bank of its consumer banking division and other assets. This transaction is subject to regulatory approvals and includes acquisition of 26.19% shares of Bank of Bahrain and Kuwait B.S.C., a 55.91% shares of Solidarity Group Holding B.S.C. (Closed), a 1% shares of The Benefit Company B.S.C., and other assets including Master Card Inc. shares and portfolio of Sukuk and liquid assets. Refer note 21 for further details.

In anticipation of the business combination, the Bank has amended its investment strategy and reassessed its business model for managing its treasury assets. Under the revised business model, a portfolio of investment in Sukuk have been reclassified from fair value through equity to amortised cost (Refer note 4).

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 condensed consolidated interim financial information, 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 30 June 2022, the Bank is compliant with the required regulatory capital adequacy ratio, net stable funding ratio and liquidity coverage ratios.

2.3 SIGNIFICANT ACCOUNTING POLICIES

Accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group's annual audited consolidated financial statements as at and for the year ended 31 December 2021.

A. New standards, amendments, and interpretations issued and effective for annual periods beginning on or after 1 January 2022.

FAS 38 Wa'ad, Khiyar and Tahawwut

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

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

- a) "ancillary Wa'ad or Khiyar" which is related to a structure of transaction carried out using other products i.e. Murabaha, Ijarah Muntahia Bittamleek, etc.; and
- b) "product Wa'ad and Khiyar" which is used as a stand-alone Shariah compliant arrangement.

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

There was no material impact on the Group upon adoption of this standard.

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

B. New standards, amendments, and interpretations issued but not yet effective.

(i) 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.

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

(ii) 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 Quasi 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.

2.4 SHARE CAPITAL

a) The shareholders in their Annual General Meeting held on 17 March 2022 approved to issue 72,591,683 bonus shares of BD 7,259 thousand representing 3% of issued share capital. The total outstanding shares as of 30 June 2022 were 2,492,314,429 shares (2021: 2,419,722,746 shares). The calculation of basic and diluted earnings per share for previous period has also been adjusted to reflect the impact of bonus shares.

b) The shareholders in their Extraordinary General Meeting held on 14 March 2022 approved increase in authorized share capital from 2.5 billion shares to 5 billion shares.

3 PLACEMENTS WITH FINANCIAL INSTITUTIONS AND PLACEMENTS FROM FINANCIAL INSTITUTIONS

These represent short-term interbank placements to and from financial institution in the form of murabaha and wakala contracts.

	<i>30 June 2022 (Reviewed) BD '000</i>	<i>31 December 2021 (Audited) BD '000</i>
Placements with financial institutions		
Wakala asset	64,326	93,584
Commodity murabaha asset	48,640	40,282
Allowance for credit losses	(2)	(6)
	112,964	133,860
Placements from financial institutions		
Commodity murabaha liability	121,189	126,891
	121,189	126,891

4 SOVEREIGN SUKUK AND CORPORATE SUKUK**Reclassification of Sukuk portfolio**

In the first quarter of 2022, the Bank entered into definitive discussions in relation to the acquisition of a group of assets from Ithmaar Holding's group of companies consisting of the consumer banking business of Ithmaar Bank, the entire indirect underlying shareholdings of Ithmaar Holding in Bank of Bahrain and Kuwait B.S.C. (BBK) and Solidarity Group Holding, subject to the requisite approvals and signing of definitive agreements. The acquisition has been completed subsequent to the reporting period on 7 July 2022 after obtaining required regulatory and corporate approvals.

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

- Held-to-collect business model – This portfolio includes short-term and long-term Sukuk and treasury instruments that are held to meet core liquidity requirements and consist of high-quality liquid assets that are typically held to their contractual maturity. Assets under this model are classified and measured at amortised cost. Although management considers fair value information, it does so from a liquidity perspective, and the main focus of its review of financial information under this business model is on the credit quality and contractual returns.

- Both held-to-collect and for sale business model: The remaining treasury portfolio will be held under active treasury management to collect both contract cash flows and for sale. The key management personnel consider both of these activities as integral in achieving the objectives set for the Treasury business unit. This portfolio, while generating returns primarily through yield, is also held to meet expected or unexpected commitments, or to fund anticipated acquisitions or growth in other business units. Assets under this model are classified and measured at fair value through equity.

