AL SALAM BANK-BAHRAIN B.S.C.

BASEL III - PILLAR III

DISCLOSURES

30 June 2018

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Appendix I - Composition of Capital Disclosure

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 subsidiaries operate through 10 branches in the Kingdom of Bahrain and Seychelles and offer a full range of Shari'a-compliant banking services and products. The Bank together with its subsidiaries are referred to as the "Group".

The consolidated financial statements and capital adequacy regulatory disclosures of the Group have been prepared on a consistent basis where applicable.

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

(BD '000s)

	Jun-2018	Dec-2017	Dec-2016	Dec-2015	Dec-2014	Dec-2013
Total operating income	30,915	62,190	63,000	58,898	46,068	26,087
Net profit	9,420	18,055	16,096	10,548	15,821	12,372
Total assets	1,615,103	1,589,260	1,681,293	1,656,643	1,955,297	1,088,252
Total equity	298,116	303,837	324,899	320,002	328,803	246,097
Key Ratios	**Jun-2018**	**Dec-2017**	**Dec-2016**	**Dec-2015**	**Dec-2014**	**Dec-2013**
Earnings per share (fils)	4.5	8.5	7.6	5.8	8.0	8.3
Return on average assets (%) *	1.2	1.1	1.0	0.6	1.0	1.2
Return on average equity (%) *	6.3	5.7	5.0	3.3	5.5	5.4
Cost to operating income (%)	39.5	39.0	41.4	44.7	57.3	43.7
Dividend payout ratio (%)	NA	83.0	66.5	86.2	67.7	60.5
Dividend yield ratio (%)	NA	6.1	4.2	5.4	3.8	3.6
Net profit margin on Islamic assets (%) *	3.1%	3.2%	2.7%	2.9%	2.8%	2.6%

* Annualised

2 Financial Performance and Position (continued)

Table 2.2 Financial Summary

(BD '000s)

Consolidated Financial Position	Jun-2018	Dec-2017	Dec-2016	Dec-2015	Dec-2014	Dec-2013
Cash and balances with banks and Central Bank	60,539	66,351	131,990	152,572	277,751	86,097
Sovereign Sukuk	360,431	363,569	358,269	350,474	145,789	102,937
Placements with financial institutions	154,582	141,225	182,452	103,345	182,110	118,227
Corporate Sukuk	8,865	10,419	28,934	50,472	88,193	91,106
Financing assets	769,616	745,745	667,283	646,570	611,932	400,002
Non-trading investments	110,554	111,325	122,073	123,514	147,096	125,923
Investment properties	75,545	66,782	51,863	68,786	65,149	66,718
Development properties	6,448	6,448	17,781	49,021	59,262	65,891
Investment in associates	17,121	16,835	10,561	9,994	10,492	8,537
Other assets	25,431	34,558	64,276	75,924	341,552	22,814
Goodwill	25,971	25,971	25,971	25,971	25,971	-
Assets classified as held-for-sale	-	-	19,840	-	-	-
Placements from banks	153,449	154,965	132,032	120,795	121,266	106,796
Placements from customers	622,907	602,784	723,439	842,570	1,034,052	584,365
Current accounts	277,866	283,886	279,609	224,366	226,648	70,532
Murabaha term financing	120,859	79,786	91,837	35,986	21,337	23,637
Other liabilities	40,354	45,089	49,260	50,573	195,039	30,979
Liabilities relating to assets classified as held-for-sale	-	-	11,421	-	-	-
Equity of Investment Accountholders (EOIA)	101,552	118,881	68,796	62,351	28,152	25,846
Capital	**Jun-2018**	**Dec-2017**	**Dec-2016**	**Dec-2015**	**Dec-2014**	**Dec-2013**
Capital adequacy (%)	20.7	21.4	21.6	20.1	18.7	21.4
Equity/total assets (%)	18.5	19.1	19.3	19.3	16.8	22.6
Total customer deposits/equity (times)	3.4x	3.3x	3.3x	3.5x	4.3x	2.8x
Liquidity and Other Ratios	**Jun-2018**	**Dec-2017**	**Dec-2016**	**Dec-2015**	**Dec-2014**	**Dec-2013**
Islamic financing contracts/total assets (%)	47.7	46.9	39.7	39.0	31.3	36.0
Investments/total assets (%)	35.8	36.2	36.2	39.4	26.4	42.4
Liquid assets/total assets (%)	35.6	35.9	40.0	36.6	31.7	28.2
Liquid assets/Current and URIA deposits (%)	152%	142%	193%	211%	238%	319%
Customer Deposits/ Total assets (%)	62%	63%	64%	68%	66%	63%
Due from banks and financial institutions/ Total Assets (%)	10%	9%	11%	6%	9%	11%
Interbank Assets/ Interbank Liabilities	101%	91%	138%	86%	150%	111%
Islamic financing contracts/customer deposits (%)	76.8	74.2	62.3	57.3	47.5	57.5
Number of employees	327	322	333	368	457	191

3 Capital Structure

The Group's total capital of BD 285,797 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 214,093 thousands at 30 June 2018 comprising of 2,140,931 thousand shares of BD 0.100 each. **(PD 1.3.11)**

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

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

(BD '000s)

