AL SALAM BANK B.S.C.

BASEL III - PILLAR III
Disclosures

31 December 2021

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1 Introduction

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

The Basel III accord is built on three pillars:

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

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

2 Financial Performance and Position

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

On 30 March 2014, the Bank acquired 100% stake in BMI Bank B.S.C.(c) ("BMI"), a closed shareholding company in the Kingdom of Bahrain, through exchange of shares. During January 2015, the Shari'a Supervisory Board approved BMI Bank to be an Islamic bank effective 1 January 2015. BMI Bank's operations are in compliance with Shari'a principles effective 1 January 2015.

On 29 November 2016, the shareholders of BMI resolved to approve the transfer of the operations of BMI to the Bank. The transfer of business was approved by the CBB on 17 April 2017 which was subsequently published in the official gazette dated 20 April 2017. The Bank has transferred majority of the BMI's rights and assumed all of it's obligations at their respective carrying values.

During 2016, the Bank acquired 70% stake in Al Salam Bank Seychelles Limited ("ASBS"), (previously “BMIO”) an offshore bank in Seychelles. ASBS operates under an offshore banking license issued by the Central Bank of Seychelles. BMIO used to operate under an offshore banking license issued by the Central Bank of Seychelles. From 20 May 2016, ASBS was granted a Banking Business License which permits onshore as well as offshore banking activities. All legal formalities in relation to the share allotment have been completed and the process of converting ASBS into fully compliant Islamic operations is in progress. In accordance with CA-B.1.4 of the CBB Rulebook, for the purpose of disclosure of risk weighted exposures and for capital adequacy calculation, the Bank has obtained an approval from the CBB to aggregate the risk weighted exposures of ASBS and hence, the risk weighted exposures of ASBS do not form part of all disclosures in this Basel III - Pillar III Disclosure Document.

The Bank and its principal banking subsidiary operates through 9 branches in the Kingdom of Bahrain and 1 branch in Seychelles and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial contracts as principal / agent, managing Shari'a-compliant financial contracts and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework. The Bank together with its subsidiaries are referred to as the "Group."

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

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

(BD '000s)

	Dec-2021	Dec-2020	Dec-2019	Dec-2018	Dec-2017	Dec-2016
Net operating income	64,244	57,420	53,527	56,719	62,190	63,000
Net profit	21,224	9,118	21,130	18,520	18,055	16,096
Total assets	2,684,571	2,261,353	2,042,803	1,710,310	1,589,228	1,681,293
Total equity	296,759	281,167	320,074	304,822	303,837	324,899
Key Ratios	**Dec-2021**	**Dec-2020**	**Dec-2019**	**Dec-2018**	**Dec-2017**	**Dec-2016**
Earnings per share (fils)	9.1	4.3	9.7	8.7	8.5	7.6
Return on average assets (%)	0.9	0.4	1.1	1.1	1.1	1.0
Return on average equity (%)	7.4	3.0	6.8	6.1	5.7	5.0
Cost to Net operating income (%)	52.7	52.3	55.6	48.9	39.0	41.4
Dividend payout ratio (%)	79.8	126.4	83.9	81.0	83.0	66.5
Dividend yield ratio (%)	4.0	6.8	8.0	7.0	6.1	4.2
Net profit margin on average Islamic assets (%)	2.9	3.4	2.7	2.9	3.2	2.7

2 Financial Performance and Position (continued)

Table 2.2 Financial Summary

(BD '000s)

Consolidated Financial Position	Dec-2021	Dec-2020	Dec-2019	Dec-2018	Dec-2017	Dec-2016
Cash and balances with banks and Central Bank	309,149	288,266	219,456	82,587	66,351	131,990
Sovereign Sukuk	613,403	393,108	345,305	354,215	363,569	358,269
Placements with financial institutions	133,860	37,965	114,803	163,305	141,225	182,452
Corporate Sukuk	26,285	16,395	22,162	9,222	10,419	28,934
Financing assets	806,968	814,449	685,756	568,905	532,535	478,798
Finance lease assets	555,909	469,363	389,742	256,892	213,238	188,485
Non-trading investments	91,591	98,034	108,991	107,508	111,325	122,073
Investment properties	57,961	67,586	72,774	74,261	66,782	51,863
Development properties	2,943	2,943	2,943	6,290	6,448	17,781
Investment in associates	14,533	12,036	10,640	15,972	16,835	10,561
Other assets	45,998	35,237	44,260	45,182	34,530	64,276
Goodwill	25,971	25,971	25,971	25,971	25,971	25,971
Assets classified as held-for-sale	-	-	-	-	-	19,840
Placements from financial institutions	126,891	116,883	211,459	144,125	154,765	132,032
Placements from customers	-	-	-	705,924	602,784	723,439
Customer current accounts	482,739	363,970	289,456	251,842	283,886	279,609
Murabaha term financing	100,216	221,671	145,590	155,543	79,986	91,837
Other liabilities	53,789	52,282	41,481	48,293	45,089	49,260
Liabilities relating to assets classified as held-for-sale	-	-	-	-	-	11,421
Equity of Investment Accountholders (EIAH)	1,624,177	1,225,380	1,034,743	99,761	118,881	68,796
of which: Wakala from financial institutions	299,607	264,784	210,887	-	-	-
of which: Wakala and Mudaraba from customers	1,324,570	960,596	823,856	-	-	-
Capital	**Dec-2021**	**Dec-2020**	**Dec-2019**	**Dec-2018**	**Dec-2017**	**Dec-2016**
Capital adequacy (%)	28.5	26.5	21.2	20.6	21.4	21.6
Equity / Total assets (%)	11.1	12.4	15.7	17.8	19.1	19.3
Total customer deposits / Equity (times)	6.1x	4.7x	3.5x	3.5x	3.3x	3.3x
Liquidity and Other Ratios	**Dec-2021**	**Dec-2020**	**Dec-2019**	**Dec-2018**	**Dec-2017**	**Dec-2016**
Islamic financing contracts / Total assets (%)	50.8	56.8	52.6	48.3	46.9	39.7
Investments / Total assets (%)	30.1	26.1	27.6	33.2	36.2	36.2
Liquid assets / Total assets (%)	32.7	18.3	22.7	23.2	26.9	29.2
Liquid assets / Current and URIA deposits (%)	41.7	26.0	35.0	112.8	106.2	141.1
Customer Deposits / Total assets (%)	67.3	58.6	54.5	61.8	63.3	63.8
Due from banks and financial institutions/ Total Assets (%)	5.0	1.7	5.6	9.5	8.9	10.9
Interbank Assets / Interbank Liabilities (%)	105.5	32.5	54.3	113.3	91.3	138.2
Islamic financing contracts / Customer deposits (%)	75.4	96.9	96.6	78.1	74.2	62.3
Number of employees	376	363	355	341	322	333

3 Group and Capital Structure
3.1 Group Structure

The consolidated financial statements for the year comprise of the financial statements of the Bank and its subsidiaries (together referred to as "the Group")
The principal subsidiaries and associates as at 31 December 2021 and their treatment for capital adequacy purposes are as follows:

	Entity classification as per CA Module	Treatment by the Bank
Subsidiary		
Al Salam Bank Seychelles	Banking subsidiary	Aggregation of risk weighted assets approved by the CBB on 28 June 2016
Kenaz Al Kadam Real Estate Investment W.L.L.	Commercial entity	Risk weighting of investment exposure
Kenaz Al Hamala Real Estate Investment W.L.L.		
Wahat Al Muharraq Real Estate Investment W.L.L.		
ASB Biodiesel 1		
Associates		
Al Salam Bank Algeria	Financial entity	Risk weighting of investment exposure
Gulf African Bank		
Bareeq Al Retaj Real Estate Services W.L.L	Commercial entity	Risk weighting of investment exposure
NS Real Estate Company W.L.L.		
Darari Investment Company W.L.L.		
Burj Al Safwa Property Investment Company W.L.L.		