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

	<i>Fair value through equity (FVTE) BD '000</i>	<i>Reversal of amounts recognized in investment fair value reserve BD '000</i>	<i>Reclassified to Amortised cost BD '000</i>
Assets subject to reclassification			
Sovereign Sukuk	437,040	(4,504)	432,536
Corporate Sukuk	12,032	(108)	11,924

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

As at 30 June 2022

4 SOVEREIGN SUKUK AND CORPORATE SUKUK (continued)

	<i>30 June 2022 (Reviewed)</i>		
	<i>Sovereign Sukuk</i>	<i>Corporate Sukuk</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Carried at FVTE			
At 1 January 2022	606,914	26,228	633,142
Reclassification to amortised cost	(437,040)	(12,032)	(449,072)
Purchases	72,715	4,316	77,031
Sale\ redemption	(33,821)	(1,884)	(35,705)
Fair value movement	(6,866)	(745)	(7,611)
Profit accruals	3,611	95	3,706
Closing balance	<u>205,513</u>	<u>15,978</u>	<u>221,491</u>
Carried at Amortised cost			
At 1 January 2022	-	-	-
Reclassification from FVTE	437,040	12,032	449,072
Purchases	47,344	1,074	48,418
Impairment	(42)	10	(32)
Cumulative reserve	(4,504)	(108)	(4,612)
Amortisation	(244)	-	(244)
Profit accruals	5,108	98	5,206
Closing balance	<u>484,702</u>	<u>13,106</u>	<u>497,808</u>
	<u>690,215</u>	<u>29,084</u>	<u>719,299</u>

This includes sukuk with carrying value of BD 209,319 thousand (2021: BD 131,154 thousand) which are pledged against murabaha term financing.

5 FINANCING ASSETS

	<i>30 June 2022 (Reviewed)</i>			
	<i>Stage 1: 12- month ECL</i>	<i>Stage 2: Lifetime ECL not credit- impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Murabaha financing	362,968	25,980	9,122	398,070
Mudaraba financing	495,234	17,810	5,604	518,648
Musharaka financing	17,068	13,760	276	31,104
Credit cards	3,903	33	539	4,475
Total financing assets	879,173	57,583	15,541	952,297
Allowance for credit losses (note 7)	(12,059)	(6,857)	(10,147)	(29,063)
	<u>867,114</u>	<u>50,726</u>	<u>5,394</u>	<u>923,234</u>
<i>31 December 2021 (Audited)</i>				
	<i>Stage 1: 12- month ECL</i>	<i>Stage 2: Lifetime ECL not credit- impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Murabaha financing	359,470	27,008	7,613	394,091
Mudaraba financing	382,005	15,525	6,264	403,794
Musharaka financing	32,950	-	277	33,227
Credit cards	3,566	34	571	4,171
Total financing assets	777,991	42,567	14,725	835,283
Allowance for credit losses	(11,743)	(6,955)	(8,042)	(26,740)
	<u>766,248</u>	<u>35,612</u>	<u>6,683</u>	<u>808,543</u>

Murabaha financing is reported net of deferred profits of BD 19,660 thousand (2021: BD 29,007 thousand).

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6 FINANCE LEASE ASSETS

	30 June 2022 (Reviewed)			
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Finance lease assets	572,032	30,639	6,934	609,605
Allowance for impairment (note 7)	(3,607)	(1,198)	(3,575)	(8,380)
	568,425	29,441	3,359	601,225

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

7 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

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

	30 June 2022 (Reviewed)			
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Balance at the beginning of the period	15,627	7,332	21,525	44,484
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	871	(871)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(78)	1,197	(1,119)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(45)	-	45	-
Net remeasurement of loss allowance	1,874	397	1,702	3,973
Recoveries / write-backs	-	-	(80)	(80)
Allowance for credit losses	2,622	723	548	3,893
Exchange adjustments and other transfers on settlement	(1,416)	-	(2)	(1,418)
Amounts written off during the period - net	-	-	(352)	(352)
Balance at the end of the period	16,833	8,055	21,719	46,607