	CET1	AT1	T2
Issued and fully paid up ordinary shares	214,093		
Treasury shares	(2,104)		
Legal/statutory reserves	17,148		
Share premium	12,209		
Retained earnings	4,889		
Current interim cumulative net income / losses	9,473		
Unrealized gains and losses on available for sale financial instruments	199		
Gains and loss resulting from converting foreign currency subsidiaries to the parent currency	(2,989)		
Unrealized gains and losses arising from fair valuing equities	20,563		
Total Minority Interest in banking subsidiaries given recognition in CET1 capital	162		
Total CET1 capital prior to regulatory adjustments	**273,643**		
Less:			
Goodwill	(25,971)		
Total Common Equity Tier 1 capital after the regulatory adjustments above	**247,672**		
Instruments issued by banking subsidiaries to third parties		11	15
Asset revaluation reserve - Property, plant, and equipment			24,075
General financing loss provisions			14,024
Total Available AT1 & T2 Capital		**11**	**38,114**
Total Tier 1		**247,683**	
Total Capital (PD 1.3.20 a)			**285,797**

Table 3.2

(BD '000s)

	Risk Weighted Exposures		
	Credit	Operational	Market
Risk Weighted Exposures (self-financed)	1,270,142	100,699	2,875
Risk Weighted Exposures (URIA)	2,831	-	-
Aggregation of Risk Weighted Exposures	2,423	636	-
Risk Weighted Exposures after Aggregation	**1,275,396**	**101,335**	**2,875**
Total Risk Weighted Exposures			**1,379,606**

	CET 1	T1	Total Capital
% of Total Risk Weighted Exposures (CAR) (PD 1.3.20 a)	**17.95%**	**17.95%**	**20.72%**
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.

The key principles driving capital management include:

- Adequate capital is maintained as buffer for unexpected losses to protect stakeholders i.e. shareholders and depositors.
- Maximize 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 Basel Committee on Banking Supervision and adopted by the CBB. The primary objective of the Group's capital management is to ensure that it complies with externally imposed capital requirements. The Group complied in full with all externally imposed capital requirements during the period ended 30 June 2018.

5 Profile of Risk-Weighted Assets and Capital Charge

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

5.1 Credit Risk

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

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

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

a. Claims on sovereigns

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

b. Claims on public sector entities (PSEs)

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

c. Claims on banks

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

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

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

d. Claims on corporate portfolio, including insurance companies

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

e. Claims on regulatory retail portfolio

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

f. Mortgages

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

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%.

i. Holding of real estate

All other holdings of real estate by banks (i.e. owned directly, subsidiaries or associate companies or other arrangements such as trusts, funds or REITs) are risk-weighted at 200%. Investment in listed real estate companies and investment in unlisted real estate companies are risk-weighted at 300% and 400% respectively. Premises occupied by the Group are weighted at 100%.

j. Other assets

These are risk weighted at 100%.

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

5.1 Credit Risk (continued)

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 of Bahrain	58,245	-	58,245	5,464	683
Sovereign Sukuk	360,431	-	360,431	4,948	619
Placements with financial institutions	52,717	-	52,717	37,343	4,668
Corporate Sukuk	8,866	-	8,866	7,905	988
Murabaha financing	185,364	46,545	138,820	114,464	14,308
Mudaraba financing	335,574	18,066	317,508	250,472	31,309
Ijarah Muntahia Bittamleek	233,659	107,606	126,053	93,280	11,660
Musharaka	23,088	-	23,088	22,949	2,869
Credit Cards	2,832	-	2,832	2,997	375
Non-trading investments	112,209	-	112,209	429,957	53,745
Investment properties	75,545	-	75,545	151,089	18,886
Development properties	6,290	-	6,290	12,581	1,573
Investment in associates	17,903	-	17,903	53,914	6,739
Other assets	22,493	-	22,493	25,515	3,189
Total funded exposures	**1,495,216**	**172,216**	**1,323,000**	**1,212,880**	**151,610**
Contingent Liabilities & Commitments	88,258	0	88,258	57,262	7,158
Total unfunded exposures	**88,258**	**-**	**88,258**	**57,262**	**7,158**
Aggregation of Risk Weighted Exposures for AlSalam Bank Seychelles Limited	**-**	**-**	**-**	2,423	303
Total exposures	**1,583,474**	**172,216**	**1,411,258**	**1,272,565**	**159,071**

Contribution by Equity of Investment Accountholders					
Exposure Type	**Gross Credit Exposure**	**CRM**	**Net Credit Exposure**	**Risk-Weighted Assets (RWA)**	**Minimum Capital Charge**
Placements with financial institutions	101,552	-	101,552	2,831	354
Total funded exposures	**101,552**	**-**	**101,552**	**2,831**	**354**
Contingent Liabilities & Commitments	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**
Total exposures	**101,552**	**-**	**101,552**	**2,831**	**354**

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

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

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

Note c: The unfunded exposure before (CCF) as of 30 June 2018 is BD 177,107 thousands.

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

5.1 Credit Risk (continued)

Excessive risk concentration (PD 1.3.26 a)
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

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

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

Table 5.2 Gross Credit Exposures (PD 1.3.26 b)

(BD '000s)

Current Credit Exposure by Type of Islamic Financing Contracts	Gross Credit Exposure	Netting Benefits	Net Credit Exposures	Eligible Collaterals Held (after appropriate haircuts) *				
				Cash	Govt. Securities	Guarantees	Real Estate	Total
Murabaha financing	185,364	-	185,364	25,288	31,686	-	-	56,974
Mudaraba financing	335,574	-	335,574	36,160	-	-	-	36,160
Ijarah Muntahia Bittamleek	233,659	-	233,659	1,889	-	-	161,890	163,780
Musharaka	23,088	-	23,088	-	-	-	-	-
Credit Cards	2,832	-	2,832	-	-	-	-	-
Total	**780,517**	**-**	**780,517**	**63,338**	**31,686**	**-**	**161,890**	**256,914**

* 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 Risk Committee. 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 connected counterparties exceeding 15 percent of total capital.