3.2 Capital Structure

The Group's regulatory total capital of BD 303,994 thousands comprises of CET 1, AT1 and Tier 2 capital which is detailed in the following table: (PD 1.3.11)

The issued and paid up share capital of the Group was BD 241,972 thousands at 31 December 2021, comprising of 2,419,723 thousand shares of BD 0.100 each. (PD 1.3.11)

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

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

(BD '000s)

	CET1	AT1	T2
Issued and fully paid up ordinary shares	241,972		
Treasury shares	(12,473)		
Legal/statutory reserves	18,600		
Share premium	209		
Retained earnings	19,097		
Current interim cumulative net income / losses	22,213		
Unrealized gains and losses on available for sale financial instruments	9,532		
Gains and loss resulting from converting foreign currency subsidiaries to the parent currency	(3,985)		
Total Minority Interest in banking subsidiaries given recognition in CET1 capital	168		
Total CET1 capital prior to regulatory adjustments	**295,333**		
Less:			
Goodwill	(25,971)		
Total Common Equity Tier 1 capital after the regulatory adjustments above	**269,362**		
Instruments issued by banking subsidiaries to third parties		36	48
Asset revaluation reserve - Property, plant, and equipment		-	22,865
General financing loss provisions		-	11,683
Total Available AT1 & T2 Capital		**36**	**34,596**
Total Tier 1		**269,398**	
Total Capital (PD 1.3.20 a)			**303,994**

Table 3.2

(BD '000s)

	Risk Weighted Exposures		
	Credit	Operational	Market
Risk Weighted Exposures (self-financed)	724,046	102,426	27,314
Risk Weighted Exposures (URIA)	203,389	-	-
Aggregation of Risk Weighted Exposures	7,195	824	-
Risk Weighted Exposures after Aggregation	**934,629**	**103,250**	**27,314**
Total Risk Weighted Exposures			**1,065,193**

	CET 1	T1	Total Capital
% of Total Risk Weighted Exposures (CAR) (PD 1.3.20 a)	**25.29%**	**25.29%**	**28.54%**
Minimum Required by CBB Regulations under Basel III (before CCB)	**6.50%**	**8.00%**	**10.00%**
Capital Conservation Buffer (CCB)	**2.50%**	**2.50%**	**2.50%**
Minimum Required by CBB Regulations under Basel III (after CCB)	**9.00%**	**10.50%**	**12.50%**

* Calculated in accordance with Capital Adequacy Module of Volume 2 issued by the CBB. ASBS has not been considered as a significant subsidiary as the regulatory capital is less than 5% of the Group's consolidated capital base.

4 Capital Adequacy Ratios (CAR)

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

4.1 Capital Management

Internal Capital Adequacy Assessment Process (ICAAP)

The Group's capital management aims to maintain an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always maintaining minimum regulatory ratio requirements and for Pillar II risks.

The key principles driving capital management include:

- Adequate capital is maintained as buffer for unexpected losses to protect stakeholders i.e. shareholders and depositors.
- Optimize risk adjusted return on capital and generate sustainable return above the cost of capital.

The adequacy of the Group's capital is monitored using, primarily, the rules and ratios established by the CBB. The primary objective of the Group's capital management is to ensure that it complies with externally imposed capital requirements. The Group complied in full with all externally imposed capital requirements during the year ended 31 December 2021.

5 Profile of Risk-Weighted Assets and Capital Charge

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

5.1 Credit Risk

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

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

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

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

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

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

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

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

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

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

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

g. Past due receivables (PD 1.3.22 a)
The unsecured portion of the account receivables and lease payment receivables (other than a qualifying residential mortgage financing contract) that is past due for more than 90 days, is risk-weighted as follows (net of specific provisions and including partial write-offs):

(a) 150% risk weight when specific provisions are less than 20% of the outstanding amount of the facility.
(b) 100% risk weight when specific provisions are 20% or more of the outstanding amount of the facility.

h. Investment in securities and sukuk
Investments in listed equities are risk weighted at 100% while unlisted equities are risk weighted at 150%. Investments in sukuk are risk weighted based on respective counterparty's credit ratings.

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

j. Other assets
These are risk weighted at 100%.

5 Profile of Risk-Weighted Assets and Capital Charge

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	117,694	-	117,694	34,030	4,254
Sovereign Sukuk	613,546	-	613,546	1,445	181
Placements with financial institutions	-	-	-	-	-
Corporate Sukuk	23,148	-	23,148	19,914	2,489
Murabaha financing	29,191	1,447	27,744	27,771	3,471
Mudaraba financing	21,923	2,912	19,011	18,646	2,331
Musharaka	29	-	29	29	4
Credit Cards	34	-	34	26	3
Finance lease assets	36,601	36,036	565	440	55
Non-trading investments	92,354	-	92,354	363,021	45,378
Investment properties	57,961	-	57,961	115,922	14,490
Development properties	2,943	-	2,943	5,886	736
Investment in associates	14,533	-	14,533	36,332	4,542
Other assets	39,518	-	39,518	40,443	5,055
Total funded exposures	**1,049,475**	**40,395**	**1,009,079**	**663,905**	**82,988**
Contingent Liabilities & Commitments	94,092	-	94,092	60,141	7,518
Total unfunded exposures	**94,092**	**-**	**94,092**	**60,141**	**7,518**
Aggregation of Risk Weighted Exposures for AlSalam Bank Seychelles Limited	**-**	**-**	**-**	7,195	899
Total exposures	**1,143,566**	**40,395**	**1,103,171**	**731,241**	**91,405**

Contribution by Equity of Investment Accountholders					
Exposure Type	**Gross Credit Exposure**	**CRM**	**Net Credit Exposure**	**Risk-Weighted Assets (RWA)*30%**	**Minimum Capital Charge**
Cash and balances with banks and Central Bank	189,747	-	189,747	4,599	575
Placements with financial institutions	131,211	-	131,211	12,019	1,502
Murabaha financing	357,864	31,467	326,397	49,906	6,238
Mudaraba financing	379,555	59,618	319,937	70,991	8,874
Musharaka	32,950	-	32,950	9,808	1,226
Credit Cards	3,552	-	3,552	917	115
Finance lease assets	520,078	132,311	387,768	55,148	6,894
Total funded exposures	**1,614,957**	**223,396**	**1,391,562**	**203,388**	**25,424**
Contingent Liabilities & Commitments	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**
Total exposures	**1,614,957**	**223,396**	**1,391,562**	**203,388**	**25,424**

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

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

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

Note c: The unfunded exposure before (CCF) as of 31 December 2021 is BD 188,613 thousands.

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

5.1 Credit Risk (continued)

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

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

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

Table 5.2 Gross Credit Exposures (PD 1.3.26 b)

(BD '000s)

Current Credit Exposure by Type of Islamic Financing Contracts	Gross Positive Fair Value (Net of specific provision)	Netting Benefits	Netted Current Credit Exposures	Eligible Collaterals Held (after appropriate haircuts) *				
				Cash	Govt. Securities	Guarantees	Real Estate	Total
Murabaha financing	387,055	-	387,055	13,108	29,815	-	-	42,923
Mudaraba financing	401,478	-	401,478	72,093	-	-	-	72,093
Finance lease assets (Ijarah Muntahia Bittamleek)	556,679	-	556,679	5,841	-	-	349,327	355,168
Musharaka	32,978	-	32,978	-	-	-	-	-
Credit Cards	3,586	-	3,586	-	-	-	-	-
Total	**1,381,776**	**-**	**1,381,776**	**91,042**	**29,815**	**-**	**349,327**	**470,184**

* Over and above the collateral, considered as eligible under the CA Module, the Bank maintains additional collateral in the form of mortgage of residential properties, corporate guarantees and other tangible assets, which could be invoked to claim the amount owed in the event of default.

Credit risk concentrations and thresholds
The first level of protection against undue credit risk is through country, industry and threshold limits, together with customer and customer bank credit limits, set by the Board. Credit exposure to individual customers or customer banks is then controlled through a tiered hierarchy of delegated approval authorities.

Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of closely related counterparties exceeding 15 percent of total capital.

