

# Realize Tomorrow

## Liquidity Coverage Ratio Disclosure Report

December 2015

NCB الأهلي 

## **Introduction**

This report is prepared and submitted in accordance with Saudi Arabian Monetary Agency's circular number 351000133366, dated 1435/10/29H.

## **Liquidity Governance**

The management of liquidity risk within the bank is undertaken within a formal governance structure. The Board of Directors oversees the liquidity risk appetite and strategy of the bank; the Risk Committee of the Board of Directors reviews the key liquidity metrics in the context of the bank's overall risk profile on a quarterly basis.

The Asset and Liability Management Committee (ALCO) chaired by the Chief Executive Officer and including Head of Corporate Banking Group, Head of Finance Group, Head of Retail Banking Group, Head of Risk Group, Head of Treasury Group, Head of Strategy & Business Development Group, Head of Economics, Head of Market Risk Management, sets metrics across a number of asset and liability targets and these are cascaded to the business and monitored by Finance Group and Risk Group. Treasury Group has the overall responsibility for the daily monitoring and control of the bank's liquidity and funding positions and manages liquidity mismatches and interest rate exposure within ALCO approved limits.

## **Funding Strategy**

NCB funding strategy is focused on building a strong funding profile and broad customer base that will provide the bank with stable and efficiently priced funding within the parameters of prudent liquidity management. This is achieved through diversification & flexibility.

Maintaining funding diversity is a key element of the bank's funding strategy. Diversity is assessed from a number of perspectives including but not limited to the following:

- Currency
- Retail and wholesale markets
- maturity term

Another key aspect of the strategy is to have the maximum flexibility to access the widest range of funding markets (money markets, capital markets). This approach enables the Group to adjust the sources of its funding as market preferences and investor demands change.

## **Liquidity Framework & Liquidity Risk Mitigation**

NCB has an effective liquidity framework designed to deliver the appropriate term and structure of funding consistent with the Group's Liquidity Risk Appetite and in full compliance with regulatory requirements. Each entity within the Group manages its liquidity within this framework.

Liquidity risk is defined as the risk that the bank is unable to meet its obligations as they fall due, leading to an inability to support normal business activity and meet liquidity regulatory requirements. The framework incorporates a range of ongoing business management tools to monitor, limit and stress-test the balance sheet and contingent liabilities:

- ❖ Limit setting and transfer pricing are tools designed to control the level of liquidity risk taken and to drive the appropriate mix of funds, which together reduce the likelihood that a liquidity stress event could lead to an inability to meet the Group's obligations as they fall due.
- ❖ The stress tests assess potential contractual and contingent outflows under a range of scenarios, which are then used to determine the size of the liquidity buffer that is immediately available to meet anticipated outflows if a stress occurred.

It is NCB strategy to mitigate liquidity risk through the prudent implementation of various risk mitigation techniques such as:

- Holding liquid assets: NCB maintains a strong and high-quality liquidity pool that consists exclusively of unencumbered assets, representing resources immediately available to meet outflows in a stress. The liquidity pool mainly comprises cash and balances with central banks, government bonds and other highly liquid assets, denominated in multiple currencies and with different maturities. The size of the liquidity pool is determined by the size of the stress outflows and in full compliance with regulatory guidelines, ensuring that the Group is able to meet its obligations as they fall due even in the event of a sudden and potentially protracted increase in net cash outflows.
- Diversification of funding sources: through implementing strategies to diversify funding sources across entities and on different maturities
- Market access: the Group has lines of credit in place that it can access to meet liquidity needs.

## **Liquidity Stress Testing**

Under the liquidity framework, the Bank has established Liquidity Stress Scenarios, together with the appropriate limits for the management of the liquidity risk. This is the level of liquidity risk the Bank chooses to take in pursuit of its business objectives and in meeting its obligations. The key expression of the liquidity risk is through internal stress testing. This involves comparing the liquidity pool with anticipated stressed net contractual and contingent outflows under a variety of stress scenarios. These scenarios cover the following: Going Concern, Stress Case, and Extreme Case Scenarios.