Table 5.3 Gross Credit Exposures (PD 1.3.23 a)

(BD '000s)

Contribution by Equity and Current Accounts	Gross Credit Exposure	Average Gross Credit Exposure *
Cash and balances with banks and Central Bank of Bahrain	60,539	63,914
Sovereign Sukuk	360,431	359,997
Placements with financial institutions	53,030	63,419
Corporate Sukuk	8,865	8,912
Financing assets	769,616	758,677
Non-trading investments	110,554	110,666
Investments in real estate	75,545	74,626
Development properties	6,448	6,448
Investment in associates	17,121	17,169
Other assets	25,431	31,113
Goodwill	25,971	25,971
Total funded exposures	**1,513,551**	**1,520,909**
Contingent Liabilities & Commitments	179,968	168,431
Total unfunded exposures	**179,968**	**168,431**
Total	**1,693,519**	**1,689,339**

Contribution by Equity of Investment Accountholders		
Exposure Type	Gross Credit Exposure	Average Gross Credit Exposure *
Placements with financial institutions	101,552	100,106
Total funded exposures	**-**	**-**
Contingent Liabilities & Commitments	-	-
Total unfunded exposures	**-**	**-**
Total exposures	**-**	**-**

* 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 banks. As at 30 June 2018, the collaterals eligible for CRM (after applying regulatory haircuts) amounted to BD 172,216 thousands.

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

5.1 Credit Risk (continued)

5.1.1 Geographical Distribution of Exposures

The exposures are allocated to individual geographic areas based on the country where the exposure risk specific to the facility exists. The Geographical distribution of exposures by exposure type (including financing contracts, non trading investments, investments in real estate, development property and investment in associates) and funded or unfunded by is as follows:

Table 5.4 (PD 1.3.23 b) **(BD '000s)**

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 of	40,435	16	5,193	304	14,590	-	**60,539**
Sovereign Sukuk	355,459	-	-	2,662	-	2,310	**360,431**
Placements with financial institutions	53,030	-	-	-	-	-	**53,030**
Corporate Sukuk	6,084	-	-	2,781	-	-	**8,865**
Financing assets	690,739	52,231	15,050	9,070	1,616	909	**769,616**
Non-trading investments	105,062	-	-	-	5,492	-	**110,554**
Investment properties	75,545	-	-	-	-	-	**75,545**
Development properties	158	-	6,290	-	-	-	**6,448**
Investment in associates	-	8,087	6,104	-	-	2,930	**17,121**
Other assets	19,812	-	1,262	1,921	-	2,435	**25,430**
Goodwill	25,971	-	-	-	-	-	**25,971**
Total funded exposures	**1,372,295**	**60,334.80**	**33,900.13**	**16,739.12**	**21,698.01**	**8,583.49**	**1,513,551**
Contingent Liabilities & Commitments	170,726	-	64	9,178	-	-	**179,968**
Total unfunded exposures	**170,726**	**-**	**64**	**9,178**	**-**	**-**	**179,968**
Total exposures	**1,543,021**	**60,335**	**33,964**	**25,917**	**21,698**	**8,583**	**1,693,518**

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**
Placements with financial institutions	101,552	-	-	-	-	-	**101,552**
Total funded exposures	**101,552**	**-**	**-**	**-**	**-**	**-**	**101,552**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**101,552**	**-**	**-**	**-**	**-**	**-**	**101,552**

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)

Contribution by Equity and Current Account				
	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	112,130	(3,407)	63,719	(23,424)
Europe	-	-	9,004	(4,201)
Asia Pacific	-	-	51,480	(42,445)
Total	**112,130**	**(3,407)**	**124,203**	**(70,070)**

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

5.1 Credit Risk (continued)

5.1.2 Exposure by Industry

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

(BD '000s)

Contribution by Equity and Current Account								
Exposure Type	**Trading and Manufacturing**	**Banks and Financial Institutions**	**Real Estate**	**Aviation**	**Individuals**	**Government**	**Others**	**Total**
Cash and balances with banks and Central Bank of	-	23,956	-	-	-	28,229	8,353	**60,539**
Sovereign Sukuk	-	132,012	-	-	-	224,314	4,105	**360,431**
Placements with financial institutions	-	53,030	-	-	-	-	-	**53,030**
Corporate Sukuk	-	1,652	2,038	-	-	5,175	-	**8,865**
Financing assets	81,467	66,660	184,728	-	233,001	60,340	143,420	**769,616**
Non-trading investments	-	-	80,227	1,582	-	-	28,745	**110,554**
Investment properties	-	-	75,545	-	-	-	-	**75,545**
Development properties	-	-	6,448	-	-	-	-	**6,448**
Investment in associates	-	11,017	6,104	-	-	-	-	**17,121**
Other assets	1,525	3,218	10,035	0	8,093	1	2,558	**25,430**
Goodwill	-	25,971	-	-	-	-	-	**25,971**
Total funded exposures	**82,992**	**317,517**	**365,124**	**1,582**	**241,094**	**318,060**	**187,181**	**1,513,551**
Contingent Liabilities & Commitments	27,084	59,449	44,788	-	18,684	15,559	14,404	**179,968**
Total unfunded exposures	**27,084**	**59,449**	**44,788**	**-**	**18,684**	**15,559**	**14,404**	**179,968**
Total exposures	**110,076**	**376,967**	**409,912**	**1,582**	**259,778**	**333,619**	**201,585**	**1,693,518**