As at 31 December 2021, the Group's exposures in excess of 15% of the obligor limits to individual counterparties, excluding Central Bank and exempt exposures by CBB were BHD nil. (PD 1.3.23 f)

Table 5.3 Gross Credit Exposures (PD 1.3.23 a)

(BD '000s)

Contribution by Equity and Current Accounts		
Exposure Type	Gross Credit Exposure	Average Gross Credit Exposure*
Cash and balances with banks and Central Bank	119,746	153,145
Sovereign Sukuk	613,403	516,252
Corporate Sukuk	26,285	20,819
Financing assets	40,720	51,337
Finance lease assets	36,277	81,248
Non-trading investments	91,591	95,343
Investment properties	57,961	59,545
Development properties	2,943	2,943
Investment in associates	14,533	14,607
Other assets	45,998	45,812
Goodwill	25,971	25,971
Total funded exposures	**1,075,428**	**1,067,020**
Contingent Liabilities & Commitments	188,613	148,610
Total unfunded exposures	**188,613**	**148,610**
Total exposures	**1,264,041**	**1,215,630**

Contribution by Equity of Investment Accountholders		
Exposure Type	Gross Credit Exposure	Average Gross Credit Exposure *
Cash and balances with banks and Central Bank	189,403	150,981
Placements with financial institutions	133,860	136,890
Financing assets	766,248	754,908
Finance lease assets	519,632	452,782
Total funded exposures	**1,609,143**	**1,495,561**
Contingent Liabilities & Commitments	-	-
Total unfunded exposures	**-**	**-**
Total exposures	**1,609,143**	**1,495,561**

* The Group has calculated the average gross credit exposures based on average quarterly balances.

Risk mitigation, collateral and other credit enhancements
The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly include cash, lien on property and guarantees from directors, corporates and high net worth individuals and banks. As at 31 December 2021, the collaterals eligible for CRM (after applying regulatory haircuts) amounted to BD 470,184 thousands.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses with respect to Murabaha and Ijarah facilities. The Bank also makes use of master netting agreements with counterparties where relevant. **(PD 1.3.25 a)**

The main types of guarantors include rated banks and other financial institutions, Corporates and Sovereigns which are rated by ECAI's along with personal guarantees of the Board of Directors of the borrower and other high net worth individuals.

The Group obtains additional collateral as and when the value of the collateral originally obtained is assessed at lower than the minimum acceptable Loan to Value (LTV) ratio of collateral. Also, where the customer is not in a position to provide additional collateral, the Group reviews the situation and a suitable decision is made on the exposure to the said customer.

The Group ensures that at the inception of the facility, third parties valuation of the tangible collaterals is obtained and performs an annual review of the facility whereby the revised collateral valuation is obtained from the Bank's approved valuators.

In case of default, the Group will work with the counterparty to discuss how the outstanding facility can be settled. As a last resort, the counterparty's assets will be used to settle the outstanding obligation.

5 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	16,828	21	21,314	370	80,818	394	**119,746**
Sovereign Sukuk	608,620	-	-	4,783	-	-	**613,403**
Corporate Sukuk	26,285	-	-	-	-	-	**26,285**
Murabaha financing	22,261	-	-	-	-	3,028	**25,289**
Mudaraba financing	15,156	-	-	-	-	247	**15,403**
Musharaka	28	-	-	-	-	-	**28**
Finance lease assets	36,277	-	-	-	-	-	**36,277**
Non-trading investments	88,951	-	2,641	-	-	-	**91,591**
Investment properties	57,961	-	-	-	-	-	**57,961**
Development properties	-	-	2,943	-	-	-	**2,943**
Investment in associates	-	10,676	-	-	-	3,857	**14,533**
Other assets	32,869	6,496	7	5,300	180	1,146	**45,998**
Goodwill	25,971	-	-	-	-	-	**25,971**
Total funded exposures	**931,207**	**17,193**	**26,905**	**10,453**	**80,998**	**8,672**	**1,075,428**
Contingent Liabilities & Commitments	178,700	9,129	45	739	-	-	**188,613**
Total unfunded exposures	**178,700**	**9,129**	**45**	**739**	**-**	**-**	**188,613**
Total exposures	**1,109,907**	**26,322**	**26,950**	**11,192**	**80,998**	**8,672**	**1,264,041**

Table 5.5 (PD 1.3.23 b)

(BD '000s)

Contribution by Equity of investment account holders							
Exposure type	GCC Countries	Arab World	Europe	Asia Pacific	North America	Others	Total
Cash and balances with banks and Central Bank	187,680	-	-	-	-	1,724	**189,403**
Placements with financial institutions	129,786	-	-	-	1,422	2,653	**133,860**
Murabaha financing	351,438	-	4,196	-	-	-	**355,634**
Mudaraba financing	371,587	230	-	-	-	2,434	**374,252**
Musharaka	32,948	-	-	-	-	-	**32,948**
Credit Cards	3,414	-	-	-	-	-	**3,414**
Finance lease assets	516,812	-	-	-	-	2,819	**519,632**
Total funded exposures	**1,593,665**	**230**	**4,196**	**-**	**1,422**	**9,630**	**1,609,143**
Contingent Liabilities & Commitments	-	-	-	-	-	-	-
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**1,593,665**	**230**	**4,196**	**-**	**1,422**	**9,630**	**1,609,143**

Table 5.6 The geographical distribution of exposures including impaired assets and the related impairment provisions **(PD 1.3.23 i)**

(BD '000s)

	Gross Past Due Financing Contracts	12 month ECL and Lifetime ECL not impaired (Stage 1 & 2)	Gross Impaired Financing Contracts	Life time ECL credit impaired (Stage 3)
GCC Countries	41,774	(868)	30,100	(19,063)
Others	-	-	1	(1)
Total	**41,774**	**(868)**	**30,101**	**(19,064)**

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

5.1 Credit Risk (continued)

5.1.2 Exposure by Industry

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

(BD '000s)

Contribution by Equity and Current Account							
Exposure Type	Trading and Manufacturing	Banks and Financial Institutions	Real Estate	Individuals	Government	Others	Total
Cash and balances with banks and Central Bank	-	17,467	-	-	102,279	-	**119,746**
Sovereign Sukuk	36,532	256,147	-	-	320,724	-	**613,403**
Corporate Sukuk	-	26,285	-	-	-	-	**26,285**
Murabaha financing	1,185	22,554	-	1,494	-	56	**25,289**
Mudaraba financing	9,006	1,289	169	1,259	-	3,680	**15,403**
Musharaka	-	-	-	28	-	-	**28**
Finance lease assets	3,474	-	22,975	9,827	-	-	**36,277**
Non-trading investments	-	-	88,213	-	-	3,378	**91,591**
Investment properties	-	-	57,961	-	-	-	**57,961**
Development properties	-	-	2,943	-	-	-	**2,943**
Investment in associates	-	14,533	-	-	-	-	**14,533**
Other assets	7,473	15,980	-	937	-	21,609	**45,998**
Goodwill	-	25,971	-	-	-	-	**25,971**
Total funded exposures	**57,670**	**380,226**	**172,261**	**13,545**	**423,003**	**28,723**	**1,075,428**
Contingent Liabilities & Commitments	102,159	14,018	42,395	6,752	17,603	5,687	**188,613**
Total unfunded exposures	**102,159**	**14,018**	**42,395**	**6,752**	**17,603**	**5,687**	**188,613**
Total exposures	**159,829**	**394,244**	**214,656**	**20,296**	**440,605**	**34,410**	**1,264,041**

Table 5.8 Exposure by type of credit exposure **(PD 1.3.23 c)**

(BD '000s)

Contribution by Equity of Investment Accountholders							
Exposure Type	Trading and Manufacturing	Banks and Financial Institutions	Real Estate	Individuals	Government	Others	Total
Cash and balances with banks and Central Bank	-	189,403	-	-	-	-	**189,403**
Placements with financial institutions	-	87,364	-	-	46,496	-	**133,860**
Murabaha financing	22,858	46,942	26,686	162,147	91,204	5,796	**355,634**
Mudaraba financing	120,628	12,586	93,897	61,630	56,948	28,564	**374,252**
Musharaka	12,629	-	12,828	7,491	-	-	**32,948**
Credit Cards	-	-	-	3,414	-	-	**3,414**
Finance lease assets	82,531	2,820	44,865	381,553	2,401	5,462	**519,632**
Total funded exposures	**238,646**	**339,115**	**178,276**	**616,235**	**197,049**	**39,822**	**1,609,143**
Contingent Liabilities & Commitments	-	-	-	-	-	-	**-**
Total unfunded exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposures	**238,646**	**339,115**	**178,276**	**616,235**	**197,049**	**39,822**	**1,609,143**

