

Al Salam Bank B.S.C.
(formerly Al Salam Bank - Bahrain B.S.C)
**CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION**
30 September 2021

Al Salam Bank B.S.C.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the nine months period ended 30 September 2021

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

The Board of Directors
Al Salam Bank B.S.C.(formerly Al Salam Bank – Bahrain B.S.C.)
Manama
Kingdom of Bahrain

2 November 2021

Introduction

We have reviewed the accompanying 30 September 2021 condensed consolidated interim financial information of Al Salam Bank B.S.C. (formerly Al Salam Bank – Bahrain B.S.C.) (the “Bank”) and its subsidiaries (together the “Group”), which comprises:

- the condensed consolidated statement of financial position as at 30 September 2021;
- the condensed consolidated statement of income for the three-month and nine-month periods ended 30 September 2021;
- the condensed consolidated statement of changes in equity for the nine-month period ended 30 September 2021;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2021;
- notes to the condensed consolidated interim financial information.

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

Scope of Review

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

Conclusion

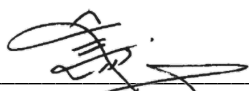
Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2021 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with the basis of preparation stated in Note 2 of this condensed consolidated interim financial information.

Al Salam Bank B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

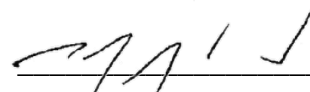
		<i>30 September</i>	<i>31 December</i>
		<i>2021</i>	<i>2020</i>
		<i>(Reviewed)</i>	<i>(Audited)</i>
	<i>Note</i>	<i>BD '000</i>	<i>BD '000</i>
ASSETS			
Cash and balances with banks and Central Bank		308,472	288,266
Placements with financial institutions	3	150,967	37,965
Sovereign Sukuk	4	557,658	393,108
Corporate Sukuk	4	23,835	16,395
Financing assets	5	752,897	814,449
Finance lease assets	6	549,958	469,363
Non-trading investments	8	95,908	98,034
Investment properties		59,007	67,586
Development properties		2,943	2,943
Investment in associates		16,515	12,036
Other assets	9	43,881	35,237
Goodwill		25,971	25,971
TOTAL ASSETS		2,588,012	2,261,353
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON-CONTROLLING INTEREST			
LIABILITIES			
Placements from financial institutions	3	153,632	116,883
Customers' current accounts		422,357	363,970
Murabaha term financing	4	128,573	221,671
Other liabilities	10	52,074	52,282
TOTAL LIABILITIES		756,636	754,806
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Wakala from financial institutions	11	237,830	264,784
Wakala and Mudaraba from customers	11	1,294,375	960,596
TOTAL EQUITY OF INVESTMENT ACCOUNTHOLDERS		1,532,205	1,225,380
OWNERS' EQUITY			
Share capital		241,972	230,450
Treasury stock		(9,743)	(7,530)
Reserves		66,357	57,846
Total owners' equity		298,586	280,766
Non-controlling interest		585	401
TOTAL EQUITY		299,171	281,167
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, OWNERS' EQUITY AND NON- CONTROLLING INTEREST		2,588,012	2,261,353



H.E. Shaikh Khalid bin Mustahil
Al Mashani
Chairman



Matar Mohamed Al Blooshi
Deputy Chairman



Rafik Nayed
Group Chief Executive Officer

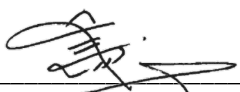
The attached notes 1 to 20 form part of the condensed consolidated interim financial information.


Al Salam Bank B.S.C.

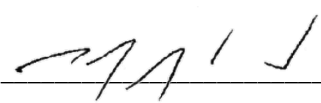
CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine months period ended 30 September 2021

	<i>Three months ended 30 September 2021 (Reviewed) BD '000</i>	<i>Three months ended 30 September 2020 (Reviewed) BD '000</i>	<i>Nine months ended 30 September 2021 (Reviewed) BD '000</i>	<i>Nine months ended 30 September 2020 (Reviewed) BD '000</i>
OPERATING INCOME				
Finance income	20,197	20,284	58,343	57,412
Income from Sukuk	6,240	4,951	16,634	14,334
Loss (net) from non-trading investments	(647)	(5,396)	(1,951)	(8,690)
Income / (loss) from properties	(99)	(66)	517	(105)
Fees and commission, net	2,341	1,799	6,153	5,620
Share of profit from associates	359	-	2,287	1,953
Other (loss) / income	(808)	2,514	(431)	3,725
Total operating income	27,583	24,086	81,552	74,249
Finance expense on placements from financial institutions	(1,087)	(865)	(3,193)	(3,395)
Finance expense on Murabaha term financing	(317)	(1,451)	(2,329)	(4,073)
Return on equity of investment accountholders before Group's share as a Mudarib and Wakala	(16,181)	(12,690)	(50,648)	(39,250)
Group's share as a Mudarib	60	401	168	874
Group's Wakala fee	5,953	5,062	24,029	16,482
Share of profit of investment accountholders	(10,168)	(7,227)	(26,451)	(21,894)
Net operating income	16,011	14,543	49,579	44,887
OPERATING EXPENSES				
Staff cost	4,422	3,746	13,018	11,152
Premises cost	483	499	1,528	1,668
Depreciation	361	709	946	1,196
Other operating expenses	3,393	2,453	9,348	7,975
Total operating expenses	8,659	7,407	24,840	21,991
PROFIT BEFORE IMPAIRMENT ALLOWANCES	7,352	7,136	24,739	22,896
Net impairment charge	(1,860)	(6,182)	(8,676)	(14,858)
NET PROFIT FOR THE PERIOD	5,492	954	16,063	8,038
ATTRIBUTABLE TO:				
- Shareholders of the Bank	5,562	972	16,224	8,073
- Non-controlling interest	(70)	(18)	(161)	(35)
	5,492	954	16,063	8,038
Basic and diluted earnings per share (fils)	2.4	0.4	7.0	3.5


H.E. Shaikh Khalid bin Mustahil
Al Mashani
Chairman


Matar Mohamed Al Blooshi
Deputy Chairman


Rafik Nayed
Group Chief Executive Officer

The attached notes 1 to 20 form part of the condensed consolidated interim financial information.