	30 June 2022 (Reviewed)			
	<i>Stage 1: 12-month ECL</i>	<i>Stage 2: Lifetime ECL not credit-impaired</i>	<i>Stage 3: Lifetime ECL credit-impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Cash and balances with banks and central bank	77	-	-	77
Placements with financial institutions	2	-	-	2
Sovereign sukuk	400	-	-	400
Corporate sukuk	142	-	-	142
Financing assets	12,059	6,857	10,147	29,063
Finance lease assets	3,607	1,198	3,575	8,380
Loans and advances to customers				
- Assets under conversion	5	-	5,535	5,540
- Other receivables	42	-	2,182	2,224
Financing commitments and financial guarantee contracts	499	-	280	779
	16,833	8,055	21,719	46,607

As at 30 June 2022

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

	30 June 2021 (Reviewed)			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	BD '000	BD '000	BD '000	BD '000
Balance at the beginning of the period	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	35	(35)	-	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(446)	3,657	(3,211)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(86)	(272)	358	-
Net remeasurement of loss allowance	(1,610)	3,883	4,768	7,041
Recoveries / write-backs	-	(80)	(145)	(225)
Allowance for credit losses	(2,107)	7,153	1,770	6,816
Exchange adjustments and other transfers on settlement	-	-	(5)	(5)
Amounts charged back during the period - net	-	-	153	153
Balance at the end of the period	12,439	13,188	28,637	54,264

	30 June 2021 (Reviewed)			
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	Total
	BD '000	BD '000	BD '000	BD '000
Cash and balances with banks and central bank	97	-	-	97
Placements with financial institutions	157	-	-	157
Sovereign sukuk	752	-	-	752
Corporate sukuk	18	-	-	18
Financing assets	7,980	12,448	17,975	38,403
Finance lease assets	2,959	625	3,497	7,081
Loans and advances to customers				
- Assets under conversion	23	-	4,702	4,725
- Other receivables	43	-	2,183	2,226
Financing commitments and financial guarantee contracts	410	115	280	805
	12,439	13,188	28,637	54,264

8 NON-TRADING INVESTMENTS

	30 June 2022	31 December 2021
	(Reviewed)	(Audited)
	BD '000	BD '000
At fair value through profit or loss:		
Equity securities	88,491	90,939
Funds	302	302
At fair value through equity	350	350
	89,143	91,591

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

As at 30 June 2022

9 OTHER ASSETS

	<i>30 June 2022 (Reviewed) BD '000</i>	<i>31 December 2021 (Audited) BD '000</i>
Assets under conversion (a)		
Loans and advances to customers	1,323	2,174
Non-trading investments - fair value through equity (b)	185	192
	1,508	2,366
Other receivables and advances	35,268	31,408
Prepayments	2,843	1,682
Premises and equipment	4,775	3,609
Assets held- for- sale (c)	-	5,358
	44,394	44,423

(a) These represent non-Shari'a compliant assets resulting from the acquisition of ASBS, BMI B.S.C. (c) and Bahraini Saudi Bank B.S.C. Income derived from these assets are transferred to charity payable and as such are not recognised as revenue in the consolidated income statement. During the period under review, Shari'a prohibited income amounting to BD 47 thousand (2021: BD 291 thousand) has been transferred to charity, which has been included under "Accounts payable and accruals" (note 10).

(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:

	<i>Fair value measurement using significant unobservable inputs Level 3</i>	
	<i>30 June 2022 (Reviewed) BD '000</i>	<i>31 December 2021 (Audited) BD '000</i>
At 1 January	192	900
Sales	(7)	(708)
At end of period	185	192

Loans and advances to customers - Assets under conversion

	<i>30 June 2022 (Reviewed)</i>			
	<i>Stage 1: 12- month ECL BD '000</i>	<i>Stage 2: Lifetime ECL not credit- impaired BD '000</i>	<i>Stage 3: Lifetime ECL credit-impaired BD '000</i>	<i>Total BD '000</i>
Loans and advances to customers	896	2	5,965	6,863
Allowance for credit losses (note 7)	(5)	-	(5,535)	(5,540)
	891	2	430	1,323
	<i>31 December 2021 (Audited)</i>			
	<i>Stage 1: 12- month ECL BD '000</i>	<i>Stage 2: Lifetime ECL not credit- impaired BD '000</i>	<i>Stage 3: Lifetime ECL credit-impaired BD '000</i>	<i>Total BD '000</i>
Loans and advances to customers	1,125	138	6,088	7,351
Allowance for credit losses	(20)	(1)	(5,156)	(5,177)
	1,105	137	932	2,174