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 - Equity of Investment Accountholders **(PD 1.3.23 c)**

(BD '000s)

Contribution by Equity of Investment Accountholders								
Exposure Type	**Trading and Manufacturing**	**Banks and Financial Institutions**	**Real Estate**	**Aviation**	**Individuals**	**Government**	**Others**	**Total**
Placements with financial institutions	-	46,543	-	-	-	55,009	-	**101,552**
Total funded exposures	**-**	**46,543**	**-**	**-**	**-**	**55,009**	**-**	**101,552**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-	**-**
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**-**	**46,543**	**-**	**-**	**-**	**55,009**	**-**	**101,552**

Table 5.9 The exposure by industry including impaired assets and the related impairment is as follows: **(PD 1.3.23 h)**

(BD '000s)

Contribution by Equity and Current Account				
	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	18,559	(262)	77,895	(54,068)
Banks and Financial Institutions	9,671	(40)	5,379	(1,108)
Real Estate	42,400	(1,510)	20,700	(7,860)
Individuals	29,200	(1,288)	13,295	(3,272)
Government	1,310	(69)	-	-
Others	10,990	(239)	6,935	(3,762)
Total	**112,130**	**(3,407)**	**124,203**	**(70,070)**

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

5.1 Credit Risk (continued)

Table - 5.10 Movement In Net Allowance For Credit Losses / Impairment - (PD 1.3.24 d)

The balance of allowance for credit loss in the below table includes all financial assets and off-balance sheet exposures in addition to

(BD '000s)

	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 ECL BD '000*
Balance at the beginning of the period	**11,749**	**16,052**	**53,308**	**81,109**
Changes due to receivables recognised in opening balance that				
- transferred to Stage 1: 12 month ECL	923	(318)	(605)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(201)	1,394	(1,193)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(280)	(15,220)	15,500	-
Net remeasurement of loss allowance	(1,153)	1,284	14,210	14,341
Recoveries / write-backs	(322)	(198)	(3,853)	(4,373)
Allowance for credit losses	**(1,033)**	**(13,058)**	**24,059**	**9,968**
Exchange adjustments and other movements	**-**	**-**	(159)	**(159)**
Amounts written off during the period	-	-	(4,702)	**(4,702)**
Balance at the end of the period	**10,716**	**2,994**	**72,506**	**86,216**

Table 5.11 Ageing Analysis - **(PD 1.3.24 b (i))** **(BD '000s)**

	Gross Impaired and Past Due Contracts			**Expected Credit Losses (ECL) / Specific Provisions**	**Net Outstanding**	**Market Value of Collateral**
	Up to 1 Year	**Over 1 year up to 3 years**	**Over 3 years**			
Trading and Manufacturing	34,239	4,514	57,701	(54,329)	42,125	96,644
Banks and Financial Institutions	15,050	-	-	(1,148)	13,902	24,698
Real Estate	46,981	5,676	10,444	(9,370)	53,730	114,175
Individuals	37,196	1,535	3,764	(4,560)	37,935	65,771
Government	1,310	-	-	(69)	1,241	-
Others	14,845	664	2,416	(4,001)	13,924	22,734
Total	**149,621**	**12,388**	**74,324**	**(73,477)**	**162,856**	**324,022**

5.1.3 Exposure by External Credit Rating

The Group uses public information provided by external rating agencies (accredited External Credit Assessment Institutions – ECAI). The lowest of the ratings based on information available to public is used as an input in computing rated exposures. **(PD 1.3.22 c, d, e)**

Table 5.12 **(BD '000s)**

	Gross Credit Exposure*	**Rated Exposure**	**Unrated Exposure**
Cash	6,060	-	6,060
Claims on sovereigns	509,802	-	509,802
Claims on banks	229,448	94,845	134,603
Claims on corporate portfolio	176,203	-	176,203
Regulatory retail portfolio	43,462	-	43,462
Mortgages	367,967	-	367,967
Past due receivables over 90 days	54,131	-	54,131
Investments in Securities and Sukuk	13,756	-	13,756
Holding of Real Estate	198,528	-	198,528
Other assets and Specialized financing	85,668	-	85,668
Total	**1,685,026**	**94,845**	**1,590,181**

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

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

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

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

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

5.1 Credit Risk (continued)

5.1.4 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	36,304	13,554
Irrevocable unutilised commitments	91,396	25,296
Forward foreign exchange contracts	49,407	49,407
Operating lease commitments	2,861	-
Total	**179,968**	**88,258**

* 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)

