BASEL III

PILLAR 3 QUARTERLY DISCLOSURES

As at

31-March-2018

CONTENT

Template KM1: Key metrics (at consolidated group level)

SAR '000

		a
		T
		Mar-18
	Available capital (amounts)	
1	Common Equity Tier 1 (CET1)	13,596,524
1a	Fully loaded ECL accounting model (Without 5 year transitional impact in Tier 1)	13,227,483
2	Tier 1	13,596,524
2a	Fully loaded ECL accounting model Tier 1 (Without 5 year transitional impact in Tier 1)	13,227,483
3	Total Capital	16,986,501
3a	Fully loaded ECL accounting model total Capital (Without 5 year transitional impact in Tier I & II)	16,621,465
	Risk-Weighted assets (amounts)	
4	Total Risk Weighted Assets (RWA)	78,169,600
	Risk-based capital ratios as a percentage of RWA	
5	Common Equity Tier 1 ratio (%)	17.39%
5A	Fully loaded ECL accounting model Common Equity Tier 1 (%)	16.92%
6	Tier 1 ratio (%)	17.39%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	16.92%
7	Total capital ratio (%)	21.73%
7a	Fully loaded ECL accounting model total capital ratio (%)	21.26%
	Additional CET1 buffer requirements as a percentage of RWA	
8	Capital conservation buffer requirement (2.5% from 2019) (%)	-
9	Countercyclical buffer requirement (%)	-
10	Bank G-SIB and/or D-SIB additional requirements (%)	-
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	-
12	CET1 available after meeting the bank's minimum capital requirements (%)	-
	Basel III leverage ratio	
13	Total Basel III leverage ratio exposure measure	101,842,434
14	Basel III leverage ratio (%) (row 2 / row 13)	13.35%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row13)	12.99%
	Liquidity Coverage Ratio	
15	Total HQLA	23,686,030
16	Total net cash outflow	7,818,729
17	LCR ratio (%)	302.94%
	Net Stable Funding Ratio	
18	Total available stable funding	59,205,251
19	Total required stable funding	44,791,176
20	NSFR ratio	132.18%

B.2 - Template OV1: Overview of RWA

SAR '000

		a	b	c
		RWA		Minimum capital requirements *
		T Mar-18	T-1 Dec-17	T Mar-18
1	Credit risk (excluding counterparty credit risk)	70,445,428	76,373,637	5,635,634
2	Of which: standardised approach (SA)	70,445,428	76,373,637	5,635,634
3	Of which: foundation internal rating-based (F-IRB) approach	-	-	-
4	Of which: Supervisory slotting approach	-	-	-
5	Of which: advanced internal rating-based (A-IRB) approach	-	-	-
6	Counterparty credit risk (CCR)	668,919	639,122	53,514
7	Of which: standardised approach for counterparty credit risk (SA-CCR)*	668,919	639,122	53,514
8	Of which: internal model method (IMM)	-	-	-
9	Of which: Other CCR	-	-	-
10	Credit Valuation Adjustment (CVA)	404,231	401,911	32,338
11	Equity positions under the simple risk weight approach	-	-	-
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 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 (IAA)	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	326,452	223,114	26,116
21	Of which: standardised approach (SA)	326,452	223,114	26,116
22	Of which: internal model approaches (IMA)	-	-	-
23	Capital charge for switch between trading book and banking book	-	-	-
24	Operational risk	6,324,570	6,262,700	505,966
25	Amounts below the thresholds for deduction (subject to 250% risk weight)		-	-
26	Floor adjustment		-	-
27	**Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)**	**78,169,600**	**83,900,484**	**6,253,568**

**Minimum Capital Requirements here and in all tables where the term is used, represents the Pillar 1 Capital Charge at 8% of RWA*

Explanation of signficant drivers behind differences in reporting periods T and T-1
Decrease in RWAs is primarily attributed to:
a. Change in SAMA policy of Retail Mortgages risk weight from 75% to 50% (decrease in RWAs by SAR 2.8b)
b. Decrease due to Lower loan volumes and others due to suppressed market conditions (decrease in RWAs by SAR 3.2b)
c. Increase in Market risk due to reclassification as a resuslt of IFRS9 implementation (Increase in RWAs by SAR 0.1b)