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

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10 OTHER LIABILITIES

	<i>30 June</i> <i>2022</i> <i>(Reviewed)</i> <i>BD '000</i>	<i>31 December</i> <i>2021</i> <i>(Audited)</i> <i>BD '000</i>
Accounts payable	24,508	22,573
LC margin deposit	14,833	12,643
Accrued expenses	10,844	11,313
Project payables	69	69
End of service benefits and other employee related accruals	2,435	2,088
Allowance for credit losses relating to financing commitments and financial guarantee contracts	779	622
Liabilities held- for- sale (a)	-	4,481
	53,468	53,789

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

11 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH)

Equity of investment accountholders comprise:

	<i>30 June</i> <i>2022</i> <i>(Reviewed)</i> <i>BD '000</i>	<i>31 December</i> <i>2021</i> <i>(Audited)</i> <i>BD '000</i>
Wakala from financial institutions	203,159	299,607
Wakala from customers	1,098,551	888,906
	1,301,710	1,188,513
Mudaraba from customers	394,542	435,664
	1,696,252	1,624,177

Following assets were financed from EIAH funds:

Assets	<i>30 June</i> <i>2022</i> <i>(Reviewed)</i> <i>BD '000</i>	<i>31 December</i> <i>2021</i> <i>(Audited)</i> <i>BD '000</i>
Mandatory reserve with central bank	35,945	35,378
Cash and other balances with central bank	96,136	154,025
Placements with financial institutions	112,966	133,866
Financing assets	879,173	777,991
Finance lease assets	572,032	522,917
	1,696,252	1,624,177

Equity of investment accountholder's fund is commingled with Group's mudaraba and wakala funds to form one general mudaraba pool. The pooled fund are used to fund and invest in income generating assets, 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 period, 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 period ended 30 June 2022 was 2.21% (2021: 2.46%).

12 OTHER INCOME

	<i>30 June</i> <i>2022</i> <i>(Reviewed)</i> <i>BD '000</i>	<i>30 June</i> <i>2021</i> <i>(Reviewed)</i> <i>BD '000</i>
Foreign exchange gains / (loss)	165	(37)
Recoveries	753	97
Others	(22)	317
	896	377

13 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.

Al Salam Bank B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

As at 30 June 2022

13 RELATED PARTY TRANSACTIONS (continued)

The balances with related parties at 30 June 2022 and 31 December 2021 were as follows:

	<i>30 June 2022 (Reviewed)</i>				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Assets:					
Cash and balances with banks and central bank	-	81	-	-	81
Financing assets	17,885	8,148	2,696	1,342	30,071
Non trading investments	73,176	-	-	-	73,176
Investment in associates	14,836	-	-	-	14,836
Other assets	20,167	-	-	-	20,167
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	7,576	-	-	7,576
Customers' current accounts	6,465	1,712	3,227	969	12,373
Equity of investment accountholders	-	3,345	9,722	2,272	15,339
Other liabilities	26	-	13	17	56
Contingent liabilities and commitments	-	-	151	-	151
<i>31 December 2021 (Audited)</i>					
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
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

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

	<i>30 June 2022 (Reviewed)</i>				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Income:					
Finance income	507	125	97	32	761
Fees and commission, net	16	53	5	4	78
Loss from non-trading investments, net	(1,176)	-	(612)	-	(1,788)
Loss from properties, net	-	-	-	(12)	(12)
Share of profit from associates	895	-	-	-	895
Expenses:					
Finance expense on placements from financial institutions	-	65	-	-	65
Share of profits on equity of investment accountholders	11	49	130	32	222
Other operating expenses	-	-	667	-	667