Al Salam Bank B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months period ended 30 September 2021 (Reviewed)

Amounts in BD '000s

	Attributable to shareholders of the Bank											
	Reserves										Non-controlling interest	Total Equity
	Share capital	Treasury stock	Share premium	Statutory reserve	Retained earnings	Investment fair value reserve	Real estate fair value reserve	Foreign exchange reserve	Total reserves	Total owners' Equity		
Balance as of 1 January 2021	230,450	(7,530)	12,209	21,778	(5,549)	9,844	23,348	(3,784)	57,846	280,766	401	281,167
Impact of adopting FAS 32 (note 2.3)	-	-	-	-	57	-	-	-	57	57	-	57
Balance as at 1 January 2021 (restated)	230,450	(7,530)	12,209	21,778	(5,492)	9,844	23,348	(3,784)	57,903	280,823	401	281,224
Net profit for the period	-	-	-	-	16,224	-	-	-	16,224	16,224	(161)	16,063
Movement in fair value	-	-	-	-	-	2,045	-	-	2,045	2,045	-	2,045
Movement from reserve to income statement	-	-	-	-	-	-	(483)	-	(483)	(483)	-	(483)
Foreign currency re-translation	-	-	-	-	-	-	-	2,190	2,190	2,190	-	2,190
Total recognised income and expense	-	-	-	-	16,224	2,045	(483)	2,190	19,976	19,976	(161)	19,815
Transfer to retained earnings	-	-	(12,000)	(5,315)	17,315	-	-	-	-	-	-	-
Transfer to statutory reserve	-	-	-	243	(243)	-	-	-	-	-	-	-
Bonus shares issued	11,522	-	-	-	(11,522)	-	-	-	(11,522)	-	-	-
Purchase of treasury stock	-	(2,213)	-	-	-	-	-	-	-	(2,213)	-	(2,213)
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	345	345
Balance at 30 September 2021	241,972	(9,743)	209	16,706	16,282	11,889	22,865	(1,594)	66,357	298,586	585	299,171
Balance as of 1 January 2020	221,586	(6,758)	12,209	21,107	42,608	8,257	23,589	(3,223)	104,547	319,375	699	320,074
Net profit for the period	-	-	-	-	8,073	-	-	-	8,073	8,073	(35)	8,038
Movement in fair value	-	-	-	-	-	(3,579)	-	-	(3,579)	(3,579)	-	(3,579)
Foreign currency re-translation	-	-	-	-	-	-	(1)	(466)	(467)	(467)	-	(467)
Total recognised income and expense	-	-	-	-	8,073	(3,579)	(1)	(466)	4,027	4,027	(35)	3,992
Bonus shares issued	8,864	-	-	-	(8,864)	-	-	-	(8,864)	-	-	-
Cash dividend for the year 2019	-	-	-	-	(8,551)	-	-	-	(8,551)	(8,551)	-	(8,551)
Modification loss (note 2.2)	-	-	-	-	(24,768)	-	-	-	(24,768)	(24,768)	-	(24,768)
Subsidy from government	-	-	-	-	2,143	-	-	-	2,143	2,143	-	2,143
Purchase of treasury stock	-	(772)	-	-	-	-	-	-	-	(772)	-	(772)
Movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	(210)	(210)
Balance at 30 September 2020	230,450	(7,530)	12,209	21,107	10,641	4,678	23,588	(3,689)	68,534	291,454	454	291,908

The attached notes 1 to 20 form part of the condensed consolidated interim financial information.

Al Salam Bank B.S.C.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months period ended 30 September 2021 (Reviewed)

	<i>30 September</i> 2021 <i>BD '000</i>	<i>30 September</i> 2020 <i>BD '000</i>
OPERATING ACTIVITIES		
Net profit for the period	16,063	8,038
Adjustments:		
Depreciation	946	1,196
Loss from non-trading investments and properties	1,567	8,795
Net impairment charge	8,676	14,858
Impact of modification loss	-	(23,170)
Share of profit from associates	(2,287)	(1,953)
Operating income before changes in operating assets and liabilities	24,965	7,764
Changes in operating assets and liabilities:		
Mandatory reserve with Central Bank	(9,770)	9,683
Cash and Bank balance	-	(9,462)
Financing assets and finance lease assets	(27,355)	(187,873)
Other assets	(9,612)	(4,125)
Placements from financial institutions	38,333	(111,569)
Customers' current accounts	58,387	78,702
Other liabilities	1,081	4,119
Equity of investment accountholders	306,825	89,492
Net cash from / (used in) operating activities	382,854	(123,269)
INVESTING ACTIVITIES		
Sovereign Sukuk	(162,999)	(42,597)
Corporate Sukuk	(7,431)	9,594
Non-trading investments and properties	9,138	2,823
Purchase of premises and equipment	(1,187)	(714)
Net cash used in investing activities	(162,479)	(30,894)
FINANCING ACTIVITIES		
Murabaha term financing	(93,098)	150,811
Dividends paid	(1,139)	(13,228)
Purchase of treasury stock	(2,213)	(772)
Net cash (used in) / from financing activities	(96,450)	136,811
NET CHANGE IN CASH AND CASH EQUIVALENTS	123,925	(17,352)
Cash and cash equivalents at 1 January	291,645	299,324
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	415,570	281,972
Cash and cash equivalents comprise of:*		
Cash and other balances with Central Bank	80,527	94,619
Balances with other banks **	184,067	104,908
Placements with financial institutions with original maturities of less than 90 days	150,976	82,445
	415,570	281,972

* Cash and cash equivalents is gross of the expected credit loss of BD 227 thousands.

