BASEL III

LIQUIDITY COVERAGE RATIO
Qualitative & Quantitative disclosures

As at 30th September 2017

Qualitative disclosures

Liquidity Risk is the risk that the Bank is unable to meet its financial obligations in a timely manner at reasonable cost. Financial obligations include: liabilities to depositors; payments due under derivative contracts; settlement of repurchase transactions; and lending and investment commitments.

The management of liquidity is a core function of any bank, being inherent in the maturity transformation process that underlies corporate and retail banking. Given its wide scope, a single measurement to identify Liquidity Risk is insufficient. The Bank therefore applies a broad range of approaches to measure and monitor Liquidity Risk, including forward looking and historical metrics. These approaches are laid out in the Bank's Liquidity Risk Management Framework that contains a variety of risk management techniques that are consistent with the BCBS Principles for Sound Liquidity Risk Management and Supervision and Basel III requirements.

Overview of the Bank's Liquidity Risk Management framework

- The Bank's Asset and Liability Committee ("ALCO") is responsible for providing strategic oversight in respect to asset and liability management. The Committee provides direct guidance and instruction to Business Units with regard to asset and liability growth and composition targets as well as steering the Bank's balance sheet through the approval of FTP methodologies and liquidity premia. ALCO may also take direct balance sheet action, for instance raising long-term debt or capital.

- The Bank's Board has delegated authority to ALCO to maintain and develop the Bank's Liquidity Risk Management Framework including policy oversight, setting limits and monitoring performance against risk appetite. In addition to setting limits for regulatory liquidity ratios, including Basel III ratios – the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"), and intraday liquidity reporting - the Bank has set a number of internal liquidity metrics which include the monitoring of large depositors under normal and stressed conditions.

- The Treasury Group function is the primary risk-owner responsible for the detailed day-to-day management of the Bank's liquidity position and adherence to internal and regulatory ratio requirements.

- Risk Management, as secondary risk-owner, provide independent oversight of all significant liquidity risks and support the Treasury Function with liquidity risk analysis, risk measurement and reporting, and the development and performance of liquidity stress-testing.

- The Treasury Group function owns - and Risk Management review and recommend - the Bank's Liquidity policy, Funding Strategy and Contingency Funding Plan ("CFP").

- The Financial Control Department is responsible for the regulatory reporting of liquidity returns to SAMA and, alongside Risk Management, are responsible for internal liquidity reporting for ALCO purposes.

- The Financial Control Department is the custodian of the FTP model and is responsible for ensuring that the methodologies agreed by ALCO are reflected in reporting.

- Business Units support Liquidity Risk management by providing information to the Treasury function of any anticipated / expected material cash-flows from customers.

- The money market desk within Treasury is responsible for managing liquidity across all currencies. In order to facilitate this, the GM Treasury together with Head of Financial Institutions Group, are responsible to ensure that appropriate nostro facilities, with overdrafts if appropriate, and foreign exchange lines are in place with a range of local and international banks.

Liquidity stress testing

The Bank's liquidity stress testing scenarios are designed to demonstrate that the Bank is able to withstand a range of material liquidity stress events. A key output of liquidity stress scenarios is the LCR which is computed after applying varying stresses, for example, to the roll-off factors for deposits that mature within 30-days. A range of other regulatory and internal ratios under stressed conditions are prepared for management assessment and are communicated to the Board.

The recently introduced intraday liquidity stress testing methodology is based on the guidance set out by the BCBS, stress scenarios from the Bank's CFP and other internal liquidity stress testing approaches.

The Bank places high importance on the availability of High Quality Liquid Assets ("HQLAs") when considering its capacity to withstand a liquidity stress event. HQLA's are core to the management of the Bank's liquidity on an operational and regulatory basis and represent the principal liquidity buffer in the event of a stress scenario transpiring. The majority of assets contained within the Bank's investment portfolio qualify as HQLA's. Responsibility for the maintenance of the investment portfolio lies with the Treasury Group, guided by the Investment Policy, approved by ALCO and the Board.

