Albaraka Bank Limited

Pillar III Disclosure Report

March 2022

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1. BASIS OF COMPILATION

The following information is compiled in terms of Regulation 43 relating to banks, issued under Section 90 of the Banks Act, No 94 of 1990 (as amended) (“the regulations”), which incorporates the Basel Pillar III requirements on market discipline.

All disclosures are consistent with those disclosed in terms of International Financial Reporting Standards (“IFRS”), unless otherwise stated.

All amounts are disclosed in rand thousands. Where bank and consolidated figures are not materially different, only one table is disclosed.

All tables and disclosures may not be relevant and are excluded from this Pillar III report.

2. SCOPE OF REPORTING

The quarterly results of Albaraka Bank Limited for the period ended 31 March 2022 is reported on. Albaraka Bank Limited is a registered bank domiciled in South Africa and has as its principal objective the operation of its business according to Islamic banking precepts. The bank's parent and ultimate holding company is Al Baraka Banking Group B.S.C., a company incorporated in the Kingdom of Bahrain. The address of its registered office is PO Box 1882, Manama, Kingdom of Bahrain.

3. OVERVIEW OF RISK MANAGEMENT, KEY PRUDENTIAL METRICS AND RISK WEIGHTED ASSETS

The following section provides an overview of the key prudential regulatory metrics covering the available capital and ratios, risk weighted assets, leverage ratio, liquidity coverage ratio and net stable funding ratio of the bank’s performance and trends over time on a bank solo and consolidated basis.

3.1. **KM1** – Key metrics

CONSOL						
Line No		31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021

Available Capital (Amounts) R'000						
1	Common equity Tier 1 (CET1)	784 785	777 089	735 073	707 738	716 118
1a	Fully loaded expected credit loss (ECL) accounting model	784 785	777 089	735 073	707 738	716 118
2	Tier 1	784 785	777 089	735 073	707 738	716 118
2a	Fully loaded accounting model Tier 1	784 785	777 089	735 073	707 738	716 118
3	Total capital	1 107 841	1 095 482	1 048 729	1 026 275	1 033 200
3a	Fully loaded expected credit loss (ECL) accounting model total capital	1 107 841	1 095 482	1 048 729	1 026 275	1 033 200
Risk Weighted Assets (Amounts) R'000						
4	Total risk-weighted assets (RWA)	6 608 837	6 424 850	6 225 321	5 610 271	5 945 801
Risk-Based Capital Ratios as a percentage of RWA						
5	Common equity tier 1 ratio (%)	11.87%	12.10%	11.81%	12.62%	12.04%
5a	Fully loaded ECL accounting model CET1 (%)	11.87%	12.10%	11.81%	12.62%	12.04%
6	Tier 1 ratio (%)	11.87%	12.10%	11.81%	12.62%	12.04%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	11.87%	12.10%	11.81%	12.62%	12.04%
7	Total capital ratio (%)	16.76%	17.05%	16.85%	18.29%	17.38%
7a	Fully loaded ECL accounting model total capital ratio (%)	16.76%	17.05%	16.85%	18.29%	17.38%
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	-	-	-	-	-
10	Bank D-sib additional requirements (%)	-	-	-	-	-
11	Total of bank CET1 specific buffer requirements (%) (row8 + row9 + row10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	3.12%	3.85%	3.56%	4.37%	3.79%
Basel III Leverage Ratio						
13	Total Basel III leverage ratio measure	8 914 045	8 995 674	8 898 719	9 014 407	8 936 516
14	Basel III leverage ratio (%) (row 2/row 13)	8.80%	8.64%	8.26%	7.85%	8.01%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	8.80%	8.64%	8.26%	7.85%	8.01%
Liquidity Coverage Ratio						
15	Total HQLA	483 145	465 022	432 841	422 361	445 445
16	Total net cash outflow	75 701	71 009	70 464	75 112	78 179
17	LCR ratio (%)	638%	655%	614%	562%	570%
Net Stable Funding Ratio						
18	Total available stable funding	6 812 622	6 914 799	7 446 447	7 552 430	7 498 626
19	Total required stable funding	5 875 528	5 275 149	5 039 864	4 609 477	4 645 199