** Balances with other banks is net of restricted cash of BD 9,478 thousands which is not available for day to day operations.

The attached notes 1 to 20 form part of the condensed consolidated interim financial information.

Al Salam Bank B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

As at 30 September 2021

1 REPORTING ENTITY

Al Salam Bank B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and registered with Ministry of Industry, Commerce and Tourism ("MOICT") under Commercial Registration number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and operates under Islamic principles in accordance with all relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank in its extraordinary general meeting held on 30 September 2021, obtained shareholders' approval for change of name from Al Salam Bank- Bahrain B.S.C to Al Salam Bank B.S.C. The legal formalities in this respect have been completed on 28 October 2021. The Bank's address is Burj Al Khair 3, P.O. Box 18282, Manama, Kingdom of Bahrain. The Bank's ordinary shares are listed in Bahrain Bourse and Dubai Financial Market.

The principal subsidiaries are as follows:

Name of entity	Country of incorporation	Principal activities	% holding	
			2021	2020
Al Salam Bank- Seychelles	Seychelles	Provide Banking services	70%	70%
ASB Biodiesel (Hong Kong) Limited	Hong Kong	Production of Biodiesel	36%	36%

The Bank and its principal banking subsidiary operates through 8 branches in the Kingdom of Bahrain and one branch in Seychelles and offer a full range of Shari'a-compliant banking services and products. The activities of the Bank includes managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial contracts as principal / agent, managing Shari'a-compliant financial contracts and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework.

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

These condensed consolidated interim financial information have been authorised for issue in accordance with a resolution of the Board of Directors dated 2 November 2021.

2 BASIS OF PREPARATION AND PRESENTATION

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

The accounting policies used in the preparation of annual audited consolidated financial statements of the Group for the year ended 31 December 2020 were in accordance with FAS as issued by AAOIFI. However, except for the below-mentioned modifications to accounting policies that have been applied retrospectively and impact of adoption of new standards (note 2.3), all other accounting policies remain the same and have been consistently applied in this condensed consolidated interim financial information. The retrospective application of the change in accounting policies on adoption of FAS as modified by CBB did not result in any change to the financial information reported for the comparative period.

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

2 BASIS OF PREPARATION AND PRESENTATION (continued)

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

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

The above framework for basis of preparation of the condensed consolidated interim financial information is hereinafter referred to as ‘Financial Accounting Standards as modified by CBB’.

The condensed consolidated interim financial information of the Group do not contain all information and disclosures required for the annual audited consolidated financial statements, and should be read in conjunction with the Group’s annual audited consolidated financial statements for the year ended 31 December 2020. Further, results for the interim periods are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2021.

2.1 COVID-19 IMPACT

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

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

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

As of 30 September 2021, the Bank is compliant with the required regulatory capital adequacy ratio, net stable funding ratio and liquidity coverage ratios.

2.2 IMPACT OF COVID-19 CONCESSIONARY MEASURES

Modification of financial assets

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

2.3 SIGNIFICANT ACCOUNTING POLICIES

Except for adoption of FAS 32, the accounting policies and methods of computation applied by the Group in the preparation of the condensed consolidated interim financial information are the same as those used in the preparation of the Group’s annual audited consolidated financial statements as at and for the year ended 31 December 2020.

2 BASIS OF PREPARATION AND PRESENTATION (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new standards in current period

FAS 32 Ijarah

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

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

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

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

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

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

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

Short term leases and leases of low value assets

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

Accounting policy prior to 1 January 2021

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

Impact on transition

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

The right of use asset and lease liability amounting to BD 2,094 thousands and BD 2,036 thousands arising on initial adoption of the FAS 32 standard has been classified under Other Assets (note 9) and Other Liabilities (note 10) respectively and the Day 1 impact on adoption of BD 57 thousands has been taken to retained earnings.

2.4 Seasonality of operations

The Group does not have significant income of seasonal nature. However, uncertainties of the current situation due to COVID-19 and economic volatility has impacted the Group’s operations leading to extended deferrals and more cautious and tightened lending criteria and lower disbursement of new financing resulting in lower than anticipated net profit income and decrease in/loss of other revenue. The management expects that the forecasted revenue and net profit for the year 2021 could be affected by this volatility.

As at 30 September 2021

3 PLACEMENTS WITH FINANCIAL INSTITUTIONS AND PLACEMENTS FROM FINANCIAL INSTITUTIONS

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

	<i>30 September 2021</i>	<i>31 December 2020</i>
	<i>BD '000</i>	<i>BD '000</i>
Placements with financial institutions		
Wakala	90,765	27,432
Commodity Murabaha	60,211	10,674
Allowance for credit losses	(9)	(141)
	150,967	37,965
Placements from financial institutions		
Commodity Murabaha	153,632	116,883
	153,632	116,883

4 SOVEREIGN SUKUK AND CORPORATE SUKUK

This includes sukuk with carrying value of BD 169,634 thousands (2020: BD 275,338 thousands) which are pledged against Murabaha term financing.