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

(BD '000s)

	Gross Past Due Financing Contracts	12 month ECL and Lifetime ECL not impaired (Stage 1 & 2)	Gross Impaired Financing Contracts	Life time ECL credit impaired (Stage 3)
Trading and Manufacturing	1,084	(37)	10,770	(7,100)
Real Estate	19,465	(504)	6,717	(2,758)
Individuals	11,722	(322)	10,856	(8,528)
Government	9,286	-	-	-
Others	217	(5)	1,758	(678)
Total	**41,774**	**(868)**	**30,101**	**(19,064)**

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

5.1 Credit Risk (continued)

5.1.2 Exposure by Industry (continued)

Table 5.10 Ageing Analysis **(PD 1.3.24 b (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	2,276	5,956	3,622	(7,137)	4,717	8,571
Real Estate	23,820	858	1,504	(3,262)	22,920	39,785
Individuals	14,511	1,301	6,766	(8,849)	13,728	25,767
Government	9,286	-	-	-	9,286	-
Others	218	1,132	624	(683)	1,292	2,607
Total	**50,111**	**9,247**	**12,516**	**(19,931)**	**51,943**	**76,730**

5.1.3 Movement In Net Allowance For Credit Losses / Impairment (PD 1.3.24 d)

Table 5.11 The balance of allowance for credit loss in the below table includes all financial assets and off-balance sheet exposures in addition to financing assets:

(BD '000s)

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

5.1.4 Exposure by External Credit Rating

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

Table 5.12 (BD '000s)

Exposure Type	Gross Credit Exposure*	Rated Exposure	Unrated Exposure
Cash	7,772	-	7,772
Claims on sovereigns	829,738	3,641	826,097
Claims on banks	316,237	272,273	43,964
Claims on corporate portfolio	398,142	-	398,142
Regulatory retail portfolio	112,401	-	112,401
Mortgages	789,882	-	789,882
Past due receivables over 90 days	15,003	-	15,003
Investments in Securities and Sukuk	15,027	-	15,027
Holding of Real Estate	152,957	-	152,957
Other assets and Specialized financing	121,364	-	121,364
Total	**2,758,523**	**275,914**	**2,482,609**

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

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

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

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

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

5.1 Credit Risk (continued)

5.1.5 Maturity Analysis of Exposures

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

Table 5.13 (BD '000s)

	Notional Principal	Credit Exposure *
Contingent liabilities on behalf of customers	59,728	43,535
Irrevocable unutilised commitments	128,885	50,557
Total	**188,613**	**94,092**

* Credit exposure is after applying CCF.

Table 5.14 Contractual maturity analysis by major type of credit exposure - Funded **(PD 1.3.23 g) (PD 1.3.24 a)**

(BD '000s)

Exposure Type	Up to 3 months	3 months to 1 year	Total within 12 months	1 – 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total Over 12 months	Total
Cash and balances with banks and Central Bank	309,149	-	**309,149**	-	-	-	-	**-**	**309,149**
Sovereign Sukuk	15,293	66,725	**82,018**	294,905	222,561	-	13,919	**531,385**	**613,403**
Placements with financial institutions	129,189	4,671	**133,860**	-	-	-	-	**-**	**133,860**
Corporate Sukuk	8,687	1,875	**10,562**	12,574	3,149	-	-	**15,723**	**26,285**
Financing assets and finance lease assets	179,648	217,492	**397,140**	501,788	250,964	158,312	54,673	**965,737**	**1,362,877**
Non-trading investments	-	-	**-**	-	91,591	-	-	**91,591**	**91,591**
Investment properties	-	-	**-**	-	57,961	-	-	**57,961**	**57,961**
Development properties	-	-	**-**	-	2,943	-	-	**2,943**	**2,943**
Investment in associates	-	-	**-**	-	14,533	-	-	**14,533**	**14,533**
Other assets	10,145	135	**10,280**	535	35,175	2	6	**35,718**	**45,998**
Goodwill	-	-	**-**	-	25,971	-	-	**25,971**	**25,971**
Total	**652,111**	**290,898**	**943,009**	**809,802**	**704,849**	**158,314**	**68,597**	**1,741,562**	**2,684,571**

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

(BD '000s)

Exposure Type	Up to 3 months	3 months to 1 year	Total within 12 months	1 – 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total Over 12 months	Total
Unutilised commitments	27,082	39,939	**67,021**	2,423	43,746	13,529	2,166	**61,864**	**128,885**
Contingent liabilities	8,349	18,965	**27,313**	10,690	7,601	14,123	-	**32,414**	**59,727**
Total	**35,431**	**58,904**	**94,334**	**13,113**	**51,347**	**27,652**	**2,166**	**94,278**	**188,613**

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

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

5.1 Credit Risk (continued)

5.1.5 Maturity Analysis of Exposures (continued)

Table 5.15 Contractual maturity analysis by major type of funding

(BD '000s)

Exposure Type	Up to 3 months	3 months to 1 year	Total within 12 months	1 – 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total Over 12 months	Total
Placements from financial institutions	69,763	56,726	**126,489**	402	-	-	-	**402**	**126,891**
Customer current accounts	482,739	-	**482,739**	-	-	-	-	**-**	**482,739**
Murabaha term financing	55,240	27,518	**82,758**	2,211	15,247	-	-	**17,459**	**100,216**
Other liabilities	24,976	-	**24,976**	-	28,813	-	-	**28,813**	**53,789**
Equity of Investment Accountholders	977,655	538,919	**1,516,574**	101,411	6,192	-	-	**107,603**	**1,624,177**
Total	**1,610,373**	**623,163**	**2,233,535**	**104,024**	**50,252**	**-**	**-**	**154,276**	**2,387,812**

5.2 Market Risk

Market risk arises from fluctuations in market prices on financial instruments and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board of Directors has set limits on the risk that may be accepted. This is monitored on a regular basis by the Group's Asset and Liability Committee. **(PD 1.3.27 a)**

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

(BD '000s)

	Risk Weighted Asset	Capital Requirement	Year End Capital Charge	Capital Requirement –Minimum*	Capital Requirement –Maximum*
Foreign exchange risk	27,314	3,414	2,185	2,051	2,233
Total market risk	**27,314**	**3,414**	**2,185**	**2,051**	**2,233**

* The information in these columns shows the minimum and maximum capital charge of each of the market risk categories on a quarterly basis during the year ended 31 December 2021.

Foreign exchange positions constitute a major component of the market risk capital charge. The Group maintains a conservative market risk exposure that is focused on the foreign exchange risk coming from the Group's banking book positions. The open positions were taken in order of running the Group's day to day operations that include funding for the Group's investment portfolio. The Group monitors and manages these open positions on a daily basis. **(PD 1.3.27 a)**

5.3 Operational Risk

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

The Group's policy and procedures dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff that are independent of the individuals initiating the transactions. Each business line including Operations, Information Technology, Human Resources, Legal, Compliance and Financial Control is further responsible for employing the aforementioned framework processes and control programs to manage its operational risk within the guidelines established by the policy, and to develop internal procedures that comply with these policies. To ensure that all operational risks to which the Group is exposed to are adequately managed, support functions are also involved in the identification, measurement, management, monitoring and control/mitigation of operational risk, as appropriate. **(PD 1.3.28) (PD 1.3.29)**

Consistent with the fundamental principle of ownership, the relevant business units are accountable and responsible for managing the operational risks relevant to their respective businesses. Consequently, business and support units have documented procedures and controls in place along with departmental instruction manuals. All changes to such policies are subject to agreement by all respective business units and approval of the Board of Directors following management review. Procedures are reviewed by the respective business or support unit and approved at the management level. **(PD 1.3.28) (PD 1.3.29)**

The Group has a well established Business Continuity Policy and Disaster Recovery Program, and has documented updated procedures covering all activities necessary for business continuity in case of a business disrupting event. Internal Audit also provides an independent assessment to evaluate the program's effectiveness.