The assumptions for these scenarios are approved by ALCO and are being reviewed on periodic basis. The liquidity pool available through repo is managed to be in excess of 200%, 150% and 100% of 30 days anticipated outflows under going concern, stress and extreme scenarios, respectively.

### **Contingency funding plan**

In addition, NCB maintains a contingency funding plan that details how liquidity stress events of varying severity would be managed. As the precise nature of any stress event cannot be known in advance, the plan is designed to be flexible to the nature and severity of the stress event, and provide a menu of options that could be used as appropriate at the time. The plan is part of the approved liquidity risk policy. ALCO monitors early warning indicators for potential liquidity risk and would activate the contingency funding plan as and when appropriate.

### **LCR Common Disclosure Prudential Return**

The average LCR is calculated by taking a simple average of monthly balances for the period October 2015 to December 2015.

LCR Common Disclosure Prudential Return		NCB الأهلي 	
As of December 31, 2015			
(In SR 000's)		TOTAL UNWEIGHTED VALUE (Average)	TOTAL WEIGHTED VALUE (Average)
<b>HIGH QUALITY LIQUID ASSETS</b>			
1	Total high-quality liquid assets (HQLA)		99,996,309
<b>CASH OUTFLOWS</b>			
2	Retail deposits and deposits from small business customers, of which:	209,348,889	19,847,705
3	<i>Stable deposits</i>	0	0
4	<i>Less stable deposits</i>	209,348,889	19,847,705
5	Unsecured wholesale funding, of which:	132,611,704	59,269,360
6	<i>Operational deposits (all counterparties)</i>	0	0
7	<i>Non-operational deposits (all counterparties)</i>	132,611,704	59,269,360
8	<i>Unsecured debt</i>	0	0
9	Secured wholesale funding		664,290
10	Additional requirements, of which:	19,602,080	2,070,540
11	<i>Outflows related to derivative exposures and other collateral requirements</i>	537,319	537,319
12	<i>Outflows related to loss of funding on debt products</i>	0	0
13	<i>Credit and liquidity facilities</i>	19,064,761	1,533,221
14	Other contractual funding obligations	0	0
15	Other contingent funding obligations	89,509,483	1,714,217
16	<b>TOTAL CASH OUTFLOWS</b>		<b>83,566,112</b>
<b>CASH INFLOWS</b>			
17	Secured lending (eg reverse repos)	0	0
18	Inflows from fully performing exposures	36,135,540	17,911,217
19	Other cash inflows	0	0
20	<b>TOTAL CASH INFLOWS</b>	<b>36,135,540</b>	<b>17,911,217</b>
			TOTAL ADJUSTED VALUE
21	<b>TOTAL HQLA</b>		<b>99,996,309</b>
22	<b>TOTAL NET CASH OUTFLOWS</b>		<b>65,654,895</b>
23	<b>LIQUIDITY COVERAGE RATIO (%)</b>		<b>152%</b>

During the period from October-December 2015, the Bank holds on average 81% of its High Quality Liquid Assets (HQLA) in securities with 0% risk weight issued or guaranteed by sovereigns, central banks and supranational entities. The remaining balance of average HQLAs were 19% with 20% risk weighted securities guaranteed by sovereigns and non-financial corporate bonds rated AA- or better.

The majority of the bank's cash out flows as reported above are attributable to retail and small business deposits (24%), non-operational deposits including bank placements (71%), secured and additional run-off 3%, while 2% are associated with contingent obligations. NCB derivatives positions are not significant as most transactions are conducted on a back-to-back basis with limited open position being taken. NCB's main activities are conducted in SAR and USD. The peg between both currencies enhances the funding ability and provides the flexibility to interchange between both currencies.

Additionally, following regulatory guidelines LCR is monitored separately for all significant currencies to ensure the liquidity ratios are met at all times in either currency. As of December 31, 2015 these include SAR, USD and TRY.

A comparison with last quarter of average LCR is presented in the following table:

<b>Description</b>	<b>Sep 30, 2015</b>	<b>Dec 31, 2015</b>
LCR (Average of 3 months)	141%	152%

For the three months ended December 31, 2015, the average LCR is 152%, higher by 11% as compared to the average LCR of 141% as of September 30, 2015.

The increase was mainly due to net change in HQLA and net cash outflows.