5 FINANCING ASSETS

	<i>30 September 2021</i>			
	<i>Stage 1: 12- month ECL</i>	<i>Stage 2: Lifetime ECL not credit- impaired</i>	<i>Stage 3: Lifetime ECL credit- impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Murabaha financing	342,782	30,466	18,919	392,167
Mudaraba financing	341,899	18,719	4,390	365,008
Musharaka financing	32,889	-	277	33,166
Credit cards	3,199	82	525	3,806
Total financing assets	720,769	49,267	24,111	794,147
Allowance for credit losses (note 7)	(11,548)	(10,645)	(19,057)	(41,250)
	709,221	38,622	5,054	752,897
	<i>31 December 2020</i>			
	<i>Stage 1: 12- month ECL</i>	<i>Stage 2: Lifetime ECL not credit- impaired</i>	<i>Stage 3: Lifetime ECL credit- impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Murabaha financing	346,904	10,375	43,913	401,192
Mudaraba financing	375,803	29,782	4,852	410,437
Musharaka financing	32,262	65	278	32,605
Credit cards	2,749	157	566	3,472
Total financing assets	757,718	40,379	49,609	847,706
Allowance for credit losses	(10,184)	(5,499)	(17,574)	(33,257)
	747,534	34,880	32,035	814,449

6 FINANCE LEASE ASSETS

	<i>30 September 2021</i>			
	<i>Stage 1: 12- month ECL</i>	<i>Stage 2: Lifetime ECL not credit- impaired</i>	<i>Stage 3: Lifetime ECL credit- impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Finance lease assets	510,937	36,244	10,120	557,301
Allowance for impairment (note 7)	(3,126)	(372)	(3,845)	(7,343)
	507,811	35,872	6,275	549,958

As at 30 September 2021

6 FINANCE LEASE ASSETS (continued)

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

7 MOVEMENT IN NET ALLOWANCE FOR CREDIT LOSSES / IMPAIRMENT

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

	30 September 2021			Total
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	
	BD '000	BD '000	BD '000	BD '000
Balance at the beginning of the period	14,546	6,035	26,719	47,300
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	2,303	(2,279)	(24)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(465)	3,876	(3,411)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(87)	(272)	359	-
Net remeasurement of loss allowance	(205)	3,865	6,397	10,057
Recoveries / write-backs	-	(85)	(1,296)	(1,381)
Allowance for credit losses	1,546	5,105	2,025	8,676
Exchange adjustments and other movements	-	-	(8)	(8)
Amounts charged back during the period - net	-	-	334	334
Balance at the end of the period	16,092	11,140	29,070	56,302

	30 September 2021			Total
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	
	BD '000	BD '000	BD '000	BD '000
Cash and balances with banks and Central Bank	218	-	-	218
Sovereign Sukuk	742	-	-	742
Placements with financial institutions	9	-	-	9
Corporate Sukuk	25	-	-	25
Financing assets	11,548	10,645	19,057	41,250
Finance lease assets	3,126	372	3,845	7,343
Loans and advances to customers				
- Assets under conversion	35	-	3,706	3,741
- Other receivables	43	-	2,183	2,226
Financing commitments and financial guarantee contracts	346	123	279	748
	16,092	11,140	29,070	56,302

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

	30 September 2020			Total
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	
	BD '000	BD '000	BD '000	
Balance at the beginning of the period	7,191	7,295	19,042	33,528
Changes due to receivables recognised in opening balance that have:				
- transferred to Stage 1: 12 month ECL	1,246	(895)	(351)	-
- transferred to Stage 2: Lifetime ECL not credit-impaired	(297)	601	(304)	-
- transferred to Stage 3: Lifetime ECL credit-impaired	(38)	(651)	689	-
Net remeasurement of loss allowance	3,817	3,136	8,074	15,027
Recoveries / write-backs	-	(50)	(119)	(169)
Allowance for credit losses	4,728	2,141	7,989	14,858
Exchange adjustments and other movements	-	-	(121)	(121)
Amounts charged off during the period - net	-	-	(3,215)	(3,215)
Balance at the end of the period	11,919	9,436	23,695	45,050

	30 September 2020			Total
	Stage 1: 12-month ECL	Stage 2: Lifetime ECL not credit-impaired	Stage 3: Lifetime ECL credit-impaired	
	BD '000	BD '000	BD '000	
Cash and balances with banks and Central Bank	155	-	-	155
Sovereign Sukuk	62	-	-	62
Placements with financial institutions	171	-	-	171
Corporate Sukuk	21	-	-	21
Financing assets	8,080	9,074	14,534	31,688
Finance lease assets	2,948	260	3,069	6,277
Loans and advances to customers				
- Assets under conversion	207	2	3,615	3,824
- Other receivables	43	-	2,183	2,226
Financing commitments and financial guarantee contracts	232	100	294	626
	11,919	9,436	23,695	45,050

8 NON-TRADING INVESTMENTS

	30 September	31 December
	2021	2020
	BD '000	BD '000
At fair value through profit or loss:		
Equity securities	91,769	94,371
Funds	3,789	3,313
At fair value through equity	350	350
	95,908	98,034

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

Al Salam Bank B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

As at 30 September 2021

9 OTHER ASSETS

	<i>30 September</i>	<i>31 December</i>
	<i>2021</i>	<i>2020</i>
	<i>BD '000</i>	<i>BD '000</i>
Assets under conversion (a)		
Loans and advances to customers	4,045	6,434
Non-trading investments - fair value through equity (b)	192	900
Non-trading investments - debt	-	8
	<u>4,237</u>	<u>7,342</u>
Other receivables and advances	29,725	24,635
Prepayments	1,120	1,299
Premises and equipment	3,441	1,961
Assets held- for- sale (note.1)	5,358	-
	<u>43,881</u>	<u>35,237</u>

(a) These represent non-Shari'a compliant assets resulting from the acquisition of ASBS, BMI B.S.C. (c) and Bahraini Saudi Bank B.S.C. Income derived from these assets are transferred to charity payable and as such are not recognised as revenue in the condensed consolidated income statement. During the period under review, Shari'a prohibited income amounting to BD 192 thousands has been transferred to charity, under "Accounts payable and accruals" (note 10).