	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	60,538	-	**60,538**	-	-	-	-	**-**	**60,538**
Sovereign Sukuk	3,144	47,307	**50,451**	142,421	152,702	-	14,857	**309,980**	**360,431**
Placements with financial institutions	154,582	-	**154,582**	-	-	-	-	**-**	**154,582**
Corporate Sukuk	293	5,111	**5,404**	3,461	-	-	-	**3,461**	**8,865**
Financing assets	85,102	159,307	**244,409**	242,423	206,066	40,529	36,189	**525,207**	**769,616**
Non-trading investments			**-**	110,554	-	-	-	**110,554**	**110,554**
Investment properties	-	-	**-**	75,545	-	-	-	**75,545**	**75,545**
Development properties	-	-	**-**	6,448	-	-	-	**6,448**	**6,448**
Investment in associates	-	-	**-**	17,121	-	-	-	**17,121**	**17,121**
Other assets	18,440	168	**18,608**	658	4,233	1,813	119	**6,823**	**25,431**
Goodwill	-	-	**-**	25,971	-	-	-	**25,971**	**25,971**
Total	**322,099**	**211,893**	**533,992**	**624,602**	**363,001**	**42,342**	**51,165**	**1,081,110**	**1,615,102**

Table 5.14 (a) Contractual maturity analysis by major type of credit exposure - Unfunded

(BD '000s)

	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	30,140	41,192	**71,332**	7,942	11,034	192	896	**20,064**	**91,396**
Contingent liabilities	15,128	14,192	**29,320**	6,983	-	-	-	**6,983**	**36,304**
Operating lease commitments	-	1,163	**1,163**	1,698	-	-	-	**1,698**	**2,861**
Forward foreign exchange contracts	34,272	15,135	**49,407**	-	-	-	-	**-**	**49,407**
Total	**79,540**	**71,683**	**151,223**	**16,623**	**11,034**	**192**	**896**	**28,745**	**179,968**

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 (a) Maturity analysis of funding

Table 5.15 Contractual maturity analysis by major type of funding

(BD '000s)

	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 banks	135,700	13,950	**149,650**	3,798	-	-	-	**3,798**	**153,449**
Placements from customers	254,992	302,938	**557,930**	64,977	-	-	-	**64,977**	**622,907**
Current accounts	277,866	-	**277,866**	-	-	-	-	**-**	**277,866**
Murabaha term Financing	56,060	45,809	**101,869**	16,779	2,211	-	-	**18,990**	**120,859**
Other liabilities	8,926	1,879	**10,805**	28,655	894	-	-	**29,550**	**40,354**
Equity of Investment Accountholders	101,552	-	**101,552**	-	-	-	-	**-**	**101,552**
Total	**835,096**	**364,576**	**1,199,672**	**114,210**	**3,106**	**-**	**-**	**117,315**	**1,316,987**

5.2 Market Risk

Table 5.16 The Group's capital charge in respect of market risk in accordance with the standardized methodology is as follows:

(BD '000s)

	Risk Weighted Asset	Capital Requirement	Period End Capital Charge	Capital Requirement –Minimum*	Capital Requirement –Maximum*
Foreign exchange risk	2,875	359	230	187	370
Total market risk	**2,875**	**359**	**230**	**187**	**370**

* The information in these columns shows the minimum and maximum capital charge of each of the market risk categories on a quarterly basis during the period ended 30 June 2018.

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 and trading 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

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

5.3 Operational Risk (continued)

In accordance with the basic indicator approach methodology of Basel III, the total minimum capital charge in respect of operational risk was BD 12,587 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. **(PD 1.3.19)**

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

	Jun-18
Average gross income	53,706
Risk weighted exposures	100,699
Minimum capital charge	12,587

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. Following the data consolidation, the Bank uses the RiskAuthority integrated risk solution package from Moody's, at a solo level, that would allow for automated capital adequacy calculations, and exposure analysis for credit, market and operational risks. Together, the Temenos T24 and Fermat systems are considered an integral part of the Group's Risk Management Framework. This is currently being rolled out at the Group level.

Non-Shari'a compliant income for the period ended 30 June 2018 amounted to BD 170 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. **(PD 1.3.30 a, b)**

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

5.4 Rate of Return Risk

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 short term lending facilities from long term borrowings. The Group has set limits for profit return risk and these are monitored on an ongoing basis by the Group's Asset and Liability Committee (ALCO).

The Group has implemented a system to automate the process of monitoring, measuring and reporting profit rate risk on a daily basis through the use of gap analysis based on repricing buckets. Any fixed rate assets and liabilities will be repriced at their maturity date. In addition, the system generates stress tests to analyse the effect of shock changes in profit rates on the Group's assets and liabilities. This monitoring process is independently run on a daily basis from within the Risk Management & Compliance. Material rate of return risks are identified and mitigated through the coordination of the Market Risk Department and ALCO.