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 consolidated minimum capital charge in respect of operational risk was BD 12,906 thousands. This capital charge was computed by categorizing the Group's activities into its specific business lines (as defined by the Basel III framework) and multiplying the business line's average gross income for the last three financial years by a predefined beta factor and adding the aggregation of operational risk weighted exposures of ASB Seychelles. (PD 1.3.19)

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

	Dec-2021
Average gross income	54,627
Risk weighted exposures	102,426
Minimum capital charge	12,803

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

Non-Shari'a compliant income for the year ended 31 December 2021 amounted to BD 291 thousands. This has arisen primarily from conventional financing and investments, penalty charges from customers and income on current accounts balances held with correspondent banks. No Sharia violations were identified during the year ended 2021. (PD 1.3.30 a, b)

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

5.4 Rate of Return Risk (PD 1.3.39)

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

This risk is minimized as the Group's rate sensitive assets and liabilities are mostly for short tenures. In addition, the Group's cautious asset liability strategy avoids funding long term lending facilities from short term borrowings. The Group has set limits for profit return risk and these are monitored on an ongoing basis by the Group's Asset and Liability Committee (ALCO).

The below tables provide the asset and liability re-pricing profile on the contractual repricing or maturity dates, whichever is earlier for the year ended 31 December 2021 . (PD 1.3.27 c)

Table 5.18 (BD '000s)

Assets	Total	Upto 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 2 years	>2 to 3 years	>3 years	Profit insensitive
Cash and balances with banks and Central Bank	309,149	-	-	-	-	-	-	-	309,149
Sovereign Sukuk	613,403	6,049	9,244	20,736	45,989	17,114	89,198	425,072	-
Placements with financial institutions	133,860	129,189	-	4,671	-	-	-	-	-
Corporate Sukuk	26,285	8,625	61	1,875	-	-	3,881	11,842	-
Murabaha financing	380,940	30,944	49,304	13,491	23,577	27,061	28,877	207,687	-
Mudaraba financing	389,655	16,585	70,993	34,810	83,377	54,508	71,763	57,619	-
Musharaka	32,976	12	1,577	538	14,490	3,239	7,057	6,064	-
Credit Cards	3,397	3,397	-	-	-	-	-	-	-
Finance lease assets	555,909	2,721	4,116	12,279	34,930	32,212	32,901	436,750	-
Non-trading investments	91,591	-	-	-	-	-	-	-	91,591
Investment properties	57,961	-	-	-	-	-	-	-	57,961
Development properties	2,943	-	-	-	-	-	-	-	2,943
Investment in associates	14,533	-	-	-	-	-	-	-	14,533
Other assets	45,998	19	46	34	101	191	147	269	45,191
Goodwill	25,971	-	-	-	-	-	-	-	25,971
Total Assets (A)	**2,684,571**	**197,541**	**135,341**	**88,434**	**202,464**	**134,325**	**233,824**	**1,145,303**	**547,339**

Liabilities	Total	Upto 1 month	>1 to 3 months	>3 to 6 months	>6 to 12 months	>1 to 2 years	>2 to 3 years	>3 years	Profit insensitive
Placements from financial institutions	126,891	37,624	32,139	27,170	29,556	402	-	-	-
Customer current accounts	482,739	-	-	-	-	-	-	-	482,739
Murabaha term financing	100,216	25,444	29,795	27,518	-	-	2,211	15,247	-
Other liabilities	53,789	-	-	-	-	-	-	-	53,789
Equity of investment accountholders	1,624,177	688,469	283,888	298,270	240,649	66,977	11,796	28,829	5,300
Total Liabilities	2,387,812	751,537	345,822	352,958	270,205	67,379	14,007	44,076	541,828
Shareholders funds	296,759	-	-	-	-	-	-	-	296,759
Total Liabilities & Shareholders Funds	**2,684,571**	**751,537**	**345,822**	**352,958**	**270,205**	**67,379**	**14,007**	**44,076**	**838,587**
Off-Balance Sheet Liabilities	188,613	15,188	15,188	30,375	30,375	30,375	-	-	67,112
Total liabilities with Off-Balance Sheet Items (B)	**2,873,184**	**766,725**	**361,010**	**383,333**	**300,580**	**97,754**	**14,007**	**44,076**	**905,698**
Gap (A - B)		(569,184)	(225,669)	(294,898)	(98,116)	36,571	219,817	1,101,226	
Cumulative Gap		**(569,184)**	**(794,852)**	**(1,089,751)**	**(1,187,867)**	**(1,151,297)**	**(931,480)**	**169,747**	

Table 5.18 (a) (BD '000s)

Profit rate risk in the Banking Book	
200bp Profit Rate Shocks	
Upward rate shocks on net profit	8,852
Downward rate shocks on net profit	(8,852)
Impact on Economic Value of Equity	3.8%

5.5 Equity Position Risk

(PD 1.3.21 d) (PD 1.3.31)
Equity position risk arises from the possibility of changes in the price of equities or equity indices and the corresponding effect they will have on future profitability or the fair values of financial instruments. The Group is exposed to equity risk in the non-trading position and investment portfolio primarily in its core international and GCC markets.

Equity risk in the banking book is effectively managed by the active involvement of the Executive and Investment committees; adhering to the policies and procedures in place; involvement of competent professionals; adequate internal control environment and independent internal audit department.

Executive and Investment Committee Oversight
The Board of Director's involvement begins with the approval of the Investment Policy which essentially determines the following: aggregate portfolio parameters, asset class restrictions, approval authorities, risk tolerance, maturity considerations, exit strategy and governance issues.

The Executive Committee has delegated authority within the overall Board authority. It provides direction to the Executive Management on all business matters and assumes the role of the Board to address matters arising between Board meetings. The Committee is responsible for business matters concerning credit risk, strategy review and recommendations to the Board. The Investment Committee reviews and approves all transactions related to corporate and real estate investments, as well as monitoring their performance on an ongoing basis. In addition, the Committee is responsible to oversee the performance of the fund managers and recommend exit strategies to maximize return to its investors.

Internal Controls
With regard to internal controls, the investment activity is subject to the same rigorous checks and balances in place for the commercial banking activity. Adequacy of internal controls is ensured by the recruitment of adequate qualified professionals, proper definition and communication of departmental and personnel roles, segregation of responsibilities of origination and implementation, independent reporting by the Financial Controls Department, periodic internal audit of the existence and implementation of processes and controls. All recommendations of the Strategy and Planning Department (SPD) are documented in the form of Investment Portfolio Reports and Investment Memorandums and are subject to independent review by the Investment Committee. Responsibility for all deployments and receipt of redemption proceeds vests with the SPD. The SPD ensures transparency in valuation by sourcing pricing from the available sources and using conservative valuation principles in accordance with international accounting standards. In addition, the SPD operates as an independent department responsible for due diligence of investments and specializes in sourcing deals and performing the initial analysis. Moreover, the Investment Administration Department will perform the investment management duties of monitoring the investments and preparing performance reports along with other required documentation. This set-up helps streamline processes as each unit focuses on specific set of duties at the same time having independence controls.

Table 5.19 Equity positions in the Banking Book

(BD '000s)

	Gross Credit Exposure
Quoted Equities	4,117
Unquoted Equities	87,474
Investment in associates - equity accounted	14,533
Net realized gain/ (loss) during the year	346
Net unrealized gain/ (loss) during the year	(3,397)

(BD '000s)

Asset Categories for Credit Risk	Gross Credit Exposure	Risk-Weighted Assets (RWA)	Minimum Capital Charge
Equity Investments - Unlisted	170	255	32
Significant investment in the common shares of financial entities >10%	14,533	36,332	4,542
Investment in listed real estate companies	4,117	12,350	1,544
Investment in unlisted real estate companies	87,173	348,692	43,586

The Group's equity positions strategy consists of investments that are expected to bring in capital gains or for strategic reasons. The strategy has been drafted after considering the Board's risk appetite and the Board's approved liquidity, market risk and capital management policies. In line with the Board's approved policies, the investment strategy is conservative in the sense that it avoids investments with high volatility returns.

5.6 Displaced Commercial Risk

(PD 1.3.41 a) (PD 1.3.21 f) (PD 1.3.32 i)
The Group is exposed to displaced commercial risk in the event of having Equity of Investment Accounts (EOIA) profit rates that are lower than market rates, thus putting the Group in risk of paying EOIA holders from shareholders funds to cover the profit volatility risk. ASB has mitigated this risk through regular monitoring of liquidity gaps, deposit rates and concentrations in terms of the funding requirements by the Asset Liability Committee (ALCO). The ALCO reviews and monitors peer review analysis which includes average deposit rates paid by its peers in order to realign the deposit rates with the current market.