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

	<i>Fair value measurement using significant unobservable inputs Level 3</i>	
	<i>30 September</i>	<i>31 December</i>
	<i>2021</i>	<i>2020</i>
	<i>BD '000</i>	<i>BD '000</i>
At 1 January	900	964
Additions	-	1
Write down	(708)	(65)
At end of period	<u>192</u>	<u>900</u>

Loans and advances to customer - Assets under conversion

	<i>30 September 2021</i>			
	<i>Stage 1: 12- month ECL</i>	<i>Stage 2: Lifetime ECL not credit- impaired</i>	<i>Stage 3: Lifetime ECL credit- impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Loans and advances to customers	1,069	-	6,717	7,786
Allowance for credit losses (note 7)	(35)	-	(3,706)	(3,741)
	<u>1,034</u>	<u>-</u>	<u>3,011</u>	<u>4,045</u>
	<i>31 December 2020</i>			
	<i>Stage 1: 12- month ECL</i>	<i>Stage 2: Lifetime ECL not credit- impaired</i>	<i>Stage 3: Lifetime ECL credit- impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Loans and advances to customers	1,806	485	7,907	10,198
Allowance for credit losses	(17)	(145)	(3,602)	(3,764)
	<u>1,789</u>	<u>340</u>	<u>4,305</u>	<u>6,434</u>

Al Salam Bank B.S.C.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

As at 30 September 2021

10 OTHER LIABILITIES

	<i>30 September</i>	<i>31 December</i>
	<i>2021</i>	<i>2020</i>
	<i>BD '000</i>	<i>BD '000</i>
Accounts payable and accruals	44,699	48,767
Dividend payable	-	1,139
Project payables	69	69
End of service benefits and other employee related accruals	2,077	1,524
Allowance for credit losses relating to financing commitments and financial guarantee contracts	748	783
Liabilities held- for- sale (note.1)	4,481	-
	<u>52,074</u>	<u>52,282</u>

11 EQUITY OF INVESTMENT ACCOUNTHOLDERS (EIAH)

Equity of investment accountholders comprise:

	<i>30 September</i>	<i>31 December</i>
	<i>2021</i>	<i>2020</i>
	<i>BD '000</i>	<i>BD '000</i>
Wakala from financial institutions	237,830	264,784
Wakala from customers	874,741	714,465
	<u>1,112,571</u>	<u>979,249</u>
Mudaraba from customers	419,634	246,131
	<u>1,532,205</u>	<u>1,225,380</u>

The Group utilizes the funds from EIAH to finance assets.

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

	<i>30 September</i>	<i>31 December</i>
	<i>2021</i>	<i>2020</i>
	<i>BD '000</i>	<i>BD '000</i>
Assets		
Mandatory reserve with Central Bank	34,618	24,848
Cash and other balances with Central Bank	114,905	82,286
Placements with financial institutions	150,976	38,106
Financing assets	720,769	757,718
Finance lease assets	510,937	322,422
	<u>1,532,205</u>	<u>1,225,380</u>

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

The Group does not allocate non-performing assets to EIAH pool. All the impairment allowances are allocated to owners' equity. Recoveries from non-performing financial assets are also not allocated to IAH accountholders. Only the profits earned on pool of assets funded from IAH are allocated between the owners' equity and IAH. As per the policy of the Group, minimum of 15% of return on assets earned is distributed to investment accountholders and upto 85% is retained by the Group as Mudarib share or Wakala fee. The Group did not charge any administration expenses to investment account holders. The average profit rate attributed to the equity of investment accountholders based on the above ratio for the period ended 30 September 2021 was 2.50% (2020: 2.65%).

12 OTHER (LOSS) / INCOME

	<i>30 September</i>	<i>30 September</i>
	<i>2021</i>	<i>2020</i>
	<i>BD '000</i>	<i>BD '000</i>
Foreign exchange gain	17	520
Recoveries from financing assets	316	1,223
Others	(764)	1,982
	<u>(431)</u>	<u>3,725</u>

13 RELATED PARTY TRANSACTIONS

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

As at 30 September 2021

13 RELATED PARTY TRANSACTIONS (continued)

The balances with related parties at 30 September 2021 and 31 December 2020 were as follows:

	<i>30 September 2021</i>				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Assets:					
Cash and balances with banks and Central Bank	-	1,070	-	-	1,070
Financing assets	12,460	7,352	3,168	1,594	24,574
Non trading investments	78,426	-	765	-	79,191
Investment in associates	16,515	-	-	-	16,515
Other assets	17,562	-	-	-	17,562
Liabilities and equity of investment accountholders:					
Placements from financial institutions	-	5,247	-	-	5,247
Customers' current accounts	2,316	1,815	3,829	594	8,554
Equity of investment accountholders	4,424	2,633	9,190	2,555	18,802
Other liabilities	21	-	15	7	43
Contingent liabilities and commitments	-	-	151	-	151