The below tables provides the asset and liability re-pricing profile on the contractual repricing or maturity dates, whichever is earlier for the period ended 30 June 2018. **(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 years**	**Profit insensitive**
Cash and balances with banks and the CBB	60,539	-	-	-	-	-		60,539
Sovereign Sukuk	360,431	2,607	537	29,469	17,865	42,651	267,302	-
Placements with financial institutions	154,582	150,486	3,771	-	325	-	-	-
Corporate Sukuk	8,865	288	-	3,153	1,915	3,474	35	-
Financing assets	769,616	43,048	41,095	44,793	114,924	94,916	429,126	1,714
Non-trading investments	110,554	-	-	-	-	-		110,554
Investment properties	75,545	-	-	-	-	-		75,545
Development properties	6,448	-	-	-	-	-		6,448
Investment in associates	17,121	-	-	-	-	-	17,121	-
Other assets	25,431	14,108	2	1,729	859	90	4,565	4,079
Goodwill	25,971	-	-	-	-	-		25,971
Total Assets (A)	**1,615,103**	**210,537**	**45,404**	**79,145**	**135,889**	**141,131**	**718,148**	**284,849**
LIABILITIES	**Total**	**Upto 1 month**	**>1 to 3 months**	**>3 to 6 months**	**>6 to 12 months**	**>1 to 2 years**	**>2 years**	**Profit insensitive**
Placements from banks	153,449	87,038	48,662	11,804	2,146	3,798	-	-
Placements from customers	622,907	107,731	147,262	161,114	141,824	47,138	17,839	-
Customers' current accounts	277,866	-	-	-	-	-	-	277,866
Murabaha term financing	120,859	-	56,060	28,844	16,965	2,117	16,873	-
Other liabilities	40,355	9,517	17	2	1	0	30,817	-
Equity of investment accountholders	101,552	-	-	-	-	-	-	101,552
Total Liabilities	**1,316,988**	**204,286**	**252,001**	**201,764**	**160,936**	**53,054**	**65,529**	**379,418**
Shareholders funds	297,554	-	-	-	-	-	-	297,554
Non-controlling profit	560	-	-	-	-	-	-	560
Total Liabilities & Shareholders Funds	**1,615,103**	**204,286**	**252,001**	**201,764**	**160,936**	**53,054**	**65,529**	**677,533**
Off-Balance Sheet Liabilities	179,968	15,466	15,675	30,931	23,898	41,730	-	52,268
Total liabilities with Off-Balance Sheet Items (B)	**1,795,071**	**219,751**	**267,677**	**232,695**	**184,834**	**94,784**	**65,529**	**729,801**
Gap (A - B)		(9,214)	(222,273)	(153,550)	(48,945)	46,347	652,620	(444,951)
Cumulative Gap		**(9,214)**	**(231,487)**	**(385,037)**	**(433,983)**	**(387,636)**	**264,984**	**(179,968)**

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

5.4 Rate of Return Risk (continued)

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

Profit rate risk in the Banking Book 200bp Profit Rate Shocks		
Rate shock	**Currency**	**Effect on net profit at 30 June 2018**
Upward rate shocks:	USD	532
	BHD	321
Downward rate shocks:	USD	(532)
	BHD	(321)

5.5 Equity Position Risk

Table 5.19 Equity positions in the Banking Book **(PD 1.3.31)**

(BD '000s)

	Gross Credit Exposure	Risk-Weighted Assets (RWA)	Minimum Capital Charge
Quoted Equities	5,424	16,273	2,034
Unquoted Equities	105,130	410,374	51,297
Net realized gain during the period	142		
Net unrealized gain during the period	(548)		

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) (PD 1.3.21 f) (PD 1.3.32 a, 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 account holders from shareholders funds to cover the profit volatility risk. ASBB 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.

5.8 Other Risks

The Group has an investment in a foreign banking subsidiary whereing the transactions are denominated in US Dollars (USD) and since the USD is pegged to BHD, there is no foreign exchange translaction effect on the investment. **(PD 1.3.42)**

6 Equity of Investment Accountholders

Equity of investment accounts ("EOIA") [previously known as Unrestricted Investment Accounts] are investors' funds held by the Group to be invested as appropriate without restriction as to where, how and for what purpose the funds are invested. EOIA funds are invested in short term Murabaha with banks and CBB sukuks using specific limits assigned for each institution. Savings accounts and call accounts comprise the EOIA, payable on demand and the account holder has the right to withdraw or transfer funds without penalty.

This allocation of assets has not changed since the last financial year. The funds are invested and managed in accordance with Shari'a principles. **(PD 1.3.32 b)**

Equity of investment account holders' funds are commingled with the Group's funds and invested mostly in short term highly liquid Commodity Murabahas, CBB Sukuks and/or Wakala deposits. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested after deducting a mandatory reserve. 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)

Profit paid to the EOIA holders is based on the rate of return earned by the pool of profit bearing assets in which the EOIA have participated. The account holder participates in 45% of the profits earned in full after netting off the Mudarib fee as above. As a result, the share of profits earned by the EOIA holders for their Mudaraba accounts is equal to the share of profits paid to them. All equity of investment accounts are carried at cost plus accrued profits less amounts repaid. Income to Equity of investment account holders is allocated on the basis of their average daily balances in proportion to shareholders' balances. The profits paid to EOIA and the rate of return earned over the previous years are disclosed in the below table. **(PD 1.3.32 d, l)**

The Risk weighted assets of the Group include the contribution from EOIA which are subject to the 30% risk weight.

The EOIA holders and other customers can use the Group's relationship managers for any advice, mediation services, grievances and complaints. **(PD 1.3.10 j)**

There is no variation between Mudarib agreed sharing and contractual agreed ratio. Profit earned and paid and rate of return comparatives for the Equity of investment account holders for the period ended 30 June 2018 and years ended 31 December 2017, 2016,2015, 2014 and 2013 are as follows: **(PD 1.3.33 e, l, m, n)**