20	NSFR ratio (%)	116%	131%	148%	164%	161%

BANK						
Line No		31 Mar 2022	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021
Available Capital (Amounts) R'000						
1	Common equity Tier 1 (CET1)	771 886	765 179	754 276	720 678	724 471
1a	Fully loaded expected credit loss (ECL) accounting model	771 886	765 179	754 276	720 678	724 471
2	Tier 1	771 886	765 179	754 276	720 678	724 471
2a	Fully loaded accounting model Tier 1	771 886	765 179	754 276	720 678	724 471
3	Total capital	1 094 942	1 083 572	1 067 932	1 039 215	1 041 553
3a	Fully loaded expected credit loss (ECL) accounting model total capital	1 094 942	1 083 572	1 067 932	1 039 215	1 041 553
Risk Weighted Assets (Amounts) R'000						
4	Total risk-weighted assets (RWA)	6 654 944	6 476 285	6 274 285	5 663 988	6 007 849
Risk-Based Capital Ratios as a percentage of RWA						
5	Common equity tier 1 ratio (%)	11.60%	11.82%	12.02%	12.72%	12.06%
5a	Fully loaded ECL accounting model CET1 (%)	11.60%	11.82%	12.02%	12.72%	12.06%
6	Tier 1 ratio (%)	11.60%	11.82%	12.02%	12.72%	12.06%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	11.60%	11.82%	12.02%	12.72%	12.06%
7	Total capital ratio (%)	16.45%	16.73%	17.02%	18.35%	17.34%
7a	Fully loaded ECL accounting model total capital ratio (%)	16.45%	16.73%	17.02%	18.35%	17.34%
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	-	-	-	-	-
10	Bank D-sib additional requirements (%)	-	-	-	-	-
11	Total of bank CET1 specific buffer requirements (%) (row8 + row9 + row10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	2.85%	3.57%	3.77%	4.47%	3.81%
Basel III Leverage Ratio						
13	Total Basel III leverage ratio measure	8 926 422	9 014 381	8 912 603	9 034 045	8 960 070
14	Basel III leverage ratio (%) (row 2/row 13)	8.65%	8.49%	8.46%	7.98%	8.09%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	8.65%	8.49%	8.46%	7.98%	8.09%
Liquidity Coverage Ratio						
15	Total HQLA	483 145	465 022	432 841	422 361	445 445

16	Total net cash outflow	75 701	71 009	70 464	75 112	78 179
17	LCR ratio (%)	638%	655%	614%	562%	570%
Net Stable Funding Ratio						
18	Total available stable funding	6 812 622	6 914 799	7 446 447	7 552 430	7 498 626
19	Total required stable funding	5 875 528	5 275 149	5 039 864	4 609 477	4 645 199
20	NSFR ratio (%)	116%	131%	148%	164%	161%

Period under review: Albaraka Bank

As at 31 March 2022, the total capital ratio decreased from 17.34% to 16.45%, largely affected by:

- Increase in risk weighted assets from R6.01billion to R6.65billion, due to the growth in the advances book
- Increase in total capital and reserves from R1,04billion to R1,09billion

The LCR increase from 570% in March 2021 to 638% in March 2022, due to increases in the bank’s treasury bill and cash holdings.

3.2. **OV1 -** Overview of Risk weighted assets

	CONSOL	RWA	Min capital requirements*	RWA	Min capital requirements*
		Mar 22 R’000		Dec 21 R’000	
1	Credit risk (excluding counterparty credit risk) (CCR)	5 791 124	665 979	5 743 189	603 035
2	Of which: standardised approach (SA)	5 791 124	665 979	5 743 189	603 035
3	Of which: foundation internal ratings-based (F-IRB) approach	-	-	-	-
4	Of which: supervisory slotting approach	-	-	-	-
5	Of which: advanced internal ratings-based (A-IRB) approach	-	-	-	-
6	Counterparty credit risk (CCR)	-	-	-	-
7	Of which: standardised approach for counterparty credit risk	-	-	-	-
8	Of which: Internal Model Method (IMM)	-	-	-	-
9	Of which: other CCR	-	-	-	-
10	Credit valuation adjustment (CVA)	-	-	-	-

11	Equity positions under the simple risk weight approach	175 229	20 151	29 827	3 132
12	Equity investments in funds – look-through approach	-	-	-	-
13	Equity investments in funds – mandate-based approach	-	-	-	-
14	Equity investments in funds – fall-back approach	-	-	-	-
15	Settlement risk	-	-	-	-
16	Securitisation exposures in the banking book	-	-	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-	-	-
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach	-	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-	-
20	Market risk	9 450	1 087	18 800	1 974
21	Of which: standardized approach (SA)	9 450	1 087	18 800	1 974
22	Of which: internal model approaches (IMA)	-	-	-	-
23	Capital charge for switch between trading book and banking book	-	-	-	-
24	Operational risk	633 034	72 799	633 034	66 469
25	Amounts below thresholds for deduction (subject to 250% risk weight)	-	-	-	-
26	Aggregate capital floor applied	-	-	-	-
27	Floor adjustment (before application of transitional cap)	-	-	-	-
28	Floor adjustment (after application of transitional cap)	-	-	-	-
29	Total (1+6+10+11+12+13+14+15+16+20+23+24+25+28)	6 608 837	760 016	6 424 850	674 609

