AL SALAM BANK-BAHRAIN B.S.C.

Liquidity and Leverage Ratios

31 December 2020

Background:

ASBB 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. ASBB is required to maintain NSFR of at least 100% on an on-going basis. CBB has relaxed this ratio to 80% until 31 December 2021 due to the pressures within the banking sector following the COVID-19 pandemic. However, ASBB 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 ASBB 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.

ASBB 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 2020, the weighted value of the Available Stable Funding (ASF) stood at BD 1.243 billion, while the total weighted value of the Required Stable Funding (RSF) stood at BD 1.244 billion. The resultant NSFR stood at 99.96%, 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 23%, 42% and 17% 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.

ASBB’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 1% of the RSF portfolio. Performing financing and Investment accounts for 73% and 14% of the RSF.

At ASBB, 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 2020

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	255,056	-	-	35,745	**290,801**
3	Other Capital Instruments	-	-	-	-	**-**
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	-	-	-	**-**
6	Less stable deposits	-	442,336	125,503	66,951	**578,006**
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	**-**
9	Other wholesale funding	-	1,032,384	189,353	58,126	**374,683**
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities		-	-	-	
12	All other liabilities not included in the above categories	-	64,101	-	-	**-**
13	**Total ASF**					**1,243,490**
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)					**17,604**
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	-	245,585	416	4,911	**41,956**
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:	-	225,592	133,368	740,303	**775,213**
20	With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	167,627	**108,958**
21	Performing residential mortgages, of which:	-	-	-	131,367	**85,388**
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	131,367	**85,388**
23	Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	7,386	6,567	780	**7,640**
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	292,513	3,980		24,007	**308,941**
30	OBS items		145,464	-	-	**7,273**
31	**Total RSF**		-	-	-	**1,244,016**
32	**NSFR (%)**					**99.96%**

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Leverage Ratio - Consolidated

31 December 2020

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 2020:

S.No.	Description	BHD '000
1	Total Self Financed Assets	1,031,930
2	Total URIA Financed Assets	1,226,225
3	Off Balance Sheet items - with relevant Credit Conversion Factors	94,387
4	**Leverage ratio exposure [(1) + (2)*30% + (3)]**	**1,494,184**
5	Regulatory Adjustments	25,971
6	**Total exposures for the calculation of the leverage ratio [(4)-(5)]**	**1,468,213**
7	**Tier 1 Capital**	**229,085**
	Leverage Ratio [(7)/(6)]	**16%**
	Minimum Leverage Ratio as required by CBB	3%

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Liquidity Coverage Ratio (LCR) Report - Consolidated

31 December 2020

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 31 December 2021.

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

		Q4-2020		Q3-2020	
		Total unweighted value (average)	**Total weighted value (average)**	**Total unweighted value (average)**	**Total weighted value (average)**
High-quality liquid assets					
1	Total HQLA		**195,494**		**158,653**
Cash outflows					
2	**Retail deposits and deposits from small business customers, of which:**				
3	Stable deposits	61,120	1,834	60,195	1,806
4	Less stable deposits	192,544	19,254	156,459	15,646
5	**Unsecured wholesale funding, of which:**				
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-
7	Non-operational deposits (all counterparties)	567,464	340,060	551,869	324,543
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	26,284	7,807	23,454	6,948
14	**Other contractual funding obligations**	-	**-**	-	-
15	**Other contingent funding obligations**	86,378	4,371	68,760	3,487
16	Total Cash Outflows		**373,325**		**352,430**
Cash inflows					
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	55,157	35,075	47,794	31,324
19	Other cash inflows	185,573	180,946	185,501	180,776
20	Total Cash Inflows	240,730	**216,021**	233,295	**212,100**
			Total adjusted Value		**Total adjusted Value**
21	**Total HQLA**		**195,494**		**158,653**
22	**Total net cash outflows**		**157,730**		**140,736**
23	**Liquidity Coverage Ratio (%)***		**126%**		**115%**

*Represents simple average of daily LCR