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

	June 2018	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
Shareholders	77	119	119	155	215	148
EOIA (before smoothing)	190	230	216	282	391	279
Profit earned for EOIA before smoothing	190	230	216	282	391	279
Profit paid for EOIA after smoothing	77	119	119	155	215	148
Balance of:						
PER	N/A	N/A	N/A	N/A	N/A	N/A
IRR	-	-	7	7	7	7
Annual Rate of Return Benchmark	3%	3%	3%	3%	3%	3%
Annual Rate of Return (EOIA) - Profit earned	0.37%	0.19%	0.31%	0.45%	1.39%	1.08%
Annual Rate of Return (EOIA) - Profit paid	0.15%	0.10%	0.17%	0.25%	0.76%	0.60%
PER Amount	-	-	-	-	-	-
PER %	-	-	-	-	-	-
IRR Amount	-	-	7	7	7	7
IRR %	-	-	-	-	-	-
Reconciliation						
Mudaraba Profit Earned	190	230	216	282	391	279
Mudarib fees	(113)	(111)	(97)	(127)	(176)	(131)
Profit credited to EOIA accounts	**77**	**119**	**119**	**155**	**215**	**148**
IRR movements	-	-	-	-	-	-
Profit on EOIA	**77**	**119**	**119**	**155**	**215**	**148**
Mudarib fee as a percentage of total investment profit	59%	48%	45%	45%	45%	47%
EOIA Balance	101,552	118,881	68,796	62,351	28,152	25,846
RWA as per PIRI Report	9,436	62,424	13,759	6,506	4,387	4,394

Table 6.2

	June 2018	Dec 2017	Dec 2016	Dec 2015	Dec 2014	Dec 2013
Rate of Return	0.15%	0.10%	0.17%	0.25%	0.76%	0.60%
Return on average EOIA assets (ROAA)	0.37%	0.26%	0.32%	0.42%	1.28%	1.11%
Return on average equity (Total Owner's Equity) (ROAE)	0.12%	0.14%	0.07%	0.09%	0.13%	0.13%

6 Equity of Investment Accountholders (continued)

Table 6.3 Equity of investment accountholders by Counterparty Type and Islamic Product Murabaha **(PD 1.3.33 i)**

Murabaha and Wakala receivables from banks **(BD '000s)**

Counterparty	Total Exposures	Funded by EOIA	Funded by Self & Call Accounts	% of EOIA to Total
Financial Institutions	101,552	101,552	-	100%
Total	**101,552**	**101,552**	**-**	**100%**

Table 6.4 The changes in asset allocation ratio are as follows: **(PD 1.3.32 d)**

(BD '000s)

	Murabaha and Wakala receivables from banks		Corporate Sukuk		Murabaha and Mudaraba financing	
	EOIA	Self & Call Accounts	EOIA	Self & Call Accounts	EOIA	Self & Call Accounts
Asset Allocation as on 30 June 2018	101,552	53,030	-	-	-	-
Asset Allocation as on 31 December 2017	118,881	24,922	-	-	-	-
Asset Allocation as on 31 December 2016	68,796	113,656	-	-	-	-
Asset Allocation as on 31 December 2015	62,351	40,994	-	-	-	-
Asset Allocation as on 31 December 2014	24,281	157,829	3,871	135,433		460,029
Asset Allocation as on 31 December 2013	21,969	96,258	3,877	87,229	-	261,700

There are no off-balance sheet exposures arising from investment decisions attributable to the EOIA holders because EOIA are used for short term Islamic financing contracts.

7 Other Disclosures

7.1 Currency Risk

The Group is exposed to foreign exchange rate risk through both its foreign exchange structural positions. Foreign exchange rate risk is managed by appropriate limits and parameters determined by ALCO and approved by its Board of Directors. The Group's consolidated structural financial positions are reviewed regularly by ALCO in accordance with the Group's strategic plans and managed on a daily basis by the Treasury as appropriate.

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 13 titled related party transactions in the condensed consolidated interim financial information for the period ended 30 June 2018. 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)**

7.3 Restructured Facilities

As at 30 June 2018, the balance of the renegotiated financing facilities to individuals and corporate was BD 3,221 thousands. Most of the renegotiated facilities are performing and are fully secured. 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. The impact of provisions on restructured facilities was BD 2,172 thousands. The above restructuring did not have any significant impact on present and future earnings. **(PD 1.3.23 j)**

7.4 Assets Sold Under Recourse Agreements

The Group has not entered into any recourse agreement during the period ended 30 June 2018. **(PD 1.3.23 k)**

7.5 Legal Risk and Claims

As at 30 June 2018, legal suits amounting to BD 5,623 thousands were pending against the Group. Based on the opinion of the Group's legal counsel, the total liability arising from these cases is not considered to be material to the Group's consolidated financial statements 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 riwk-weighted at 800% unless it is an exempt exposure in accordance with the requirements in the CBB rulebook.

The bank has no exposures that are in excess of individual obligor limit of 15% of the bank's Capital Base as of 30 June 2018 **(PD 1.3.23 f)**

7.9 CBB Penalties (PD 1.3.44)

No penalties have been imposed during the year.