	BANK ONLY	RWA	Min capital requirements*	RWA	Min capital requirements*
		Mar 22 R’000		Dec 21 R’000	
1	Credit risk (excluding counterparty credit risk) (CCR)	5 799 921	666 991	5 757 318	604 518
2	Of which: standardised approach (SA)	5 799 921	666 991	5 757 318	604 518

3	Of which: foundation internal ratings-based (F-IRB) approach	-	-	-	-
4	Of which: supervisory slotting approach	-	-	-	-
5	Of which: advanced internal ratings-based (A-IRB) approach	-	-	-	-
6	Counterparty credit risk (CCR)	-	-	-	-
7	Of which: standardised approach for counterparty credit risk	-	-	-	-
8	Of which: Internal Model Method (IMM)	-	-	-	-
9	Of which: other CCR	-	-	-	-
10	Credit valuation adjustment (CVA)	-	-	-	-
11	Equity positions under the simple risk weight approach	175 229	20 151	29 828	3 132
12	Equity investments in funds – look-through approach	-	-	-	-
13	Equity investments in funds – mandate-based approach	-	-	-	-
14	Equity investments in funds – fall-back approach	-	-	-	-
15	Settlement risk	-	-	-	-
16	Securitisation exposures in the banking book	-	-	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-	-	-
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach	-	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-	-
20	Market risk	9 450	1 087	18 800	1 974
21	Of which: standardized approach (SA)	9 450	1 087	18 800	1 974
22	Of which: internal model approaches (IMA)	-	-	-	-
23	Capital charge for switch between trading book and banking book	-	-	-	-
24	Operational risk	633 034	72 799	633 034	66 469
25	Amounts below thresholds for deduction (subject to 250% risk weight)	37 310	4 291	37 305	3 917
26	Aggregate capital floor applied	-	-	-	-
27	Floor adjustment (before application of transitional cap)	-	-	-	-

28	Floor adjustment (after application of transitional cap)	-	-	-	-
29	Total (1+6+10+11+12+13+14+15+16+20+23+24+25+28)	6 654 944	765 319	6 476 285	680 010

* Minimum requirements include the base minimum and idiosyncratic requirement specified by the Registrar.

Period under review – Albaraka Bank

Risk weighted assets increased from R6.48billion to R6.65billion predominantly in credit risk RWAs. Credit risk RWAs increased by R43million which is largely due to the growth in the advances book. Significant increase in equity risk from R29.8million to R175.2million resulting from a change in calculation of risk weighted assets. Market risk decreased by R9.4million or 49.7% which is attributable to the decrease in the bank's foreign cash holdings. Operational risk is updated bi-annually and is based on a three-year rolling gross income before impairments average balance.

4. LEVERAGE RATIO

In terms of Regulation 43(1)(e)(iii)(G), the Bank is required to provide a summarised comparison of the accounting assets and the regulatory leverage ratio differences, as well as the leverage ratio positions of the bank.

4.1. **LR1 -** Summarised comparison of accounting assets vs leverage ratio exposure measure

Line No	Item	31 Mar 2022
1	Total consolidated assets as per published financial statements	8 506 217
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-

5	Adjustment for securities financing transactions (ie repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off- balance sheet exposures)	481 814
7	Other adjustments	(61 609)
8	Leverage ratio exposure	8 926 422

4.2. **LR2 -** Leverage ratio common disclosure template

Line no	Item	31 Mar 2022	31 Dec 2021
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs),but including collateral)	8 506 217	8 602 136
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(61 609)	(126 458)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	8 444 608	8 475 678
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	-
5	Add-on amounts for PFE associated with all derivatives transactions	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	Total derivative exposures (sum of lines 4 to 10)	-	-
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-	-
17	Off-balance sheet exposure at gross notional amount	1 371 009	1 410 658

18	(Adjustments for conversion to credit equivalent amounts)	(889 195)	(871 955)
19	Off-balance sheet items (sum of lines 17 and 18)	481 814	538 703
20	Tier 1 capital	771 886	765 179
21	Total exposures (sum of lines 3, 11, 16 and 19)	8 926 422	9 014 381
22	Basel III leverage ratio	8.65%	8.49%

Total assets decreased from R8.60billion to R8.51billion. This is largely due to the decrease in the advances to customers and banks of R68million. Cash resources decreased by R32.5 million comprising a reduction in cash holdings and balances with the SARB of R42.9 million or 39.7%, offset by an increase in regulatory balances with SARB of R10.4 million or 7.4%. Off balance sheet exposure decreased from R1.41million to R1.37 million with a decrease in guarantees issued.

