



AL SALAM BANK-BAHRAIN B.S.C.

Liquidity and Leverage Ratios

30 June 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% 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 Liabilities 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 30 June 2020, the weighted value of the Available Stable Funding (ASF) stood at BD 1.235 billion, while the total weighted value of the Required Stable Funding (RSF) stood at BD 1.243 billion. The resultant NSFR stood at 99%, 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 24%, 39% 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 68% and 15% 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.

AL SALAM BANK-BAHRAIN B.S.C.
Net Stable Funding Ratio (NSFR) Report - Consolidated

30 June 2020

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	265,298	-	-	35,958	301,256
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	400,135	117,401	71,964	537,747
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	1,008,236	172,174	62,948	395,863
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities	-	-	-	-	-
12	All other liabilities not included in the above categories	-	50,424	-	-	-
13	Total ASF					1,234,866
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)					12,274
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	-	238,463	8,047	5,353	45,146
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:	-	166,312	142,508	717,414	734,192
20	With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	150,103	97,567
21	Performing residential mortgages, of which:	-	-	-	103,987	67,591
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	103,987	67,591
23	Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	8,119	-	469	4,458
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	380,323	-	-	42,293	374,038
30	OBS items	-	108,909	-	-	5,445
31	Total RSF					1,243,144
32	NSFR (%)					99%

AL SALAM BANK-BAHRAIN B.S.C.**Leverage Ratio - Consolidated****30 June 2020**

S.No.	Description	BHD '000
1	Total Self Financed Assets	1,065,548
2	Total URIA Financed Assets	1,115,961
3	Off Balance Sheet items - with relevant Credit Conversion Factors	53,681
4	Leverage ratio exposure [(1) + (2)*30% + (3)]	1,454,017
5	Regulatory Adjustments	25,971
6	Total exposures for the calculation of the leverage ratio [(4)-(5)]	1,428,046
7	Tier 1 Capital	239,327
	Leverage Ratio [(7)/(6)]	17%
	Minimum Leverage Ratio as required by CBB	3%

AL SALAM BANK-BAHRAIN B.S.C.
Liquidity Coverage Ratio (LCR) Report - Consolidated
30 June 2020

		Q2-2020		Q4-2019	
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets					
1	Total HQLA		230,904		267,049
Cash outflows					
2	Retail deposits and deposits from small business customers, of which:				
3	Stable deposits	55,596	1,671	47,906	1,437
4	Less stable deposits	151,692	15,209	126,221	12,622
5	Unsecured wholesale funding, of which:				
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-
7	Non-operational deposits (all counterparties)	536,756	331,642	459,802	291,999
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	25,543	7,577	10,292	3,086
14	Other contractual funding obligations				
15	Other contingent funding obligations	77,223	3,929	71,573	3,910
16	Total Cash Outflows		360,027		313,054
Cash inflows					
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	19,560	11,063	37,193	19,470
19	Other cash inflows	189,475	184,500	176,518	171,741
20	Total Cash Inflows	209,035	195,562	213,711	191,211
			Total adjusted Value		Total adjusted Value
21	Total HQLA		230,904		267,049
22	Total net cash outflows		164,873		122,135
23	Liquidity Coverage Ratio (%)		141%		230%