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

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

	<i>30 September 2021</i>				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Income:					
Finance income	720	160	151	59	1,090
Loss from non-trading investments	(1,229)	-	(459)	-	(1,688)
Share of profit from associates	2,287	-	-	-	2,287
Expenses:					
Finance expense on placements from financial institutions	-	192	-	-	192
Share of profits on equity of investment accountholders	105	76	158	49	388
Other operating expenses	-	-	915	-	915

As at 30 September 2021

13 RELATED PARTY TRANSACTIONS (continued)

	<i>30 September 2020</i>				
	<i>Associates and joint ventures</i>	<i>Major shareholders</i>	<i>Directors and related entities</i>	<i>Senior management</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Income:					
Finance income	660	43	199	6	908
Loss from non-trading investments	(2,653)	-	-	-	(2,653)
Share of profit from associates	1,953	-	-	-	1,953
Expenses:					
Finance expense on placements from financial institutions	-	1,645	-	-	1,645
Share of profits on equity of investment accountholders	63	102	557	48	770
Other operating expenses	-	-	894	-	894

14 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>30 September 2021</i>	<i>31 December 2020</i>
	<i>BD '000</i>	<i>BD '000</i>
Contingent liabilities on behalf of customers		
Guarantees	44,714	34,575
Letters of credit	12,085	9,190
Acceptances	427	855
	57,226	44,620
Irrevocable unutilised commitments		
Unutilised financing commitments	71,869	55,051
Unutilised non-funded commitments	6,768	9,097
	78,637	64,148

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

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

15 WA'AD BASED FX TRANSACTIONS FOR RISK MANAGEMENT

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

	<i>30 September 2021</i>		<i>31 December 2020</i>	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
FX Wa'ad instruments				
USD long position	14,005	13,641	9,797	9,966
USD short position	(35,998)	(35,300)	(27,191)	(25,349)
EUR long position	35,998	35,300	27,191	25,349
EUR short position	(14,005)	(13,641)	(6,027)	(6,195)
BHD short position	-	-	(3,770)	(3,771)

As at 30 September 2021

16 SEGMENT INFORMATION**Primary segment information**

For management purposes, the Group is organised into three major business segments:

Banking	Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking, private banking and wealth management.
Treasury	Principally handling Shari'a compliant money market, trading and treasury services including short-term commodity Murabaha.
Investments	Principally the Group's proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.

Transactions between segments are conducted at estimated allocated internal rates. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	<i>30 September 2021</i>				
	<i>Banking</i>	<i>Treasury</i>	<i>Investments</i>	<i>Unallocated</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Net income	37,845	11,841	(107)	-	49,579
Segment result	<u>7,904</u>	<u>9,638</u>	<u>(1,479)</u>	<u>-</u>	<u>16,063</u>
Segment assets	<u>1,334,558</u>	<u>1,056,337</u>	<u>193,892</u>	<u>3,225</u>	<u>2,588,012</u>
Segment liabilities, and equity	<u>1,717,781</u>	<u>563,975</u>	<u>6,834</u>	<u>299,422</u>	<u>2,588,012</u>

Goodwill resulting from BMI acquisition is allocated to banking segment.

	<i>30 September 2020</i>				
	<i>Banking</i>	<i>Treasury</i>	<i>Investments</i>	<i>Unallocated</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Net income	38,684	9,460	(3,257)	-	44,887
Segment result	<u>4,663</u>	<u>7,377</u>	<u>(4,002)</u>	<u>-</u>	<u>8,038</u>

Segment information for the year ended 31 December 2020 was as follows:

Segment assets	<u>1,314,749</u>	<u>751,880</u>	<u>192,012</u>	<u>2,712</u>	<u>2,261,353</u>
Segment liabilities, and equity	<u>1,311,031</u>	<u>660,947</u>	<u>7,469</u>	<u>281,906</u>	<u>2,261,353</u>

Goodwill resulting from BMI acquisition is allocated to banking segment.

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

17 FAIR VALUE HIERARCHY

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

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

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

Financial instruments measured at fair value

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

30 September 2021	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Sovereign Sukuk	221,499	336,159	-	557,658
Corporate Sukuk	10,399	3,937	9,499	23,835
Financial assets at fair value through income statement	4,117	3,789	87,652	95,558
Financial assets at fair value through equity	-	-	350	350
	236,015	343,885	97,501	677,401

31 December 2020	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Sovereign Sukuk	67,704	325,404	-	393,108
Corporate Sukuk	1,866	3,978	10,551	16,395
Financial assets at fair value through income statement	4,162	3,313	90,209	97,684
Financial assets at fair value through equity	-	-	350	350
	73,732	332,695	101,110	507,537

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

	<i>30 September 2021</i>	<i>31 December 2020</i>
	<i>BD '000</i>	<i>BD '000</i>
At 1 January	90,559	98,933
Fair value changes	(2,557)	(10,434)
Repayments	-	(231)
Additions	-	2,291
	88,002	90,559

The movements in fair value of sukuk portfolio classified in Level 3 of the fair value hierarchy are as follows:

	<i>30 September 2021</i>	<i>31 December 2020</i>
	<i>BD '000</i>	<i>BD '000</i>
At 1 January	10,551	11,320
Additions	2,169	13,411
Fair value changes	-	(3,426)
Disposals	(3,221)	(10,754)
	9,499	10,551

As at 30 September 2021

17 FAIR VALUE HIERARCHY (continued)**Financial instruments not measured at fair value**

The estimated fair value of yielding financing assets and financing liabilities approximates their carrying value as their pricing is not materially different to expected market return on such contracts.

The estimated fair values of other financial assets are not expected to be materially different from their carrying values as of 30 September 2021 and 31 December 2020 due to their short term nature.

18 FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the annual consolidated financial statements for the year ended 31 December 2020.

