



AL SALAM BANK B.S.C.

Liquidity and Leverage Ratios

31 December 2022

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.

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 customer 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 comfortable funding mix for the long-term assets and subsequently healthy NSFR.

The Assets and Liabilities Committee (ALCO) regularly reviews 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 2022, the weighted value of the Available Stable Funding (ASF) stood at BD 2.4 billion, while the total weighted value of the Required Stable Funding (RSF) stood at BD 2.2 billion. The resultant NSFR stood at 108.33%, well above the current 100% 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 13%, 61% and 11% respectively. The bank does not rely on financial market funding sources 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 exposures accounts for 67% and 20% 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.

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Net Stable Funding Ratio (NSFR) Report - Consolidated
31 December 2022

No.	Item	Unweighted Values (before applying relevant factors)				BHD '000
		No specified maturity	Less than 6 months	More than 6 months and less than one year	Over one year	Total weighted value
Available Stable Funding (ASF):						
1	Capital:					
2	Regulatory Capital	279,592	-	-	38,415	318,007
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	315,809	21,822	15,879	336,629
6	Less stable deposits	-	936,116	233,070	133,844	1,186,111
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	1,452,526	184,892	87,198	473,702
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
12	All other liabilities not included in the above categories	-	51,422	-	46,593	46,593
13	Total ASF					2,361,042
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)					34,634
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	-	285,379	-	6,496	49,303
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:	-	357,123	154,489	1,222,473	1,268,029
20	With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	134,393	87,356
21	Performing residential mortgages, of which:	-	-	-	221,246	143,810
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	221,246	143,810
23	Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	12,236	2,458	12,357	17,850
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	557,037	14,025	-	88,124	652,174
30	OBS items	-	275,333	-	-	13,767
31	Total RSF					2,179,566
32	NSFR (%)					108.33%

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**Liquidity Coverage Ratio (LCR) Report - Consolidated
31 December 2022**

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 to manage assets and liabilities to create strong short-term resilience and sufficient liquidity that is enough to fund cash outflow for 30 days.

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

	Q4-2022		Q3-2022	
	Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets				
1 Total HQLA		538,323		616,856
Cash outflows				
2 Retail deposits and deposits from small business customers, of which:				
3 Stable deposits	90,554	2,717	89,646	2,689
4 Less stable deposits	632,859	63,286	602,940	60,294
5 Unsecured wholesale funding, of which:				
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-
7 Non-operational deposits (all counterparties)	766,757	466,370	786,421	460,845
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	81,628	21,670	74,301	20,584
14 Other contractual funding obligations	-	-	-	-
15 Other contingent funding obligations	167,814	6,497	184,958	9,352
16 Total Cash Outflows		560,540		553,764
Cash inflows				
17 Secured lending (e.g. reverse repos)	-	-	-	-
18 Inflows from fully performing exposures	92,981	48,592	73,339	37,302
19 Other cash inflows	298,074	292,326	247,848	247,431
20 Total Cash Inflows	391,055	340,919	321,187	284,733
		Total adjusted Value		Total adjusted Value
21 Total HQLA		538,323		616,856
22 Total net cash outflows		219,621		269,031
23 Liquidity Coverage Ratio (%)*		251.40%		233.24%

*Represents simple average of daily LCR

AL SALAM BANK B.S.C.**Leverage Ratio - Consolidated****31 December 2022**

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 2022:

S.No.	Description	BHD '000
1	Total Self Financed Assets	1,440,763
2	Total URIA Financed Assets	2,341,276
3	Off Balance Sheet items - with relevant Credit Conversion Factor	139,371
4	Leverage ratio exposure [(1) + (2)*30% + (3)]	2,282,517
5	Regulatory Adjustments	34,562
6	Total exposures for the calculation of the leverage ratio [(4)-(5)]	2,247,955
7	Tier 1 Capital	245,030
	Leverage Ratio [(7)/(6)]	10.90%
	Minimum Leverage Ratio as required by CBB	3%