AL SALAM BANK B.S.C.

Liquidity and Leverage Ratios

30 June 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. CBB has relaxed this ratio to 80% until 30 June 2022 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 comfortable funding mix for the long-term assets and subsequently healthy NSFR.

The Assets and Labilities 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 30 June 2022, the weighted value of the Available Stable Funding (ASF) stood at BD 1.729 billion, while the total weighted value of the Required Stable Funding (RSF) stood at BD 1.455 billion. The resultant NSFR stood at 118.84%, 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 17%, 48% and 19% 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 76% and 12% 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 June 2022

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	265,739	-	-	35,422	**301,162**
3	Other Capital Instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	-	93,611	3,196	7,100	**99,067**
6	Less stable deposits	-	572,844	193,089	108,912	**798,252**
7	Wholesale funding:					
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	1,194,512	193,397	116,426	**530,659**
10	Other liabilities:					
11	NSFR Shari'a-compliant hedging contract liabilities		-	-	-	
12	All other liabilities not included in the above categories	-	65,119	-	-	-
13	**Total ASF**					1,729,140
Required Stable Funding (RSF):						
14	Total NSFR high-quality liquid assets (HQLA)					**32,436**
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	-	264,046	68	9,337	**48,978**
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:	-	292,118	149,274	842,439	**919,589**
20	With a risk weight of less than or equal to 35% as per the Capital Adequacy Ratio guidelines	-	-	-	85,902	**55,836**
21	Performing residential mortgages, of which:	-	-	-	218,256	**141,866**
22	With a risk weight of less than or equal to 35% under the CBB Capital Adequacy Ratio Guidelines	-	-	-	218,256	**141,866**
23	Securities/ sukuk that are not in default and do not qualify as HQLA, including exchange-traded equities	-	8,260	5,417	12,175	**17,187**
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	235,441	5,659	-	43,728	**281,999**
30	OBS items		258,764	-	-	**12,938**
31	**Total RSF**		-	-	-	1,454,993
32	**NSFR (%)**					118.84%

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Liquidity Coverage Ratio (LCR) Report - Consolidated

30 June 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 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 30 June 2022.

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

		Q2-2022		Q1-2022	
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets					
1	Total HQLA		593,813		612,850
Cash outflows					
2	Retail deposits and deposits from small business customers, of which:				
3	Stable deposits	76,923	2,308	72,688	2,181
4	Less stable deposits	343,369	34,337	238,145	23,815
5	Unsecured wholesale funding, of which:				
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-
7	Non-operational deposits (all counterparties)	895,861	514,623	914,196	515,267
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	56,547	16,854	43,971	13,088
14	Other contractual funding obligations	-	-	-	-
15	Other contingent funding obligations	159,533	7,990	152,323	8,300
16	Total Cash Outflows		576,112		562,651
Cash inflows					
17	Secured lending (e.g. reverse repos)	-	-	-	-
18	Inflows from fully performing exposures	74,092	47,015	60,793	37,137
19	Other cash inflows	296,332	291,287	330,381	325,157
20	Total Cash Inflows	370,424	338,302	391,174	362,294
			Total adjusted Value		Total adjusted Value
21	Total HQLA		593,813		612,850
22	Total net cash outflows		237,827		203,369
23	Liquidity Coverage Ratio (%)*		269.98%		325.51%

*Represents simple average of daily LCR

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Leverage Ratio - Consolidated
30 June 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 30 June 2022:

S.No.	Description	BHD '000
1	Total Self Financed Assets	1,141,054
2	Total URIA Financed Assets	1,696,253
3	Off Balance Sheet items - with relevant Credit Conversion Factors	131,268
4	**Leverage ratio exposure [(1) + (2)*30% + (3)]**	**1,781,198**
5	Regulatory Adjustments	25,971
6	**Total exposures for the calculation of the leverage ratio [(4)-(5)]**	**1,755,227**
7	**Tier 1 Capital**	**239,767**
	Leverage Ratio [(7)/(6)]	**13.66%**
	Minimum Leverage Ratio as required by CBB	3%