19 REGULATORY RATIOS**1) Liquidity Coverage Ratio (LCR)**

LCR has been developed to promote short-term resilience of a bank's liquidity risk profile. The LCR requirements aim to ensure that a bank has an adequate stock of unencumbered high quality liquidity assets (HQLA) that consists of assets that can be converted into cash immediately to meet its liquidity needs for a 30 calendar day stressed liquidity period. The stock of unencumbered HQLA should enable the Bank to survive until day 30 of the stress scenario, by which time appropriate corrective actions would have been taken by management to find the necessary solutions to the liquidity crisis.

LCR is computed as a ratio of Stock of HQLA over the Net cash outflows. The average Consolidated LCR for three months calculated as per the requirements of the CBB rulebook, as of 30 September 2021 and 31 December 2020, is as follows:

	<i>Total weighted value BD'000</i>	
	<i>30 September 2021</i>	<i>31 December 2020</i>
Stock of HQLA	491,304	195,494
Net cashflows	144,266	157,730
LCR %	352.46%	126.41%
Minimum required by CBB	80%	80%

2) Capital Adequacy Ratio

BD'000	<i>As at</i>	
	<i>30 September 2021</i>	<i>31 December 2020</i>
CET 1 Capital before regulatory adjustments	297,683	277,655
Less: regulatory adjustments	25,971	25,971
CET 1 Capital after regulatory adjustments	271,712	251,684
AT 1 Capital	40	26
T 2 Capital adjustments	35,037	35,745
Regulatory Capital	306,789	287,455
Risk weighted exposure:		
Credit Risk Weighted Assets	969,500	988,982
Market Risk Weighted Assets	27,910	250
Operational Risk Weighted Assets	103,250	97,200
Total Regulatory Risk Weighted Assets	1,100,660	1,086,432
Total Adjusted Risk Weighted Exposures	1,100,660	1,086,432
Capital Adequacy Ratio	27.87%	26.46%
Tier 1 Capital Adequacy Ratio	24.69%	23.17%
Minimum required by CBB	12.50%	12.50%

As of 30 September 2021, aggregate of modification loss of BD 24,768 thousands has been added back to Tier 1 capital.

As per CBB instructions, the above concessional treatment would be followed for two years ending 31 December 2020 and 31 December 2021, thereafter this amount will be proportionately deducted from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

3) NET STABLE FUNDING RATIO

The objective of the NSFR is to promote the resilience of banks' liquidity risk profiles and to incentivize a more resilient banking sector over a longer time horizon. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on-balance sheet and off-balance sheet items, and promotes funding stability.

As at 30 September 2021

19 REGULATORY RATIOS (continued)**3) NET STABLE FUNDING RATIO (continued)**

The Net Stable Ratio ("NSFR") is calculated in accordance with the Liquidity Risk Management Module guidelines, issued by CBB and its affective from 2019. The minimum NSFR ratio as per CBB is 100%. However, as per CBB circular OG/431/2020 dated 29 December 2020, the limit has been reduced to 80% until December 2021, to contain the financial repercussions of COVID-19.

The NSFR (as a percentage) as at 30 September 2021 is calculated as follows:

Item	Unweighted Values (before applying relevant factors)				
	<i>No specified maturity</i>	<i>Less than 6 months</i>	<i>More than 6 months and less than one year</i>	<i>Over one year</i>	<i>Total weighted value</i>
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	275,097	-	-	35,037	310,134
Retail deposits and deposits from small business customers:					
Stable deposits	-	81,685	8,591	2,543	88,305
Less stable deposits	-	443,866	170,176	66,068	618,706
Wholesale funding:					
Other wholesale funding	-	1,190,272	200,923	58,133	493,456
Other liabilities:					
All other liabilities not included in the above categories	-	65,784	-	-	-
Total ASF	275,097	1,781,607	379,690	161,781	1,510,601
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	26,831
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	371,282	6,643	6,747	65,761
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	202,317	112,392	772,640	790,728
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	116,855	75,956
Performing residential mortgages, of which:	-	-	-	189,537	123,199
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	189,537	123,199
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	12,783	-	842	7,107
Other assets:					
All other assets not included in the above categories	249,356	3,939	1,941	30,262	282,571
OBS items	-	185,584	-	-	9,279
Total RSF	249,356	775,905	120,976	1,000,028	1,305,476
NSFR (%)	-	-	-	-	115.71%

As at 30 September 2021

19 REGULATORY RATIOS (continued)**3) NET STABLE FUNDING RATIO (continued)**

The NSFR (as a percentage) as at 31 December 2020 is calculated as follows:

Item	<i>Unweighted Values (before applying relevant factors)</i>				
	<i>No specified maturity</i>	<i>Less than 6 months</i>	<i>More than 6 months and less than one year</i>	<i>Over one year</i>	<i>Total weighted value</i>
Available Stable Funding (ASF):					
Capital:					
Regulatory Capital	255,056	-	-	35,745	290,801
Retail deposits and deposits from small business customers:					
Less stable deposits	-	442,336	125,503	66,951	578,006
Wholesale funding:					
Other wholesale funding	-	1,032,384	189,353	58,126	374,683
Other liabilities:					
All other liabilities not included in the above categories	-	64,101	-	-	-
Total ASF	255,056	1,538,821	314,856	160,822	1,243,490
Required Stable Funding (RSF):					
Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	17,604
Performing financing and sukuk/ securities:					
Performing financing to financial institutions secured by non-level 1 HQLA and unsecured performing financing to financial institutions	-	245,585	416	4,911	41,956
Performing financing to non- financial corporate clients, financing to retail and small business customers, and financing to sovereigns, central banks and PSEs, of which:	-	225,592	133,368	740,303	775,213
With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	167,627	108,958
Performing residential mortgages, of which:	-	-	-	131,367	85,388
With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	131,367	85,388
Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	7,386	6,567	780	7,640
Other assets:					
All other assets not included in the above categories	292,513	3,980	-	24,007	308,941
OBS items	-	145,464	-	-	7,273
Total RSF	292,513	628,007	140,351	901,368	1,244,015
NSFR (%)	-	-	-	-	99.96%

20 COMPARATIVE FIGURES

Certain of the prior year figures have been regrouped to conform to the current year presentation. Such grouping did not affect previously reported net profit, total assets, total liabilities and total equity of the Group. FAS 32 has been adopted on a retrospective basis and comparatives have not been restated.

