Pillar III Disclosures

Al Rajhi Bank

December 31, 2017

Summary

Section	Tables and templates	Template ref. #	Applicable
Part 2 – Overview of risk management and RWA	B.1 - Table OVA: Bank risk management approach	B.1	Yes
	OV1 – Overview of RWA	B.2	
Part 3 – Linkages between financial statements and regulatory exposures	LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories	B.3	Yes
	LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements	B.4	
	LIA – Explanations of differences between accounting and regulatory exposure amounts	B.5	
Part 4 – Credit risk	CRA – General information about credit risk	B.6	Yes
	CR1 – Credit quality of assets	B.7	
	CR2 – Changes in stock of defaulted loans and debt securities	B.8	
	CRB – Additional disclosure related to the credit quality of assets	B.9	
	CRC – Qualitative disclosure requirements related to credit risk mitigation techniques	B.10	
	CR3 – Credit risk mitigation techniques – overview	B.11	
	CRD – Qualitative disclosures on Banks' use of external credit ratings under the standardised approach for credit risk	B.12	
	CR4 – Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects	B.13	
	CR5 – Standardised approach – exposures by asset classes and risk weights	B.14	
	CRE – Qualitative disclosures related to IRB models	B.15	No
	CR6 – IRB - Credit risk exposures by portfolio and PD range	B.16	
	CR7 – IRB – Effect on RWA of credit derivatives used as CRM techniques	B.17	
	CR8 – RWA flow statements of credit risk exposures under IRB	B.18	
	CR9 – IRB – Back testing of probability of default (PD) per portfolio	B.19	
	CR10 – IRB (specialised lending and equities under the simple risk weight method)	B.20	
Part 5 – Counterparty credit risk	CCRA – Qualitative disclosure related to counterparty credit risk	B.21	No
	CCR1 – Analysis of counterparty credit risk (CCR) exposure by approach	B.22	
	CCR2 – Credit valuation adjustment (CVA) capital charge	B.23	
	CCR3 – Standardised approach of CCR exposures by regulatory portfolio and risk weights	B.24	
	CCR4 – IRB – CCR exposures by portfolio and PD scale	B.25	
	CCR5 – Composition of collateral for CCR exposure	B.26	
	CCR6 – Credit derivatives exposures	B.27	
	CCR7 – RWA flow statements of CCR exposures under the Internal Model Method (IMM)	B.28	
	CCR8 – Exposures to central counterparties	B.29	
Part 6 – Securitisation	SECA – Qualitative disclosure requirements related to securitisation exposures	B.30	No
	SEC1 – Securitisation exposures in the Banking book	B.31	
	SEC2 – Securitisation exposures in the trading book	B.32	
	SEC3 – Securitisation exposures in the Banking book and associated regulatory capital requirements – Bank acting as originator or as sponsor	B.33	
	SEC4 – Securitisation exposures in the Banking book and associated capital requirements – Bank acting as investor	B.34	
Part 7 – Market risk	MRA – Qualitative disclosure requirements related to market risk	B.35	Yes
	MRB – Qualitative disclosures for Banks using the Internal Models Approach (IMA)	B.36	No
	MR1 – Market risk under standardised approach	B.37	Yes
	MR2 – RWA flow statements of market risk exposures under an IMA	B.38	No
	MR3 – IMA values for trading portfolios	B.39	
	MR4 – Comparison of VaR estimates with gains/losses	B.40	
Operational Risk Qualitative disclosure	Operational Risk Qualitative disclosure	B.41	Yes
Quantitative disclosure	Quantitative disclosure	B.42	Yes

B.1 - Table OVA: Bank risk management approach

a) **Business model determination and risk profile**
Deeply rooted in Islamic Banking principles, the Sharia compliant Al Rajhi Bank has seven subsidiary companies, which together with the Bank are referred to as the 'Al Rajhi Bank Group' (ARB). The Group continues to be instrumental in bridging the gap between modern financial demands and intrinsic Islamic values, whilst spearheading new product development and numerous industry standards.

b) **The Risk Governance structure**
The Bank adopts sound governance principles for Risk Management. Risk Management is a shared responsibility across the Bank. The Credit & Risk Group has primary responsibility for facilitating implementation of Risk Management Framework across the Bank, and to measure, monitor and report key risks of the Bank. The Group provides professional advice across all functional areas and is integral to the operations and culture of the Bank.

c) **Channels to communicate, decline and enforce the risk culture**
Maintaining a strong Risk Culture is critical to the strategy and business activities of ARB. The Bank's Risk Culture requires that each business unit and each employee of the Bank is accountable for identifying and managing the risks embedded under their responsibilities. Overall Governance structure is divided into two levels - Management Level Committees (Level 1 & Level 2) and Board level Committees. The comprehensive Governance structure provides adequate opportunity to communicate the risk culture.

