بنك السلام
Al Salam Bank

AL SALAM BANK B.S.C.

Liquidity and Leverage Ratios

30 September 2021

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 31 December 2021 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 30 September 2021, the weighted value of the Available Stable Funding (ASF) stood at BD 1.511 billion, while the total weighted value of the Required Stable Funding (RSF) stood at BD 1.305 billion. The resultant NSFR stood at 115.71%, 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 21%, 43% 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 75% and 14% 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

30 September 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	275,097	-	-	35,037	**310,134**
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	81,685	8,591	2,543	**88,305**
6	Less stable deposits	-	443,866	170,176	66,068	**618,706**
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	1,190,272	200,923	58,133	**493,456**
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities		-	-	-	
12	All other liabilities not included in the above categories	-	65,874	-	-	-
13	**Total ASF**					1,510,601
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)					**26,831**
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	-	371,282	6,643	6,747	**65,761**
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:	-	202,317	112,392	772,640	**790,728**
20	With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	116,855	**75,956**
21	Performing residential mortgages, of which:	-	-	-	189,537	**123,199**
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	189,537	**123,199**
23	Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	12,783	-	842	**7,107**
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	249,369	3,939	1,941	30,262	**282,571**
30	OBS items		185,584	-	-	**9,279**
31	**Total RSF**		-	-	-	1,305,476
32	**NSFR (%)**					116%

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Leverage Ratio - Consolidated
30 September 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 30 September 2021:

S.No.	Description	BHD '000
1	Total Self Financed Assets	1,054,130
2	Total URIA Financed Assets	1,533,061
3	Off Balance Sheet items - with relevant Credit Conversion Factors	124,615
4	**Leverage ratio exposure [(1) + (2)*30% + (3)]**	**1,638,664**
5	Regulatory Adjustments	25,971
6	**Total exposures for the calculation of the leverage ratio [(4)-(5)]**	**1,612,693**
7	**Tier 1 Capital**	**249,127**
	Leverage Ratio [(7)/(6)]	**15%**
	Minimum Leverage Ratio as required by CBB	3%

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Liquidity Coverage Ratio (LCR) Report - Consolidated
30 September 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 31 December 2021.

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

		Q3-2021		Q2-2021	
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets					
1	Total HQLA		**491,304**		**296,064**
Cash outflows					
2	**Retail deposits and deposits from small business customers, of which:**				
3	Stable deposits	67,560	2,027	65,099	1,953
4	Less stable deposits	224,384	22,438	224,615	22,461
5	**Unsecured wholesale funding, of which:**				
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-
7	Non-operational deposits (all counterparties)	773,032	430,590	712,104	426,321
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	36,401	10,803	31,645	9,373
14	**Other contractual funding obligations**	-	-	-	-
15	**Other contingent funding obligations**	109,395	6,775	109,873	5,564
16	Total Cash Outflows		**472,633**		**465,672**
Cash inflows					
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	62,038	34,743	66,537	38,187
19	Other cash inflows	304,380	299,676	311,322	306,792
20	Total Cash Inflows	366,418	**334,419**	377,859	**344,980**
			Total adjusted Value		Total adjusted Value
21	**Total HQLA**		**491,304**		**296,064**
22	**Total net cash outflows**		**144,266**		**145,932**
23	**Liquidity Coverage Ratio (%)***		**352%**		**216%**

*Represents simple average of daily LCR