SABB ساب

SAUDI BRITISH BANK

Basel III Pillar 3

As of 31st March 2019

RESTRICTED

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KM1: Key metrics (at consolidated group level) (Figures in SAR 000's)

		a	b	c	d	e
		Mar'19	Dec'18	Sep'18	Jun'18	Mar'18
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	34,681,015	33,359,762	34,130,969	34,325,703	33,332,802
1a	Fully loaded ECL accounting model	33,913,907	32,355,002	32,734,608	32,847,203	31,772,164
2	Tier 1	34,681,015	33,359,762	34,130,969	34,325,703	33,332,802
2a	Fully loaded ECL accounting model Tier 1	33,913,907	32,355,002	32,734,608	32,847,203	31,772,164
3	Total capital	37,215,672	36,060,296	37,797,494	38,084,779	37,397,153
3a	Fully loaded ECL accounting model total capital	35,797,255	34,256,652	35,244,869	35,381,999	34,544,220
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	172,849,432	169,382,602	171,398,153	171,032,331	174,085,161
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	20.06%	19.69%	19.91%	20.07%	19.15%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	19.62%	19.10%	19.10%	19.21%	18.25%
6	Tier 1 ratio (%)	20.06%	19.69%	19.91%	20.07%	19.15%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	19.62%	19.10%	19.10%	19.21%	18.25%
7	Total capital ratio (%)	21.53%	21.29%	22.05%	22.27%	21.48%
7a	Fully loaded ECL accounting model total capital ratio (%)	20.71%	20.22%	20.56%	20.69%	19.84%
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	1.875%	1.875%	1.875%	1.875%
9	Countercyclical buffer requirement (%)	0.074%	0.071%	0.071%	0.067%	0.066%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0.50%	0.50%	0.50%	0.50%	0.50%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	3.074%	2.446%	2.446%	2.442%	2.441%
12	CET1 available after meeting the bank's minimum capital requirements (%)	16.99%	17.25%	17.47%	17.63%	16.71%
Basel III leverage ratio						
13	Total Basel III leverage ratio exposure measure	229,320,865	225,820,012	225,778,359	234,130,688	234,438,694
14	Basel III leverage ratio (%) (row 2 / row 13)	15.12%	14.77%	15.12%	14.66%	14.22%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row13)	14.79%	14.33%	14.50%	14.03%	13.55%
Liquidity Coverage Ratio						
15	Total HQLA	42,263,905	37,612,078	39,040,172	39,494,288	41,844,700
16	Total net cash outflow	16,714,110	13,560,433	17,767,140	23,957,969	23,604,627
17	LCR ratio (%)	253%	277%	220%	165%	177%
Net Stable Funding Ratio						
18	Total available stable funding	127,652,915	127,857,915	129,902,783	131,236,912	128,850,389
19	Total required stable funding	79,720,661	79,381,640	81,511,328	90,448,498	94,428,311
20	NSFR ratio	160%	161%	159%	145%	136%

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OV1: Overview of RWA (Figures in SAR 000's)

		a	b	c
		RWA		Minimum capital requirements
		Mar-19	Dec-18	Mar-19
1	Credit risk (excluding counterparty credit risk)	154,620,194	152,008,978	12,369,615
2	*Of which: standardised approach (SA)*	*154,620,194*	*152,008,978*	*12,369,615*
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)	467,028	558,211	37,362
7	*Of which: standardised approach for counterparty credit risk*	*467,028*	*558,211*	*37,362*
8	*Of which: Internal Model Method (IMM)*			
9	*Of which: other CCR*			
10	Credit valuation adjustment (CVA)	95,983	92,151	7,679
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	196,775	210,650	15,742
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	2,034,375	1,510,175	162,750
21	*Of which: standardised approach (SA)*	*2,034,375*	*1,510,175*	*162,750*
22	*Of which: internal model approaches (IMA)*			
23	Capital charge for switch between trading book and banking book			
24	Operational risk	12,880,824	12,434,259	1,030,466
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	2,554,252	2,568,177	204,340
26	Floor adjustment			
27	**Total (1 + 6 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 20 + 23 + 24 + 25 + 26)**	**172,849,432**	**169,382,601**	**13,827,954**

LR1: Summary comparison of accounting assets vs leverage ratio exposure measure (Figures in SAR 000's)

		A
1	Total consolidated assets as per published financial statements	173,666,514
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	547,171
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)	53,361,835
7	Other adjustments	1,745,345
8	**Leverage ratio exposure**	**229,320,865**