5.7 Liquidity Risk

(PD 1.3.36) (PD 1.3.37)
The Group monitors in an active manner its liquidity profile through analysis of the liquidity gap across specific timeframes in order to maintain the net asset liability position that is within the Board's risk appetite. The maintenance of the net asset liability position is done through the monitoring of the Group's liquidity indicators through which the Group's liquidity profile can be assessed. In addition, the Group further mitigates its liquidity risk by establishing multiple funding sources to decrease it's correlation to an individual funding counterparty. The multiple funding lines can be used to offset any shortage resulting from the Group's obligations and/or to settle any shortage from each of the current accounts and Equity of investment accounts. The liquidity coverage ratio as of 31 December 2021 was 322.93%.

5.8 Other Risks

The Group has an investment in a foreign banking subsidiary wherein the transactions are denominated in US Dollars (USD) and since the BHD is pegged to USD there is no foreign exchange translation effect on the investment. (PD 1.3.42)**.** The group has an investment in associate denominated in Algerian Dinar and the impact of foreign currency translation is included under Foreign Currency Translation Reserve (FCTR) in equity.

6 Equity of Investment Accountholders (EIAH)

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

The Group does not allocate non-performing assets to EIAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to EIAH accountholders. Only the profits earned on pool of assets funded from EIAH and owners' equity are allocated between the owners' equity and IAH. As per the policy of the Group, minimum of 15% of return on assets earned is distributed to investment accountholders and 85% is retained by the Group as Mudarib share. The Group did not charge any administration expenses to investment accounts.

The funds are invested and managed in accordance with Shari'a principles. **(PD 1.3.32 b)**

According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested. In order to avoid excessive risk concentration the Group invests the commingled funds in such a way so as to comply with the CBB's large exposures limits. All Equity of investment accounts are classified as Mudarabas where fees are deducted before profit allocation, as there is no limit against their withdrawal. It should however be noted that Mudaraba account fees are subject to being partially or totally waived in order to match investment account holder market returns. **(PD 1.3.32 c, j, k)**

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

The EIAH and other customers can use the Group's relationship managers for any advice, mediation services, grievances and complaints. **(PD 1.3.32 f, g)**

There is no variation between Mudarib agreed sharing and contractual agreed ratio. Profit earned and paid and rate of return comparatives for the Equity of investment account holders for the years ended 31 December 2021, 2020,2019, 2018,2017 and 2016 are as follows: (**PD 1.3.33 d, e, l, m, n**)

Table 6.1

(BD '000s)

	Dec-2021	Dec-2020	Dec-2019	Dec-2018	Dec-2017	Dec-2016
Profit earned for EIAH before smoothing	68,425	60,186	50,271	492	230	216
Profit paid for EIAH after smoothing	35,977	29,335	28,425	246	119	119
Balance of:						
PER	N/A	N/A	N/A	N/A	N/A	N/A
IRR	N/A	N/A	N/A	N/A	7	7
Annual Rate of Return Benchmark	3%	3%	3%	3%	3%	3%
Annual Rate of Return (EIAH) - Profit earned	4.21%	4.91%	4.86%	0.53%	0.23%	0.18%
Annual Rate of Return (EIAH) - Profit paid	2.22%	2.39%	2.75%	0.27%	0.12%	0.10%
PER Amount	-	-	-	-	-	-
PER %	-	-	-	-	-	-
IRR Amount	-	-	-	-	7	7
IRR %	-	-	-	-	-	-
Reconciliation						
Mudaraba Profit Earned	68,425	60,186	50,271	492	230	216
Mudarib fees	(32,448)	(30,851)	(21,846)	(246)	(111)	(97)
Profit credited to EIAH accounts	**35,977**	**29,335**	**28,425**	**246**	**119**	**119**
IRR movements	-	-	-	-	-	-
Profit on EIAH accounts	**35,977**	**29,335**	**28,425**	**246**	**119**	**119**
Mudarib fee as a percentage of total investment profit	47%	51%	43%	50%	48%	45%
EIAH Balance	1,624,177	1,225,380	1,034,743	99,761	118,881	68,796
RWA as per PIRI Report	203,389	170,292	11,469	6,886	18,727	4,128

Table 6.2

	Dec-2021	Dec-2020	Dec-2019	Dec-2018	Dec-2017	Dec-2016
Rate of Return	2.22%	2.39%	2.75%	0.25%	0.10%	0.17%
Return on average EIAH assets (ROAA)	4.80%	5.45%	15.23%	0.49%	0.26%	0.32%
Return on average equity (Total Owner's Equity) (ROAE)	23.68%	20.89%	16.15%	0.16%	0.14%	0.07%

6 Equity of Investment Accountholders (continued)

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

Total assets breakdown by EIAH & Self financed **(BD '000s)**

	Total Exposures	Funded by EIAH	Self Financed	% of EIAH to Total
Sovereign	620,052	197,049	423,003	32%
Financial Institutions	719,341	339,115	380,226	47%
Corporate	715,398	456,744	258,654	64%
Retail	629,779	616,235	13,545	98%
Total	**2,684,570**	**1,609,143**	**1,075,428**	**60%**

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

(BD '000s)

	Cash and balances with banks and Central Bank		Placements with financial institutions		Financing Assets		Finance Lease Assets	
	EIAH	Self Financed	EIAH	Self Financed	EIAH	Self Financed	EIAH	Self Financed
Asset Allocation as on 31 December 2021	189,403	119,746	133,860	-	766,248	40,720	519,632	36,277
Asset Allocation as on 31 December 2020	107,134	181,132	37,965	-	747,538	66,911	320,029	149,334
Asset Allocation as on 31 December 2019	117,829	101,627	76,660	38,143	656,985	28,771	183,269	206,473
Asset Allocation as on 31 December 2018	-	-	99,761	63,544	-	-	-	-
Asset Allocation as on 31 December 2017	-	-	118,881	22,344	-	-	-	-
Asset Allocation as on 31 December 2016	-	-	68,796	113,656	-	-	-	-

There are no off-balance sheet exposures arising from investment decisions attributable to the EIAH.

7 Other Disclosures

7.1 Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a daily basis by the Market Risk department and on a periodic basis by the Audit and Risk Committee as well as ALCO to ensure positions are maintained within established limits. Substantial portion of the Group's assets and liabilities are denominated in Bahraini Dinars, US Dollars or Saudi Riyals. As the Bahraini Dinar and Saudi Riyals are pegged to the US Dollars, positions in these currencies are not considered to represent significant currency risk as of 31 December 2021.

7.2 Related Party Transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's Senior Management. For further details refer Note 28 titled Related Party Transactions in the consolidated financial statements for the year ended 31 December 2021. The intra-group and related party transactions are made at arms length basis during the year. (PD 1.3.10 e) (PD 1.3.23 d)

7.3 Restructured Facilities

As at 31 December 2021, the balance of the renegotiated financing facilities to individuals and corporate was BD 41,889 thousands.In general, facilities are renegotiated to optimize a facility's credit profile with respect to its recoverability. This can involve changing any of the profit rate, tenure or security package. Previous restructuring of any facilities to individual and corporate customers did not have any significant impact on present and future earnings. (PD 1.3.23 j)

7.4 Assets Sold Under Recourse Agreements

The Group has not entered into any recourse agreement during the year ended 31 December 2021. (PD 1.3.23 k)

7.5 Legal Risk and Claims

As at 31 December 2021, legal suits amounting to BD 3,203 thousands (2020: BD 2,379 thousands) were pending against the Group. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group has also filed counter cases against these parties. (PD 1.3.30 c)

7.6 Deposit Protection Scheme

Certain customers' deposits of the Group are covered by deposit protection schemes established by the Central Bank of Bahrain (CBB). Customers' deposits held with the Bank in the Kingdom of Bahrain are covered by the Regulation Protecting Deposits and Equity of unrestricted investment accounts issued by the CBB in accordance with Resolution No.(34) of 2010. This scheme covers eligible 'natural persons' (individuals) up to a maximum of BD 20,000 as set out by CBB requirements. A periodic contribution as mandated by the CBB is paid by the Group under this scheme. (PD 4.4.2)

7.7 Exposure to highly-leveraged and other high-risk counterparties

The bank has no exposure to highly-leverged and other high-risk counterparties as per the definition provided in the CBB rulebook PD-1.3.24 **(PD 1.3.23 e)**

7.8 Exposures in excess of regulatory limits

The CBB has set a single exposure limit of 15% of the bank's total Capital Base on exposures to individuals and a combined exposure limit of 25% of the total Capital Base of closely-connected counterparties. The excess amount of any exposure above the mentioned thresholds must be risk-weighted at 800% unless it is an exempt exposure in accordance with the requirements in the CBB rulebook.