The Bank believes that assets not eligible for inclusion as HQLAs may nonetheless be useful sources of liquidity, particularly in non-stressed markets. These assets therefore have a role to play in meeting the Bank's liquidity needs, including via international repo markets. Investment in these assets, within the limitations of the Bank's investment policy, is therefore frequently desirable.

Contingency funding plan

The Bank's CFP specifies an approach for analyzing and responding to actual and potential liquidity events. The liquidity stress-testing results are a key consideration in shaping the Bank's CFP.

The Bank's CFP outlines the governance structure for the management and monitoring of liquidity events, describes processes for effective internal and external communication and identifies potential counter measures to be considered at various stages of an event.

The CFP sets out the plan of action the Bank would use to fund business activity in crisis situations and period of market stress. It consist of two principal parts:

- Part 1: Analysis and Identification
- Part 2: The Liquidity Crisis Action Plan ("LCAP")

The Bank is required to test its CFP in accordance within its CFP policy. As part the testing, the Bank will ensure that the test scenarios applied are current and relevant.

Liquidity Coverage Ratio monitoring

The Bank monitors its LCR in all significant currencies. A currency is considered "significant" if the aggregate liabilities denominated in that currency amount to 5 percent or more of the Bank's total liabilities. Using this approach, only SAR and USD are material currencies for Alawwal bank and the LCR in these currencies are monitored and reported as per the Basel and SAMA requirements accordingly.

The reporting of the quarterly LCR based on daily averages became applicable from 1st Jan 2017. Alawwal bank has used 92 data points to calculate the LCR to quarter-end 30th September 2017, which is at 397 percent. The quarter end LCR to June 30th was calculated using 91 data points, which was at 318 percent. The movement between the two quarters was mainly due to a decrease in Total Average cash outflows of around SAR 8.6 billion, a decrease in average HQLA's by SAR 92 million, partly offset by an increase in Total Average cash inflows of around SAR 287 million. The intra period LCR's were comfortably above the minimum requirements of SAMA/Basel as provided hereunder:

	1 Jan 2015	1 Jan 2016	1 Jan 2017	1 Jan 2018	1 Jan 2019
Minimum LCR	60%	70%	80%	90%	100%

Quantitative disclosures

Basel III - Liquidity Coverage Ratio As at 30th September 2017			
(In SR 000's)		**TOTAL UNWEIGHTED VALUE (Daily Average for the Quarter)**	**TOTAL WEIGHTED VALUE (Daily Average for the Quarter)**
HIGH QUALITY LIQUID ASSETS			
1	**Total high-quality liquid assets (HQLA)**	**22,901,850**	**22,705,594**
CASH OUTFLOWS			
2	**Retail deposits and deposits from small business customer of which**	**22,074,210**	**2,207,421**
3	Stable deposits	-	-
4	Less stable deposits	22,074,210	2,207,421
5	**Unsecured wholesale funding of which**	**23,800,308**	**9,922,979**
6	Operational Deposits (all Counterparties)	-	-
7	Non-Operational Deposits(all counterparties	23,790,308	9,922,979
8	Unsecured Debt	-	-
9	Secured wholesale funding	10,000	-
10	**Additional requirements of which**	**52,891,451**	**1,532,181**
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	2,087,588	246,129
14	Other contractual funding oblifations	-	-
15	Other contingent funding obligations	50,803,863	1,286,052
16	**TOTAL CASH OUTFLOWS**	**98,765,969**	**13,662,581**
CASH INFLOWS			
17	Secured lending (eg Reverse repos)	-	-
18	Inflows from fully performing exposures	13,374,819	7,929,412
19	Other cash inflows	9,602	9,602
20	**TOTAL CASH INFLOWS**	**13,384,421**	**7,939,014**
21	**TOTAL HQLA**	**22,901,850**	**22,705,594**
22	**TOTAL NET CASH OUTFLOWS**	**85,381,548**	**5,723,567**
23	**LIQUIDITY COVERAGE RATIO (%)**		**396.70%**