As at 30 June 2022

13 RELATED PARTY TRANSACTIONS (continued)

	<i>30 June 2021 (Reviewed)</i>				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Income:					
Finance income	487	104	39	41	671
Loss from non-trading investments, net	(768)	-	(306)	-	(1,074)
Share of profit from associates	1,928	-	-	-	1,928
Expenses:					
Finance expense on placements from financial institutions	-	160	-	-	160
Share of profits on equity of investment accountholders	70	58	24	27	179
Other operating expenses	-	-	528	-	528

14 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>30 June 2022 (Reviewed)</i>	<i>31 December 2021 (Audited)</i>
	<i>BD '000</i>	<i>BD '000</i>
	Contingent liabilities on behalf of customers	
Guarantees	60,191	44,749
Letters of credit	15,992	13,117
Acceptances	1,009	1,862
	77,192	59,728
Unutilised commitments		
Unutilised financing commitments	176,042	121,501
Unutilised non-funded commitments	5,810	7,384
	181,852	128,885

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

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

15 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;

	<i>30 June 2022 (Reviewed)</i>		<i>31 December 2021 (Audited)</i>	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
FX Wa'ad instruments				
Assets position	17,399	896	57,163	619
Liabilities position	72,074	(1,683)	19,488	(402)

The above contracts have residual maturity of up to six months as at the end of the reporting period.

As at 30 June 2022

16 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, fixed income products 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:

	<i>30 June 2022 (Reviewed)</i>				
	<i>Banking</i>	<i>Treasury</i>	<i>Investments</i>	<i>Unallocated</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Net operating income	27,695	10,671	(3,894)	-	34,472
Segment result	13,052	6,276	(5,808)	-	13,520
Segment assets	1,559,169	1,093,997	179,160	4,959	2,837,285
Segment liabilities, and equity	1,904,665	639,378	3,910	289,332	2,837,285

Goodwill resulting from BMI acquisition is allocated to banking segment.

	<i>30 June 2021 (Reviewed)</i>				
	<i>Banking</i>	<i>Treasury</i>	<i>Investments</i>	<i>Unallocated</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Net operating income	25,187	6,965	1,416	-	33,568
Segment result	4,518	5,529	524	-	10,571

Segment information for the year ended 31 December 2021 (Audited) was as follows:

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.

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.

Al Salam Bank B.S.C.

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17 FAIR VALUE HIERARCHY

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly; or

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Financial instruments measured at fair value

The following table shows an analysis of the non-trading investments and sukuk portfolio carried at fair value in the condensed consolidated statement of financial position:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
30 June 2022 (Reviewed)				
Sovereign sukuk at fair value through equity	86,569	118,943	-	205,512
Corporate sukuk at fair value through equity	15,611	367	-	15,978
Investment securities at fair value through income statement	4,116	302	84,375	88,793
Investment securities at fair value through equity	-	-	350	350
FX Wa'ad assets position	-	896	-	896
	106,296	120,508	84,725	311,529
FX Wa'ad liabilities position	-	1,683	-	1,683
	-	1,683	-	1,683
31 December 2021 (Audited)				
Sovereign sukuk at fair value through equity	455,723	157,680	-	613,403
Corporate sukuk at fair value through equity	14,132	379	11,774	26,285
Investment securities at fair value through income statement	4,116	302	86,823	91,241
Investment securities at fair value through equity	-	-	350	350
FX Wa'ad assets position	-	619	-	619
	473,971	158,980	98,947	731,898
FX Wa'ad liabilities position	-	402	-	402
	-	402	-	402

The movements in fair value of non-trading investments classified in Level 3 of the fair value hierarchy are as follows:

	<i>30 June</i>	<i>31 December</i>
	<i>2022</i>	<i>2021</i>
	<i>(Reviewed)</i>	<i>(Audited)</i>
	<i>BD '000</i>	<i>BD '000</i>
At 1 January	87,173	90,559
Fair value changes	(2,448)	(3,386)
	84,725	87,173

The sensitivity analysis for Level 3 of non-trading investments are summarized below:

Valuation technique used	Key unobservable inputs	Reasonable possible shift +/- (in average input)	Increase / (decrease) in valuation
Asset valuation	Underlying real estate	+/- 5%	5,853 / (5,853)
Discounted cash flow	Occupancy and discount rate	+/- 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:

	<i>30 June</i>	<i>31 December</i>
	<i>2022</i>	<i>2021</i>
	<i>(Reviewed)</i>	<i>(Audited)</i>
	<i>BD '000</i>	<i>BD '000</i>
At 1 January	11,774	10,551
Additions	-	10,994
Disposals	-	(9,771)
Reclassified to amortized cost	(11,774)	-
	-	11,774

Financial instruments not measured at fair value

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 30 June 2022 and 31 December 2021 due to their short term nature.

As of 30 June 2022, the fair value of sukuk carried at amortized cost of BD 497,809 thousand are BD 476,319 thousand.

As at 30 June 2022

18 FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the annual consolidated financial statements for the year ended 31 December 2021.

Russia-Ukraine conflict

The current ongoing conflict between Russia-Ukraine has triggered a global economic disruption and has, amongst other impacts, led to increased volatility in financial markets and commodity prices due to disruption of supply chain which may affect a broad range of entities across different jurisdictions and industries.

The management has carried out an assessment of its portfolio and has concluded that it does not have any direct exposures to / from the impacted countries. However, potential for indirect exposures continue to exist. At this stage it is difficult to quantify the full impact of this conflict since it depends largely on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets. The management will continue to closely monitor impact of this evolving situation on its portfolio to assess indirect impact, if any. As at 30 June 2022 the Group does not have any direct material impact of this conflict.

19 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 30 June 2022 and 31 December 2021, is as follows:

	<i>Total weighted value BD'000</i>	
	<i>30 June 2022 (Reviewed)</i>	<i>31 December 2021 (Audited)</i>
Stock of HQLA	593,813	579,523
Net cashflows	237,827	180,147
LCR %	269.98%	343.93%
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.

The regulatory capital and risk-weighted assets have been calculated in accordance with Basel III as adopted by the CBB.

BD'000	<i>As at</i>	
	<i>30 June 2022 (Reviewed)</i>	<i>31 December 2021 (Audited)</i>
CET 1 Capital before regulatory adjustments	288,327	295,333
Less: regulatory adjustments	25,971	25,971
CET 1 Capital after regulatory adjustments	262,356	269,362
AT 1 Capital	36	36
T 2 Capital adjustments	35,422	34,596
Regulatory Capital	297,814	303,994
Risk weighted exposure:		
Credit Risk Weighted Assets	1,005,275	934,629
Market Risk Weighted Assets	30,148	27,314
Operational Risk Weighted Assets	113,494	103,250
Total Regulatory Risk Weighted Assets	1,148,917	1,065,193
Total Adjusted Risk Weighted Exposures	1,148,917	1,065,193
Capital Adequacy Ratio	25.92%	28.54%
Tier 1 Capital Adequacy Ratio	22.84%	25.29%
Minimum required by CBB	12.50%	12.50%

As of 30 June 2022, aggregate of modification loss of BD 24,768 thousand has been added back to Tier 1 capital.

As at 30 June 2022

19 REGULATORY RATIOS (continued)**2) Capital Adequacy Ratio (continued)**

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.

20 NET STABLE FUNDING RATIO

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 latest CBB circular OG/417/2021 dated 23 December 2021, the limit has been reduced to 80% until June 2022, to contain the financial repercussions of COVID-19.

The NSFR (as a percentage) as at 30 June 2022 (Reviewed) is calculated as follows:

Item	BD'000				
	Unweighted Values (before applying relevant factors)				
	<i>No specified maturity</i>	<i>Less than 6 months</i>	<i>More than 6 months and less than one year</i>	<i>Over one year</i>	<i>Total weighted value</i>
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	265,739	-	-	35,422	301,162
Retail deposits and deposits from small business customers:					
Stable deposits	-	93,611	3,196	7,100	99,067
Less stable deposits	-	572,844	193,089	108,912	798,252
Wholesale funding:					
Other wholesale funding	-	1,194,512	193,397	116,426	530,659
Other liabilities:					
All other liabilities not included in the above categories	-	65,119	-	-	-
Total ASF	265,739	1,926,086	389,682	267,860	1,729,140
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	32,436
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	264,046	68	9,337	48,978
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	292,118	149,274	842,439	919,589
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	85,902	55,836
Performing residential mortgages, of which:	-	-	-	218,256	141,866
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	218,256	141,866
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	8,260	5,417	12,175	17,187
Other assets:					
All other assets not included in the above categories	235,441	5,659	-	43,728	281,999
OBS items	-	258,764	-	-	12,938
Total RSF	235,441	828,847	154,759	1,125,935	1,454,993
NSFR (%)	-	-	-	-	118.84%

