SAUDI BRITISH BANK

BASEL III - LIQUIDITY COVERAGE RATIO QUALITATIVE DISCLOSURE

AS AT 30th June 2015

Liquidity risk is the risk that Saudi British Bank (SABB) does not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows. Funding risk (a particular form of liquidity risk) arises when the necessary liquidity to fund illiquid asset positions cannot be obtained at the expected terms and when required.

SABB continues to monitor liquidity risk based on projected cashflow scenarios referred to as the Operational Cashflow Projection (OCP). Its objective is to better reflect the likely behaviour of different customers and manage liquidity during crisis events or loss in confidence in SABB, resulting in deposit withdrawals by customers. The OCP policy aims to diversify SABB's liability base, and reduce concentration levels to any single customer.

The framework is compliant with BIS guidelines 'Principles for Sound Liquidity Risk Management and Supervision' issued in September 2008 and the 'International Framework for Liquidity Risk, Measurement, Standards and Monitoring' issued in December 2010 and subsequent revisions and updates issued as part of the Basel III framework.

As a general policy, SABB seeks to be self-sufficient with regards to funding its own operations from 'core' deposits. Exceptions are permitted to facilitate the efficient funding of certain short-term treasury requirements and start-up ventures, which do not have access to deposit markets.

SABB uses cashflow stress testing as part of its control processes to assess liquidity risk. The cashflow stress testing process estimates and takes into consideration the potential severe adverse P&L and capital impacts in a liquidity crisis, with a view to assessing the bank's ability to maintain an adequate capital position in such a scenario.

SABB has established Risk Appetite Statements covering liquidity risk that are approved by the Board Risk Committee annually, and reviewed monthly through Asset Liability Management Committee (ALCO) and Risk Management Committee (RMC) with quarterly reports provided to the Board Risk Committee (BRC).

SABB manages and reports balance sheet liquidity against internal and regulatory ratios as follows:

- ***Operational Cashflow Projection*** – The OCP is a cashflow based model for management of liquidity risks, taking into account the Bank's total cash inflow (assets) and total cash outflow (liabilities) under stress scenario. The objective is to increase the core funds and decrease non-core-funds.
- ***SABB Internal Asset to Deposit Ratio (ADR)*** – Monitors the extent to which customer advances are covered by core deposits.
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- ***SAMA Liquid Reserve Requirement*** – Minimum 20% of deposit liabilities to be held in liquid assets maturing in less than 1 month, treasury bills and government bonds in accordance with Article 7 of the Banking Control Law.
- ***Liquidity Coverage Ratio (LCR)*** – Minimum requirement of 100% requiring SABB to hold enough liquid assets which can, if needed, be converted easily into cash in private markets to survive a 30 day stress scenario.

- ***Net Stable Funding Ratio (NSFR) –*** Minimum requirement of 100% requiring SABB to hold a minimum amount of stable funding relative to the liquidity profiles of asset activities over one year horizon

SABB assesses and manages liquidity risk through clearly defined liquidity policies which form part of a boarder Liquidity and Funding framework and funding plan which is reviewed and approved by ALCO and BRC. There is a designated Liquidity Management Committee, which monitors the bank's current and projected liquidity position and proposes changes to ALCO on SABB’s liquidity ratio limits, funding strategy and liquidity stress testing scenarios.

The Finance Department prepares a bank-wide liquidity report, which is monitored daily against approved limits and regulatory requirements by Senior Management, along with a 1-year rolling forecast balance sheet on a quarterly basis showing expected loan and deposit growth.

SABB manages and monitors depositor and debt security concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix and maturity profile of deposit and debt securities.

SABB seeks to maintain a cushion of unencumbered, high quality, liquid assets mainly comprising of deposits with the central bank, cash and unencumbered sovereign debt, that can be liquidated or repoed in times of stressed liquidity. The asset tolerance limit is defined and monitored by ALCO on a monthly basis.

Operational Cashflow Projections are used to stress the liquidity position across a range of maturity bands and through the application of bank specific and market wide scenarios.

Current accounts and savings deposits payable on demand or at short notice form a significant part of SABB’s funding and there is considerable focus on maintaining the stability of such deposits. SABB manages and monitors depositor and debt security concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix and maturity profile of deposit and debt securities.

A comprehensive Contingency Funding Plan is in place and tested on an annual basis. The plan identifies early indicators of stress conditions and describes actions to be taken in the event of difficulties arising from systemic or other crises, while minimising adverse long-term implications for the business.

SABB has at its disposal a wide range of money market and capital sources to cover the funding needs.

SABB continues to diversify its sources of funds through its debt issuances in both local and international markets in order to source longer term funding for its balance sheet.

The main contributors of the LCR of the Bank are unencumbered, high quality liquid assets (HQLAs) and net cash outflows primarily arising from customer deposits.

The June 2015 LCR of 182% has marginally reduced by 3% from March 2015 LCR of 185%, SABB continues to be well positioned in meeting the minimum LCR requirements.

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