d) **The scope and main features of risk measurement systems**
The Bank has structured a number of financial products which are in accordance with Sharia law in order to meet the customers demand. These products are all classified as financing assets in the Bank's consolidated statement of financial position. In measuring credit risk of financing at a counterparty level, the Bank considers the overall credit worthiness of the customer based on a proprietary risk methodology. This risk rating methodology utilises a 10-point scale based on quantitative and qualitative factors with seven performing categories (rated 1 to 7) and three non-performing categories (rated 8 – 10). The risk rating process is intended to advise the various independent approval authorities of the inherent risks associated with the counterparty and assist in determining suitable pricing commensurate with the associated risk.
Operational Risk: The Operational Risk management processes in the Bank are Risk Control Self-Assessment, Operational Loss Database and Key Risk Indicators which are designed to function in a mutually reinforcing manner.
Market Risk: Profit Rate Risk arises from the possibility that the changes in profit rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses gap management strategies to ensure maintenance of positions within the established gap limits.

e) **Process of risk information reporting provided to the board and senior** management
Risk Management Committee (RMC) with membership from Group Heads of all business functions, including Risk, HR & Compliance chaired by CEO has been

functioning to review and monitor key enterprise risks areas and exceptions on a periodic basis.

At the Board level, Board Risk Management Committee (BRMC) has oversight of Risk Management function across the Bank.

f) Qualitative information on stress testing

The Bank adopts Integrated Stress Testing Approach, in which different types of stressed events are inter-linked and are jointly considered for their impact on the financials and key regulatory ratios, that includes Capital Adequacy Ratio, Leverage Ratio and all types of Liquidity Ratios. The approach determines the financial impact of macroeconomic factors, Bank specific factors and combined scenarios.

g) The strategies and processes to manage, hedge and mitigate risks

On annual basis, key Risks are identified and plan of actions are listed out to mitigate those risks. The identification of Key Risks and its mitigation plans are discussed in Management Committee meetings and presented to BRMC and to the Board of Directors on an ongoing basis. The mitigation plans are reviewed regularly and the implementation of the action plans are monitored.

B.2 - Template OV1: Overview of RWA

		a	b	c
		RWA		Minimum capital requirements
	SAR '000s	Dec-17	Sep-17	Dec-17
1	Credit risk (excluding counterparty credit risk) (CCR)	**219,687,988**	**225,247,894**	**17,575,039**
2	Of which standardised approach (SA)	219,687,988	225,247,894	17,575,039
3	Of which internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	-	-	-
5	Of which standardised approach for counterparty credit risk (SA-CCR)	-	-	-
6	Of which internal model method (IMM)	-	-	-
7	Equity positions in Banking book under market-based approach	-	-	-
8	Equity investments in funds – look-through approach	-	-	-
9	Equity investments in funds – mandate-based approach	-	-	-
10	Equity investments in funds – fall-back approach	-	-	-
11	Settlement risk	-	-	-
12	Securitisation exposures in Banking book	-	-	-
13	Of which IRB ratings-based approach (RBA)	-	-	-
14	Of which IRB Supervisory Formula Approach (SFA)	-	-	-
15	Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	**4,594,750**	**5,968,564**	**367,580**
17	Of which standardised approach (SA)	4,594,750	5,968,564	367,580
18	Of which internal model approaches (IMM)	-	-	-
19	Operational risk	**26,832,383**	**25,067,745**	**2,146,591**
20	Of which Basic Indicator Approach	-	-	-
21	Of which Standardised Approach	26,832,383	25,067,745	2,146,591
22	Of which Advanced Measurement Approach	-	-	-
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	**251,115,120**	**256,284,203**	**20,089,210**

- Credit RWAs decreased due to decrease in Banks exposures and repayments on Corporate exposure.
- The minimum capital requirements applied in column C is 8%.
- The Bank uses Standardized approach to measure capital requirements on the Equity exposure. IMM does not apply.

B.3 - Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and Balances with SAMA & Central Banks	48,282,471	80,218,917	80,218,917	-	-	-	-
Due From Banks	10,709,795	18,889,148	18,889,148	-	-	-	-
Financing , net	233,535,573	234,269,309	234,269,309	-	-	-	-
Investments, net	36,401,092	3,034,543	3,034,543	-	-	-	-
Investment properties, net	1,314,006	-	-	-	-	-	-
Fixed assets, net	7,858,127	7,858,127	7,858,127	-	-	-	-
Other assets, net	5,015,465	4,697,640	4,697,640	-	-	-	-
Total assets	**343,116,528**	**348,967,684**	**348,967,684**	-	-	-	-
Liabilities							
Customer deposits	273,056,445	-	-	-	-	-	-
Due to Banks	5,522,567	-	-	-	-	-	-
Other liabilities	8,786,598	-	-	-	-	-	-
Total liabilities	**287,365,610**	-	-	-	-	-	-
Shareholder's Equity							
Share capital	16,250,000	16,250,000	-	-	-	-	-
Statutory reserve	16,250,000	16,250,000	-	-	-	-	-
Other reserves	5,281,682	5,281,682	-	-	-	-	-
Retained earnings	13,906,736	13,906,736	-	-	-	-	-
Proposed gross dividend and Zakat	4,062,500	4,062,500	-	-	-	-	-
Total Shareholder's Equity	**55,750,918**	**55,750,918**	-	-	-	-	-
Total Liabilities + Shares	**343,116,528**	**55,750,918**	-	-	-	-	-

- Variance between the financial statements and the regulatory consolidation is due to assets mapping.