As at 31 December 2021, the Group's exposures in excess of 15% of the obligor limits to individual counterparties, excluding Central Bank and exempt exposures by CBB were BHD nil. **(PD 1.3.23 f)**

7.9 CBB Penalties (PD 1.3.44)

During the year ended 2021 an amount of BD nil was paid as penalty to the Central Bank of Bahrain (CBB) for failure to comply with CBB requirements.

COMPOSITION OF CAPITAL DISCLOSURE

Appendix PD-2: Reconciliation requirements

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

There are no differences between the regulatory and accounting consolidation, with both following line by line consolidation approach using consistent account policies without excluding any entities. For the purpose of Capital Adequacy calculation; the Bank has obtained an approval from the CBB to aggregate the risk weighted exposures of ASBS instead of the line by line consolidation approach.

As mandated by the Central Bank of Bahrain ("CBB"), financing facilities and investments have been grossed up with collective impairment provision, as presented below:

	BHD '000
Balance sheet as per published financial statements	**2,684,571**
Collective provision impairment	22,959
Less: Provision related to Contingent Liabilities and Commitments	(343)
Balance sheet as in Regulatory Return	**2,707,187**

Step 2: Reconcilation of published financial balance sheet to regulatory reporting as at 31 December 2021

BHD '000

	Balance sheet as in published financial statements	Consolidated PIRI data	Reference
Assets			
Cash and balances with banks and Central Bank	309,149	309,230	
of which Self financed		119,827	
of which financed by URIA		189,403	
Placements with banks and similar financial institutions	133,860	133,866	
of which financed by URIA	-	133,866	
Financing assets	806,968	1,385,183	
Finance lease assets	555,909	-	
of which Self financed	-	84,275	
of which financed by URIA	-	1,300,908	
Available-for-sale investments	639,688	639,845	
of which Sovereign Sukuk	613,403		
of which Corporate Sukuk	26,285		
Investment properties	60,904	60,904	
of which Investments in real estate	57,961	-	
of which Development properties	2,943	-	
Investment in associates	14,533	14,533	
Property, plant, and equipment (PPE)	3,609	3,609	
Other Assets	159,951	160,016	
Non-Trading investment	91,591	-	
Other receivables and prepayments	42,389	-	
Goodwill	25,971	-	G
Total Assets	**2,684,571**	**2,707,187**	
Liabilities			
Customers' current accounts	482,739	482,739	
Placements from financial institutions	126,891	126,891	
Funding Liabilities (e.g. reverse commodity murabaha, etc.)	100,216	100,216	
of which Murabaha term financing	100,216	-	
Accruals, deferred income, other liabilities, current and deferred tax liabilities (DTLs)	53,789	53,446	
Unrestricted Investment Accounts	1,624,177	1,624,177	
Total Liabilities	**2,387,812**	**2,387,469**	
Owners' Equity			
Total share capital	229,499	229,499	A
Share capital	241,972	241,972	
Treasury stock	(12,473)	(12,473)	
Reserves and retained earnings	66,752	66,752	
Share premium	209	209	C-1
Statutory reserve	18,600	18,600	C-2
Retained earnings (excluding profit for the year), of which:	(1,836)	(1,836)	
Amount eligible for CET1	(5,671)	(5,671)	B-1
Amount not eligible for CET1	1,692	1,692	
Subsidy from government	2,143	2,143	
Modification Loss	(24,768)	(24,768)	
Modification loss amortization	24,768	24,768	B-2
Net profit for the year	21,367	21,367	
of which amount eligible for CET1	22,213	22,213	B-3
of which amount not eligible for CET1	(846)	(846)	
Fx translation adjustment	(3,985)	(3,985)	C-3
Changes in fair value - amount eligible for CET1	9,532	9,532	C-4
Real estate fair value reserve - amount eligible for T2	22,865	22,865	D
Minority interest in subsidiaries' share capital	508	508	
of which amount eligible for CET1	-	168	E-1
of which amount eligible for AT1	-	36	E-2
of which amount eligible for T2	-	48	E-3
of which amount not eligible for regulatory capital	-	255	
Expected credit losses (Stages 1 & 2)	-	22,959	
of which amount eligible for T2	-	11,683	F
of which amount not eligible for regulatory capital	-	11,276	
Total Owners' Equity	**296,759**	**319,718**	
Total Liabilities + Owners' Equity	**2,684,571**	**2,707,187**	

Appendix PD-1: Reconciliation requirements & Template
Step 3: Composition of Capital Common Template as at 31 December 2021

BHD '000

	Composition of Capital and mapping to regulatory reports	Component of regulatory capital	Reference numbers of balance sheet under the regulatory scope of consolidation from step 2
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share capital plus related stock surplus	229,499	A
2	Retained earnings	41,310	B1+B2+B3
3	Accumulated other comprehensive income (and other reserves)	24,356	C1+C2+C3+C4
4	*Not Applicable*		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	168	E1
6	**Common Equity Tier 1 capital before regulatory adjustments**	295,333	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	25,971	G
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	*Not applicable*		
15	Defined-benefit pension fund net assets	-	
16	Investments in own shares	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	CBB specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common equity Tier 1**	25,971	
29	**Common Equity Tier 1 capital (CET1)**	**269,362**	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	*Directly issued capital instruments subject to phase out from Additional Tier 1*	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	36	E-2
35	*of which: instruments issued by subsidiaries subject to phase out*	-	
36	**Additional Tier 1 capital before regulatory adjustments**	**36**	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own Additional Tier 1 instruments plus related stock surplus	-	
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
41	CBB specific regulatory adjustments		
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1 capital**	-	
44	**Additional Tier 1 capital (AT1)**	**36**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**269,398**	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	22,865	D
47	*Directly issued capital instruments subject to phase out from Tier 2*	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	48	E-3
49	*of which: instruments issued by subsidiaries subject to phase out*	-	
50	Provisions	11,683	F
51	**Tier 2 capital before regulatory adjustments**	**34,596**	

	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments	-	
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	-	
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments		
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	34,596	
59	**Total capital (TC = T1 + T2)**	303,994	
60	**Total risk weighted assets**	1,065,193	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	25.29%	
62	Tier 1 (as a percentage of risk weighted assets)	25.29%	
63	Total capital (as a percentage of risk weighted assets)	28.54%	
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	9.00%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: bank specific countercyclical buffer requirement	0.00%	
67	of which: D-SIB buffer requirement	0.00%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	25.29%	
	National minima including CCB (if different from Basel 3)		
69	CBB Common Equity Tier 1 minimum ratio	9.00%	
70	CBB Tier 1 minimum ratio	10.50%	
71	CBB total capital minimum ratio	12.50%	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital of other financials	-	
73	Significant investments in the common stock of financials	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	22,959	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	11,683	
78	N/A		
79	N/A		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2019 and 1 Jan 2023)		
80	*Current cap on CET1 instruments subject to phase out arrangements*	-	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-	
82	*Current cap on AT1 instruments subject to phase out arrangements*	-	
83	*Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)*	-	
84	*Current cap on T2 instruments subject to phase out arrangements*	-	
85	*Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)*	-	

Appendix PD-3: Features of regulatory capital
For the year ended 31 December 2021

1	Issuer	Al Salam Bank B.S.C.
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	SALAM
3	Governing law(s) of the instrument	All applicable laws and regulations of the Kingdom of Bahrain
	Regulatory treatment	
4	Transitional CBB rules	Common Equity Tier 1
5	Post-transitional CBB rules	Common Equity Tier 1
6	Eligible at solo/group/group & solo	Group
7	Instrument type (types to be specified by each jurisdiction)	Common Equity shares
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	BD 241.972 Million
9	Par value of instrument	BD 0.100
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	13-Apr-06
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend/coupon	Dividend as decided by the Shareholders
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	Not applicable
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Non cumulative
23	Convertible or non-convertible	Non convertible
24	If convertible, conversion trigger (s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

Background:

Al Salam Bank ("ASB") has been subjected to the Basel III NSFR standards from December 2019, pursuant to CBB circular No. EDBS/KH/54/2018 dated 16th August 2018. ASB is required to maintain NSFR of at least 100% on an on-going basis. CBB has relaxed this ratio to 80% until 30 June 2022 as part of concessionary measures following the COVID-19 pandemic. However, ASB still seeks to maintain the original 100% requirement.