APPENDIX I - COMPOSITION OF CAPITAL DISCLOSURE

Appendix PD-2: Reconciliation requirements

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

There are no differences between the regulatory and accounting consolidation, with both following line by line consolidation approach using consistent account policies without excluding any entities. As mandated by the Central Bank of Bahrain ("CBB"), financing facilities and investments have been grossed up with collective impairment provision, as presented below:

	BHD '000
Balance sheet as per published financial statements	**1,615,103**
Collective provision impairment	14,024
Balance sheet as in Regulatory Return	**1,629,127**

Step 2: Reconcilation of published financial balance sheet to regulatory reporting As at 30 June 2018

Assets	**Balance sheet as in published financial statements**	**Consolidated PIRI data**	**Reference**
Cash and balances with banks and Central Bank	**60,539**	**60,539**	
Placements with banks and similar financial institutions	**154,582**	**154,582**	
of which Self financed	-	53,030	
of which financed by URIA	-	101,552	
Held-to-maturity investments	**369,296**	**369,296**	
of which Sovereign Sukuk	360,431	-	
of which Corporate Sukuk	8,865	-	
Financing Contracts	**769,616**	**797,091**	
Assets under conversion - Loans and Advances	13,451	-	
Available-for-sale investments	**1,932**	**1,932**	
Investment properties	**81,993**	**81,993**	
of which Investments in real estate	75,545	-	
of which Development properties	6,448	-	
Investment in unconsolidated subsidiaries and associates	**17,121**	**17,121**	
of which Property, plant, and equipment (PPE)	**1,650**	**1,650**	
Other Assets	**144,923**	**144,923**	
Non Trading investment	108,622	-	
Other Assets	10,330	144,923	
Goodwill	25,971	-	**G**
Total Assets	**1,615,103**	**1,629,127**	
Liabilities			
Current accounts for non-banks	**277,866**	**277,866**	
Balances of banks and similar institutions	**153,449**	**153,449**	
Funding Liabilities (eg. reverse commodity murabaha, etc.)	**743,766**	**743,766**	
of which Wakala payables to non-banks	622,907	-	
of whichTerm financing	120,859	-	
Accruals, deferred income, other liabilities, current and deferred tax liabilities (DTLs)	**40,354**	**40,354**	
of which Other liabilities	31,883	-	
of which Dividends payable	8,471	8,471	
Unrestricted Investment Accounts	**101,552**	**101,552**	
Total Liabilities	**1,316,987**	**1,316,987**	
Owners' Equity			
Total share capital	**211,989**	**211,989**	
Share capital	214,093	214,093	
Treasury stock	(2,104)	(2,104)	
of which amount eligible for CET1	-	**211,989**	**A**
Reserves and retained earnings	**85,567**	**85,567**	
of which amount eligible for CET1			
Share premium	12,209	12,209	**C-1**
Statutory reserve	17,148	17,148	**C-2**
Retained earnings/(losses) brought forward	25,452	25,452	**B-1**
Net profit / (loss) for the current period	9,473	9,473	**B-2**
Fx translation adjustment	(2,989)	(2,989)	**C-3**
Changes in fair value - amount eligible for CET1	199	199	**C-4**
Real estate fair value reserve - amount eligible for T2	24,075	24,075	**D**
Minority interest in subsidiaries' share capital	**560**	**560**	
of which amount not eligible for regulatory capital	-	372	
of which amount eligible for CET1	-	162	**E-1**
of which amount eligible for AT1	-	11	**E-2**
of which amount eligible for T2	-	15	**E-3**
General loan loss provision which qualify as T2 capital	-	**14,024**	**F**
Total Owners' Equity	**298,116**	**312,140**	
Total Liabilities + Owners' Equity	**1,615,103**	**1,629,127**	

* Appendix PD 1 to be used post 1 January 2019

Appendix PD-2 & PD-4: Reconciliation requirements & Template during the transitional period
Step 3: Composition of Capital Common Template (transition) as at 30 June 2018

	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	Amount subject to pre-2015 treatment
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	211,989	A	
2	Retained earnings	34,925	B1+B2	
3	Accumulated other comprehensive income (and other reserves)	26,567	C1+C2+C3+C4	
4	Not Applicable	-		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	162	E1	98
6	Common Equity Tier 1 capital before regulatory adjustments	273,643		
	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 (if not already netted off paid-in capital on reported balance sheet)	-		
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	National specific regulatory adjustments	-		
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
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)**	**247,672**		
	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)	11	E-2	(3)
35	of which: instruments issued by subsidiaries subject to phase out	-		
36	Additional Tier 1 capital before regulatory adjustments	**11**		
	Additional Tier 1 capital: regulatory adjustments			
37	Investments in own Additional Tier 1 instruments	-		
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	National specific regulatory adjustments			
	REGULATORY ADJUSTMENTS APPLIED TO ADDITIONAL TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	-		
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)**	**11**		
45	**Tier 1 capital (T1 = CET1 + AT1)**	**247,683**		
	Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	24,075	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)	15	E-3	(4)
49	of which: instruments issued by subsidiaries subject to phase out	-		
50	Provisions	14,024	F	
51	**Tier 2 capital before regulatory adjustments**	**38,114**		

	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		
	REGULATORY ADJUSTMENTS APPLIED TO TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT	**-**	
57	Total regulatory adjustments to Tier 2 capital	-	
58	**Tier 2 capital (T2)**	**38,114**	
59	**Total capital (TC = T1 + T2)**	**285,797**	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE-2015 TREATMENT		
60	**Total risk weighted assets**	**1,379,606**	
	Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	**17.95%**	
62	Tier 1 (as a percentage of risk weighted assets)	**17.95%**	
63	Total capital (as a percentage of risk weighted assets)	**20.72%**	
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 (N/A)	**0.00%**	
67	of which: D-SIB buffer requirement (N/A)	**0.00%**	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	**17.95%**	
	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)	14,024	
77	Cap on inclusion of provisions in Tier 2 under standardised approach (1.25% of risk weighted assets)	15,942	
78	N/A		
79	N/A		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2020 and 1 Jan 2024)	-	
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)	-	

Features of regulatory capital

1	Issuer	Al Salam Bank, Bahrain
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)	2,141 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