**(The attached financial information do not form part of the
condensed consolidated interim financial information)**

30 September 2021

In line with the Central Bank of Bahrain's ("CBB") direction as per circular OG/259/2020 of 14 July 2020 which aims to maintain transparency amidst the current financial implications of Coronavirus (COVID-19) outbreak, the Bank has provided additional supplementary information on the impact of COVID 19 on its financial statements and the results of its operations.

On 11 March 2020, the COVID-19 outbreak was declared as a pandemic by the World Health Organization ("WHO") and has rapidly evolved globally. This has resulted in an economic slowdown with uncertainties in the economic environment across the globe. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns. Authorities all over the world have taken various steps to contain the spread of COVID-19 including implementation of travel restrictions as well as lockdown and quarantine measures. The pandemic as well as the resulting measures have had a significant knock-on impact on Al Salam Bank and its principal subsidiaries (collectively the "Group") and its associates. The Group is actively monitoring the COVID-19 situation and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.

The CBB announced various measures to combat the effects of COVID-19 on the banking sector in the Kingdom of Bahrain. These were aimed to ease liquidity in the economy as well as to assist banks in complying with regulatory requirements. These measures included the following:

- Payment holiday of 6 months to eligible and approved customers.
- Concessionary repo to eligible banks at zero percent.
- Reduction of cash reserve ratio from 5% to 3%.
- Reduction of liquidity coverage ratio ("LCR") and net stable funding ratio ("NSFR") from 100% to 80%.
- Capital relief by allowing the aggregate of modification loss and incremental expected credit losses ("ECL") from March to December 2020 to be added back to Tier 1 capital for the two financial years ending 31 December 2020 and 31 December 2021 and deducted proportionately from Tier 1 capital on an annual basis for three years ending 31 December 2022, 31 December 2023 and 31 December 2024.

The aforesaid measures have resulted in the following effects on the Group:

- The CBB mandated 6-month payment holidays requires impacted banks to recognize a one-off modification loss directly in equity. The modification loss has been calculated as difference between the net present value of the modified cash flows calculated using the original effective profit rate and the current carrying value of the financial assets on the date of the modification.
- The mandated 6-month payments holiday included the requirement to suspend minimum payments, service fees and outstanding credit card balances. In addition, COVID-19 also resulted in lower transaction volumes and related fees. This resulted in a significant decline in the Group's fee income.
- The Government of the Kingdom of Bahrain have announced various economic stimulus program ("packages") to support business in these challenging times. The Bank received regulatory directive financial assistance representing specified reimbursement of a portion of staff costs, waiver of fees, levies and utility charges as well as zero cost funding received from the Government and/or the regulators in response to its COVID-19 support measures. This has been recognized directly in the Group's equity as per the instructions of the CBB.
- The Group also maintained a lower cash reserve due to reduction in cash reserve ratio to 3%.
- Due to the stressed liquidity scenario in the market, the Bank also had to incur higher funding costs for sourcing new deposits and foreign exchange.

Subsequent to the first deferment, the CBB announced further three terms of deferment from September 2020 to December 2021, wherein the payments were deferred and the Bank was allowed to accrue the profits on deferred amounts. The same resulted in additional impact on Bank's liquidity and ECL provisions.

Al Salam Bank B.S.C.**UNREVIEWED SUPPLEMENTARY DISCLOSURES FOR THE NINE MONTHS PERIOD ENDED****30 September 2021**

A summary of the financial impact of the above effects are as follows:

Amounts in BD '000	Net impact on the Group - Accumulated		
	Consolidated Income	Consolidated financial	Consolidated Owners equity
Modification loss	-	-	(24,768)
Modification loss amortization	-	24,768	-
Lower Credit card fee	-	-	(282)
Government grants	-	-	2,143
Concessionary repo @ 0%	-	121,613	-
Average reduction of cash reserve	-	345,834	-
Stressed liquidity	-	-	(371)
ECL attributable to COVID -19	(1,521)	(8,151)	-

The Group continues to meet the regulatory requirement of capital adequacy ratio ("CAR"), LCR and NSFR. The consolidated CAR, LCR and NSFR as at 30 September 2021 stands at 27.87%, 447.94% and 115.71% respectively.

Information reported in the table above only include areas or line items where impact was quantifiable and material. Some of the amounts reported above include notional loss of income or an incremental cost measure and hence may not necessarily reconcile with amounts reported in the condensed consolidated interim financial information for the period ended 30 September 2021.

The information provided in this supplementary disclosure should not be considered as an indication for the results of the entire year or relied upon for any other purposes. Since the situation of COVID-19 is uncertain and is still evolving, the above assessment is as at the date of preparation of this information and only considers significant areas of impact. Circumstances may change which will result in this information being out of date. In addition, this information does not represent a full comprehensive assessment of COVID-19 impact on the Group. This information has not been subject to a formal review by external auditors.