LR1: Summary comparison of accounting assets versus leverage ratio exposure measure

	Item	In SR 000's
1	Total consolidated assets as per published financial statements	88,803,427
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	Adjustments 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 instrument.	983,546
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items(i.e. conversation to credit equivalent amounts of off-balance sheet exposures)	12,055,461
7	Other adjustments	-
8	**Leverage ratio exposure**	**101,842,434**

LR2: Leverage Ratio Common Disclosure Template

Row	Item	Mar 31,2018 In SR 000's	Dec 31,2017 In SR 000's
	On-Balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs but including collateral)	88,803,427	99,869,830
2	(Relevant Asset amounts deducted in determining Basel III Tier 1 capital)	-	-
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	88,803,427	99,869,830
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	269,412	285,569
5	added-on amount for Potential Financial Exposure (PFE) associated with all derivatives transactions	714,134	615,481
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deduction of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of clients-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions fro written credit derivatives)	-	-
11	**Total derivatives exposures(sum of lines 4 to 10)**	983,546	901,050
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transaction.	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Credit Conversion Factor (CCR) exposure for Security Financing Transaction (SFT) assets	-	-
15	Agent transaction exposures	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	-	-
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	24,413,156	26,164,956
18	(Adjustments for conversion to credit equivalent amounts)	(12,357,695)	(13,471,616)
19	Off-balance sheet items (sum of lines 17 and 18)	12,055,461	12,693,340
	Capital and total exposures		
20	**Tier 1 Capital**	13,596,524	13,599,696
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	101,842,434	113,464,221
	Leverage ratio		
22	**Basel III leverage ratio***	**13.35%**	**11.99%**

* minimum requirement is 3%

Reconciliation

Row	Item	In SR 000's
1	Total Assets amounts on Financial Statements	88,803,427
2	Total On balance sheet assets according to Row #1 on Table 2	88,803,427
3	**Difference between 1 and 2 above**	**-**

LIQA – Liquidity risk management

Qualitative disclosures

Risk defintion

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.

Risk appetite

The Bank's appetite for Liquidity Risk is low and it seeks to mitigate the liquidity risks inherent in any liability transformation business by maintaining an appropriate volume of liquid assets and by various other management techniques in order to maintain the confidence of depositors and counterparties, to ensure regulatory minimum ratios are met, to manage the cost of funds, and to enable the core Business Units to generate revenue.

Overview of the Bank's Liquidity Risk Management framework

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 set 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 including intraday liquidity reporting.

Commencing from 2018, the Bank produces an Internal Liquidity Adequacy Assessment Plan ("ILAAP"). The ILAAP is the formal process through which the Bank identifies, assesses and documents liquidity and funding risks and requirements in relation to its risk appetite. A key outcome of the ILAAP is to demonstrate to the Board of Directors ("the Board") and the Saudi Arabian Monetary Authority ("SAMA"), the sufficiency, or otherwise, of liquid assets and range of funding sources to fulfil operational, strategic and regulatory requirements, under normal and stressed conditions.

Key governance and control and aspects of the Liquidity Risk Management Framework by function:

Function:	Responsibilities:
Board	▪ The Board and the Board Risk Committee receive regular liquidty risk reporting, approve the ILAAP, liquidty risk-appetite, and liquidty policies ▪ The Board has delegated authority to the Bank's Asset and Liability Committee (ALCO) for the management of the Bank's Liquidity Risk Managememnt Framework.
ALCO	▪ ALCO is responsible for liquidity policy oversight, setting limits and monitoring performance against risk appetite ▪ Undertakes the management review and approval of the ILAAP ▪ Provides strategic oversight in respect to the to the Bank's Asset and Liability Management ▪ Provides direct guidance and instruction to business units with regard to asset and liability growth and composition targets ▪ Steers the balance sheet through the approval of Funds Transfer Pricing methodologies and liquidity premia ▪ Can take direct balance sheet action, for instance raising long-term debt or capital.
Treasury Group function	▪ **Primary risk-owner** – the Treasury Group function is responsible for the detailed day-to-day management of the Bank's liquidity position and adherence to internal and regulatory ratio requirements ▪ The Treasury Group function owns - and Risk Management review and recommend - the Bank's Liquidity policy, Funding Strategy and Contingency Funding Plan ("CFP") ▪ The money market desk within Treasury is responsible for managing liquidity across all currencies. ▪ 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.
Risk Management	▪ **Secondary risk-owner** – Risk Management provides independent oversight of all significant liquidity risks and supports the Treasury Function with liquidity risk analysis, risk measurement and reporting, and the development and performance of liquidity stress-testing.
Financial Control	▪ 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 ▪ Custodian of the FTP model and 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.