Al Salam Bank B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

As at 30 June 2022

20 NET STABLE FUNDING RATIO (continued)

The NSFR (as a percentage) as at 31 December 2021 (Audited) is calculated as follows:

Item	BD'000	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):						
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)						
Performing financing and sukuk/ securities:	-	-	-	-	29,612	
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions						
Performing financing to non-financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	366,087	6,367	5,878	63,974	
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	227,810	153,681	756,908	812,050	
Performing residential mortgages, of which:	-	-	-	110,335	71,718	
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%	

21 SUBSEQUENT EVENT – ACQUISITION OF BUSINESS AND ASSETS

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

The transaction was structured as a balanced carve out of agreed assets and liabilities of Ithmaar Holding. As consideration for acquisition of the acquired group of assets, the Group will assume certain liabilities and equity of investment account holders of the consumer banking division of Ithmaar Bank BSC (c) of an equivalent value.

Identifiable assets acquired and liabilities assumed

The transaction includes acquisition of businesses and certain assets. The fair value of assets, liabilities, equity interests will have been reported in these disclosures on a provisional basis and will be finalized within a period of 12 months from the date of acquisition. In line with the provisions of IFRS 3 “Business Combinations”, if new information, obtained within one year from the acquisition date about facts and circumstances that existed at the acquisition date, identified adjustments to the above amounts, or any additional provisions that existed at the acquisition date, then the acquisition accounting will be revised. Revisions to provisional acquisition accounting will be reflected on a retrospective basis.

The reported amounts below represent the adjusted acquisition carrying values of the acquired assets and liabilities at the acquisition date:

ASSETS ACQUIRED

	<u><i>BD '000</i></u>
CONSUMER BANKING BUSINESS	
Cash and bank balances	63,240
Financing portfolio	463,710
Other assets	158
Fixed assets	705
Intangible assets	19,000
Total	<u><u>546,813</u></u>
TAKAFUL BUSINESS	
Cash and balance with banks	8,471
Commodity and other placements with banks, financial and other institutions	38,537
Sukuk and investment securities	38,734
Investment in associates	290
Insurance and other receivables	50,320
Other assets	8,948
Investment in real estate	7,873
Fixed assets	7,792
Intangible assets	11,407
Total assets	<u><u>172,372</u></u>
Investment securities	
Investment in associates and other equity investments	246,094
Total assets acquired (A)	<u><u>965,279</u></u>

21 SUBSEQUENT EVENT – ACQUISITION OF BUSINESS AND ASSETS (continued)

CONSIDERATION - LIABILITIES ASSUMED	<i>BD '000</i>
Consumer business	
Customers' current accounts	35,053
Due to banks financial and other institutions	17,962
Other liabilities	23,469
Total liabilities	76,484
Equity of investment accountholders	753,655
Total liabilities and equity of investment accountholders	830,139
Takaful business	
Other liabilities	10,630
Insurance related reserves	85,760
Total liabilities	96,390
Total liabilities assumed	926,529
Add: Non-controlling interests associated with the Takaful business recognized	38,750
Total consideration for the acquired assets (B)	965,279

As the transaction was structured as a carve-out of the consumer business alongside a selection of other assets and due to the likely effects of synergies and integration adjustments post the business transfer, it is impracticable to determine the profit or loss of the combined entity for the current reporting period assuming the acquisition-date for the whole business combination occurred at the beginning of the annual reporting date. Had the acquisition occurred on 1 January 2022, management estimates that the Group's total operating income would have been higher by BD 34.5 million.

22 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.