5. LIQUIDITY

5.1. **LIQ1 -** Liquidity Coverage Ratio (LCR)

The objective of the LCR is to promote the short term resilience of the liquidity risk profile of banks by ensuring that they have sufficient high quality liquid assets to survive a significant stress scenario lasting 30 calendar days. The values in the table are calculated as the simple average of the 3-month values over the period.

The HQLA comprises primarily South African sovereign and central bank Rand denominated securities, all of which are eligible for South African Reserve Bank (SARB) repo.

As at 31 March 2022			
Line No		**Total Unweighted Value**	**Total Weighted Value**
High Quality Liquid Assets			
1	Total HQLA	471 294	471 294
Cash Outflows			

2	Retail deposits and deposits from small business customers, of which:	5 524 583	139 112
3	Stable deposits	-	-
4	Less stable deposits	5 524 583	139 112
5	Unsecured wholesale funding, of which:	887 043	10 090
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	887 043	10 090
7	Non-operational deposits (all counterparties)	-	-
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	1 023 753	155 150
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	895 208	26 606
14	Other contractual funding obligations	128 545	128 545
15	Other contingent funding obligations	-	
16	TOTAL CASH OUTFLOWS		304 352
CASH INFLOWS			
17	Secured lending (e.g. reverse repos)		
18	Inflows from fully performing exposures	804 622	588 464
19	Other cash inflows	258 300	-
20	TOTAL CASH INFLOWS	1 062 922	588 464
			Total adjusted value
21	Total HQLA		471 294
22	Total net cash outflows		76 088
23	**Liquidity Coverage Ratio (%)**		**619%**

5.2. **LIQ2** – Net stable funding ratio (NSFR)

The objective of the Net Stable Funding Ratio (NSFR) is to promote the resilience in the banking sector by requiring banks to maintain a stable funding profile in relation to the composition of their assets and off balance sheet activities on an ongoing structural basis. By ensuring that banks do not embark on excessive maturity transformation that is not sustainable, the NSFR is intended to reduce the likelihood that disruptions to a bank’s funding sources would erode its liquidity position, increasing its risk of failure and potentially lead to broader systemic risk. The minimum NSFR requirement is 100%.

The residual maturity of deposits are the key drivers of available stable funding, in particular those from either retail and small business customers or with maturity longer than a year. Capital issued is also a significant contributor. The residual maturity of deposits are the key drivers of available stable funding, in particular those from either retail and small business customers or with maturity longer than a year. The residual maturity of loans, as well as holdings in securities eligible as HQLA, are the key drivers of required stable funding. Lower weightings apply to mortgages, shorter term loans and HQLA.

As at 31 March 2022						
		Unweighted value by residual maturity				
Line No		**No Maturity**	**< 6 months**	**6 months to < 1 year**	**≥ 1 year**	**Weighted value**
	Available Stable Funding (ASF) Item					
1	Capital:	-	-	-	1 148 235	1 148 235
2	Regulatory capital	-	-	-	1 148 235	1 148 235
3	Other capital instruments					
4	Retail deposits and deposits from small business customers:	-	3 432 457	1 390 564	70 675	4 411 394
5	Stable deposits					
6	Less stable deposits	-	1 529 565	603 606	184 135	1 250 721
7	Wholesale funding:	-	-	-	-	-
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	-	-	-	-
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	-	142 436	4 544	-	2 272
12	NSFR derivative liabilities	-	-	-	-	-
13	All other liabilities and equity not included in the above categories	-	142 436	4 544	-	2 272
14	Total ASF	-	5 014 458	1 998 714	1 403 045	6 812 622
	Required Stable Funding (RSF) Item					
15	Total NSFR high-quality liquid assets (HQLA)	-	515 008	-	-	22 497
16	Deposits held at other financial institutions for operational purposes	-	1 235 212	-	404 234	589 516
17	Performing loans and securities:	-	-	-	-	-
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	-	-	-	-

20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	533 972	164 301	-	349 136
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	-	-	-	-	-
22	Performing residential mortgages, of which:	-	-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk		1 066	3 013	713 349	465 716
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	-	-	-	-	-
27	Physical traded commodities, including gold	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
29	NSFR derivative assets	-	-	-	-	-
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	-	4 985	6 016	4 925 061	4 378 867
32	Off-balance sheet items	-	1 395 921	-	-	69 796
33	Total RSF	-	3 686 165	173 330	6 042 644	5 875 528
34	**Net Stable Funding Ratio (%)**					**116%**