Maintenance of a portfolio of High Quality Liquid Assets

The Treasury department is responsible for the management of the Bank's investment portfolio, which is dominated by High Quality Liquid Assets (HQLA's). Maintenance of the portfolio of HQLA's is core to the management of the Bank's liquidity on an operational and regulatory basis, and represents the principal liquidity buffer in the event of a stress scenario transpiring.

The Investment Policy determines the asset types that can be invested in, it is owned by Treasury and approved by ALCO and the Board, and is submitted to SAMA. When managing the investment portfolio, Treasury will have regard to the ongoing ability to monetise assets irrespective of the regulatory classification. In particular, it will consider the concentration of liquid assets by issuer, currency, tenor and means of monetisation (sale, repo, range of counterparties etc.) will be considered.

The Bank considers the assets in the investment portfolio 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.

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.

Intraday liquidity stress testing methodology is based on the guidance set out by the BCBS, stress scenarios from the Bank's Contingency Funding Plan and other internal liquidity stress testing approaches.

Contingency funding plan

Alawwal Bank's Contingency Funding Plan sets out the plan of action Alawwal Bank would use to fund business activity in crisis situations and periods of market stress. It consists of two main parts:

> **Part 1: Analysis and Identification** - the risk factors, key reports and metrics that are reviewed on an ongoing basis to identify whether the Bank is entering a stressed liquidity environment that necessitates the activation of the Liquidity Crisis Action Plan. This includes a table of liquidity stress scenarios - Bank specific - that are plausible for Alawwal Bank's size and operation - and systematic – in alignment with international best practice and SAMA requirements.

Part 2: The Liquidity Crisis Action Plan ("LCAP") - describes in detail the Bank's responses to a liquidity crisis. This includes identification of key individuals and formulation of the decision making and communication trees. It further details specific actions and mitigants that could be applied and the individuals responsible for executing them.

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 90 data points to calculate the LCR to quarter-end 31st March 2018, which is at 303 percent. The quarter end LCR to December 31st was calculated using 92 data points, which was at 357 percent. The movement between the two quarters was mainly due to an decrease in Total Average cash inflows of around SAR 1.4 billion. 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%

LIQ1: Liquidity Coverage Ratio (LCR)			
LCR Common Disclosure Template As at 31st March 2018			
(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)**	**23,880,377**	**23,686,030**
CASH OUTFLOWS			
2	**Retail deposits and deposits from small business customer of which**	**21,447,553**	**2,144,755**
3	Stable deposits	-	-
4	Less stable deposits	21,447,553	2,144,755
5	**Unsecured wholesale funding of which**	**27,613,035**	**11,488,361**
6	Operational Deposits (all Counterparties)	-	-
7	Non-Operational Deposits(all counterparties	27,610,369	11,488,361
8	Unsecured Debt	-	-
9	Secured wholesale funding	2,667	-
10	**Additional requirements of which**	**51,228,632**	**1,562,213**
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	2,014,770	316,287
14	Other contractual funding oblifations	-	-
15	Other contingent funding obligations	49,213,862	1,245,926
16	**TOTAL CASH OUTFLOWS**	**100,289,219**	**15,195,329**
CASH INFLOWS			
17	Secured lending (eg Reverse repos)	-	-
18	Inflows from fully performing exposures	12,425,702	7,366,218
19	Other cash inflows	10,382	10,382
20	**TOTAL CASH INFLOWS**	**12,436,083**	**7,376,600**
		-	-
21	**TOTAL HQLA**	**23,880,377**	**23,686,030**
22	**TOTAL NET CASH OUTFLOWS**	**87,853,136**	**7,818,729**
23	**LIQUIDITY COVERAGE RATIO (%)**		**302.94%**