The objective of NSFR is to improve the resiliency of banks by promoting long term funding stability. NSFR is designed to limit the risks emanating from excessive maturity mismatches over the medium to long term. More specifically, the NSFR requires ASB to fund illiquid assets with a minimum amount of stable liabilities over a horizon of one year.

The NSFR requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. CBB circular stipulates the applicable Required Stable Funding (“RSF”) factor for each category of asset and Available Stable Funding (“ASF”) factor for each type of funding source.

ASB seeks to ensure that its NSFR remains above the specified regulatory minimum requirements. This is achieved by:

(i) Monitoring the NSFR closely against an established internal early warning trigger and management target.

(ii) Managing and developing strategies to build a diversified funding base with access to funding sources across retail and wholesale channels.

Analysis and main drivers:

Al Salam Bank strategy is to maintain stable and well-diversified funding sources by focusing on raising more stable free float and long-term deposits from core clientele base in Bahrain and across other key GCC markets where strong banking relationships have been successfully established. The main driver of this strategy is to fund bank’s core business activities with the widest deposit base and hence maintaining conformable funding mix for the long-term assets and subsequently healthy NSFR.

The Assets and Labilities Committee (ALCO) regularly review the different liquidity indicators -including the NSFR- and set appropriate action plans in maintaining adequate, sustainable and healthy liquidity position. ALCO review takes global economic indicators as well as local micro economic factors into consideration. Hence effective liquidity management is set into practice steered by treasury and risk department and collaborated with other key business units.

As at 31 December 2021, the weighted value of the Available Stable Funding (ASF) stood at BD 1.555 billion, while the total weighted value of the Required Stable Funding (RSF) stood at BD 1.321 billion. The resultant NSFR stood at 117.75%, well above the current 80% threshold stipulated by CBB. The ASF is primarily driven by a strong capital base, substantial retail and private banking deposit base and deposits from non-financial corporate customers.

Post application of the relevant factors, the contribution of regulatory capital, retail deposits and deposits from non-financial corporates stood at 20%, 42% and 22% respectively. The bank does not rely on financial market funding sources (such as DCM) and interbank funding activities are primarily used for short term funding gaps.

The RSF post application of relevant factors is driven by financing provided to non-financial corporate customers, retail and small business customers, and some unlisted investments.

ASB’s High-Quality Liquid Assets (HQLA) requires minimum funding due to its sovereign nature and high liquidity which, after applying the relevant factors, makes up 2% of the RSF portfolio. Performing financing and Investment accounts for 76% and 13% of the RSF.

At ASB, there is considerable focus on growing and maintaining stability of demand and term deposits provided by private, corporate and retail customers which will continue to form a significant part of the funding.

AL SALAM BANK B.S.C.

Net Stable Funding Ratio (NSFR) Report - Consolidated

31 December 2021

						BHD '000
No.	Item	Unweighted Values (before applying relevant factors)				Total weighted value
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	
Available Stable Funding (ASF):						
1	Capital:					
2	Regulatory Capital	272,744	-	-	34,596	**307,340**
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	85,820	3,048	6,445	**90,869**
6	Less stable deposits	-	501,988	113,787	80,423	**634,621**
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	1,322,106	149,710	56,041	**522,229**
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities		-	-	-	
12	All other liabilities not included in the above categories	-	67,695	-	-	-
13	**Total ASF**					1,555,059
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)					**29,612**
15	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
16	Performing financing and sukuk/ securities:					
17	Performing financing to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	366,087	6,367	5,878	**63,974**
19	Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	227,810	153,681	756,908	**812,050**
20	With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	110,335	**71,718**
21	Performing residential mortgages, of which:	-	-	-	188,086	**122,256**
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	188,086	**122,256**
23	Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	12,743	-	3,151	**9,050**
24	Other assets:					
25	Physical traded commodities, including gold	-				-
26	Assets posted as initial margin for Shari'a-compliant hedging contracts and contributions to default funds of CCPs		-	-	-	-
27	NSFR Shari'a-compliant hedging assets		-	-	-	-
28	NSFR Shari'a-compliant hedging contract liabilities before deduction of variation margin posted		-	-	-	-
29	All other assets not included in the above categories	241,383	5,809	-	30,018	**274,306**
30	OBS items		188,333	-	-	**9,417**
31	**Total RSF**		-	-	-	1,320,665
32	**NSFR (%)**					117.75%

AL SALAM BANK B.S.C.

Liquidity Coverage Ratio (LCR) Report - Consolidated

31 December 2021

CBB issued its regulations on Liquidity Risk Management in August 2018. The regulations mandate that banks are required to maintain LCR of at least 100% on a daily basis. The objective of LCR is banks must manage their assets and liabilities to create strong short-term resilience and sufficient liquidity that is enough to fund cash outflow for 30 days. Due to the impact of Covid19 pandemic on banks, CBB relaxed the LCR ratio to 80% until 30 June 2022.

Below is the bank's average consolidated LCR for the period:

		Q4-2021		Q3-2021	
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets					
1	Total HQLA		579,523		491,304
Cash outflows					
2	**Retail deposits and deposits from small business customers, of which:**				
3	Stable deposits	69,349	2,080	67,560	2,027
4	Less stable deposits	263,886	26,389	224,384	22,438
5	**Unsecured wholesale funding, of which:**				
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-
7	Non-operational deposits (all counterparties)	804,527	455,771	773,032	430,590
8	Unsecured sukuk	-	-	-	-
9	**Secured wholesale funding**		-		-
10	**Additional requirements, of which:**				
11	Outflows related to Shari'a-compliant hedging instruments exposures and other collateral requirements	-	-	-	-
12	Outflows related to loss of funding on financing products	-	-	-	-
13	Credit and liquidity facilities	35,220	10,458	36,401	10,803
14	**Other contractual funding obligations**	-	-	-	-
15	**Other contingent funding obligations**	131,022	8,403	109,395	6,775
16	Total Cash Outflows		**503,101**		**472,633**
Cash inflows					
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	55,987	32,626	62,038	34,743
19	Other cash inflows	300,246	295,340	304,380	299,676
20	Total Cash Inflows	356,233	**327,966**	366,418	**334,419**
			Total adjusted Value		Total adjusted Value
21	**Total HQLA**		579,523		491,304
22	**Total net cash outflows**		180,147		144,266
23	**Liquidity Coverage Ratio (%)***		343.93%		352.46%

*Represents simple average of daily LCR

Leverage Ratio - Consolidated
31 December 2021

CBB in June 2018 issued guidelines on leverage ratio as part of updates to the Capital Adequacy Module. The ratio measures how well the banks' Tier 1 capital covers its total exposures (self-financed exposures and adjusted exposures funded by EOIA) both on-balance sheet and off-balance sheet. CBB has mandated a minimum consolidated leverage ratio of 3%.

Below is the bank's consolidated financial leverage ratio as at 31 December 2021:

S.No.	Description	BHD '000
1	Total Self Financed Assets	1,058,677
2	Total URIA Financed Assets	1,625,036
3	Off Balance Sheet items - with relevant Credit Conversion Factors	95,229
4	**Leverage ratio exposure [(1) + (2)*30% + (3)]**	**1,641,417**
5	Regulatory Adjustments	25,971
6	**Total exposures for the calculation of the leverage ratio [(4)-(5)]**	**1,615,446**
7	**Tier 1 Capital**	**246,773**
	Leverage Ratio [(7)/(6)]	**15.28%**
	Minimum Leverage Ratio as required by CBB	3%