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LR2: Leverage ratio common disclosure template (Figures in SAR 000's)

		a	b
		Mar-19	Dec-18
	On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	175,219,431	176,209,117
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)	**175,219,431**	**176,209,117**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash	192,428	217,048
5	Add-on amounts for Potential Financial Exposure (PFE) associated with all derivatives transactions	547,171	611,890
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the		
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)**	**739,599**	**828,938**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions		
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	130,067,496	122,559,286
18	(Adjustments for conversion to credit equivalent amounts)	(76,705,661)	(73,777,329)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**53,361,835**	**48,781,957**
	Capital and total exposures		
20	**Tier 1 capital**	**34,681,015**	**33,359,762**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**229,320,865**	**225,820,012**
	Leverage ratio		
22	**Basel III leverage ratio**	**15.12%**	**14.77%**

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LIQ1: Liquidity Coverage Ratio (LCR) (Figures in SAR 000's)

		a	b
		Total unweighted value (average)	**Total weighted value (average)**
High-quality liquid assets			
1	Total high-quality liquid assets (HQLA)		42,263,905
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**		
3	Stable deposits	-	-
4	Less stable deposits	42,945,463	4,294,546
5	**Unsecured wholesale funding, of which:**	**-**	**-**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	63,509,645	28,591,381
8	Unsecured debt	-	-
9	**Secured wholesale funding**	**-**	**-**
10	**Additional requirements, of which:**	**-**	**-**
11	Outflows related to derivative exposures and other collateral requirements	169,023	169,023
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	3,772,674	377,267
14	**Other contractual funding obligations**	**-**	**-**
15	**Other contingent funding obligations**	**121,686,329**	**2,935,249**
16	**TOTAL CASH OUTFLOWS**	-	36,367,467
Cash inflows			
17	**Secured lending (eg reverse repos)**		
18	**Inflows from fully performing exposures**	32,277,231	19,483,593
19	Other cash inflows	169,764	169,764
20	**TOTAL CASH INFLOWS**	32,446,996	19,653,357
			Total adjusted value
21	**TOTAL HQLA**		42,263,905
22	**TOTAL NET CASH OUTFLOWS**		16,714,110
23	**LIQUIDITY COVERAGE RATIO (%)**		253%

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) Commentary

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.

The Bank has an internal Liquidity and Funding Risk Framework, using the external Liquidity Coverage Ratio (LCR) and Net Stable Funding Requirement (NSFR) SAMA regulatory framework as a foundation, but adding extra metrics/limits and overlays to address the risks that the Bank considers are not adequately reflected by the external regulatory framework.

The decision to create an internal framework modelled around the external regulatory framework was driven by the need to ensure that the external and internal frameworks are directionally aligned and to ensure that the Bank's internal funds transfer pricing framework incentivises the business lines to collectively comply with both the external (regulatory) and the internal risk tolerance.

The objective of the LCR is to limit the risks of severe cash outflows owing to an over-reliance on volatile funding sources and certain lending commitments. Under the LCR, SABB is required to hold a minimum level of unencumbered high-quality liquid assets (HQLA) to withstand an acute stress scenario lasting 30 days. The LCR is specifically designed to improve the short-term resilience of SABB against liquidity shocks. By contrast, the NSFR is designed to limit the risks emanating from excessive maturity mismatches over the medium to long term. More specifically, the NSFR requires SABB to fund illiquid assets with a minimum amount of stable liabilities over a horizon of one year.

The LCR and NSFR framework defines customer deposits as "stable", "semi- stable", and "non-stable". Stable and semi stable funds are defined as deposits that are less likely to be actively managed by customers and therefore, more likely to remain with the bank during a period of stress. Equally, non-stable funds are defined as those deposits that are more actively managed by customers and more likely to be withdrawn at the early indication of market stress forming part of the LCR calculations.

As a general policy, SABB seeks to be self-sufficient with regards to funding its own operations from 'stable' 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 the following key ratios:

• Asset to Deposit Ratio (ADR) – Monitors the extent to which customer advances are covered by customer deposits.
• 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.

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Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) Commentary

SABB assesses and manages liquidity risk through clearly defined liquidity policies which form part of a broader 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 18 months rolling forecast balance sheet on a monthly 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.

LCR & NSFR 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 mark to market of the Bank's back to back derivative exposures does not have significant impact on liquidity management.

As per SAMA guidelines, a currency is considered as "significant" if the aggregate liabilities denominated in that currency amounts to five per cent or more of the bank's total liabilities. Only SAR and USD are material currencies and are monitored accordingly.

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 3 month average of the LCR has decreased to 253% as at 31st March 2019 from 277% as at 31st December 2018, this was mainly due to a decrease in Average cash inflows by SAR 3.5 B, an increase in Average cash outflows by SAR 0.4 B partially offset by an increase in Average HQLA by SAR 4.6 B.

The NSFR as at 31st March is 160% comprising of Available Stable Funding (ASF) of SAR 128 B and Required Stable Funding (RSF) of SAR 80 B.

The intra period changes were in line with the banks activities and were well above the minimum requirements.