B.4 - Template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e
			Items subject to:			
		Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	348,967,684	348,967,684	-	-	-
2	**Liabilities + Shares carrying value amount under regulatory scope of consolidation (as per template LI1)**	-	-	-	-	-
3	**Total net amount under regulatory scope of consolidation**	-	-	-	-	-
4	**Off-balance sheet amounts**	-	-	-	-	-
5	**Differences in valuations**	-	-	-	-	-
6	**Differences due to different netting rules, other than those already included in row 2**	-	-	-	-	-
7	**Differences due to consideration of provisions**	- 5,851,155	-5,851,155	-	-	-
8	**Differences due to prudential filters**	-	-	-	-	-
9	**Market risk on Foreign exchange**	4,594,750	-	-	-	4,594,750
10	**Exposure amounts considered for regulatory purposes**	**347,711,278**	**343,116,529**	**-**	**-**	**4,594,750**

- Difference in total assets is due to provisioning.

B.5 - Table LIA: Explanations of differences between accounting and regulatory exposure amounts

a) **Explanation of significant differences between the amounts in columns (a) and (b) in LI1**
Variance between the financial statements and the regulatory consolidating is due to assets mapping.

b) **Explanation of the origins of differences between carrying values and amounts considered for regulatory purposes shown in LI2**
Differences due to consideration of provisions.

c) **Valuation methodologies, including an explanation of how far mark-to-market and mark-to-model methodologies are used**
ARB has a very small Investment portfolio as of date. The Bank has adopted the following approach to determine the Fair Value of its Investment Book.
Determination of fair value and fair value hierarchy
The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:
Level 1: quoted prices in active markets for the same instrument (i.e. without modification or additions).
Level 2: quoted prices in active markets for similar assets and liabilities or other valuation techniques for which all significant inputs are based on observable market data.
Level 3: valuation techniques for which any significant input is not based on observable market data.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction takes place either:
   - In the accessible principal market for the asset or liability, or
   - In the absence of a principal market, in the most advantageous accessible market for the asset or liability.

Description of the independent price verification process.

- The Bank has insignificant investment portfolio compared to its Total Assets. Hence, there is no formal Independent Price Verification (IPV) function currently in place.

Procedures for valuation adjustments or reserves (including a description of the process and the methodology for valuing trading positions by type of instrument).

- There are no 'Trading' positions currently held by the Bank. Valuation/Reserve adjustments are therefore not appropriately applicable.

B.6 - Table CRA: General qualitative information about credit risk

a) **How the business model translates into the components of the Bank's credit risk profile.**
Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counterparty to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk arises principally from financing (credit facilities provided to customers) and from cash and deposits held with other Banks. Further, there is credit risk in certain off-balance sheet financial instruments, including guarantees relating to purchase and sale of foreign currencies letters of credit, acceptances and commitments to extend credit. Credit risk monitoring and control is performed by the Credit & Risk Management Group (CRMG) which sets parameters and thresholds for the Bank's financing activities.

b) **Criteria and approach used for defining credit risk management policy and for setting credit risk limits.**
Approval, disbursements, administration, classification, recoveries and write-offs for Corporate & SME and Retail credits are governed by the Bank's Corporate Credit Policy, SME Credit Policy and Retail Credit Policy respectively. The policy is reviewed by Credit & Risk Group and approved by the BRMC and the Board. The Bank manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual customers and groups, and to industries and countries.

c) **Structure and organisation of the credit risk management and control function.**
All Corporate, SME and FI credit proposals are independently reviewed by Credit & Risk Group and recommended to appropriate approval authority as defined in the Credit Policies of the Bank. For Retail, the Bank has in place comprehensive product program manuals highlighting requirements of every aspect of retail lending.

d) **Relationships between the credit risk management, risk control, compliance and internal audit functions.**
All Corporate Credit proposals submitted by Corporate Banking Group are independently reviewed by CRMG before the proposals are approved by the appropriated approval authority. Compliance team ensures that SAMA guidelines are complied with. As part of Internal Audit plan, Internal Audit team reviews Credit Approval Process and submits its findings to Board Audit Compliance Committee for its review.

e) **Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors.**
Comprehensive Portfolio reports including top 10 watch list exposures, top 10 NPL exposures and top 10 written off exposures for both Corporate and SME portfolios are presented to RMC, BRMC and the Board of Directors on a regular basis. The report highlights the status of the exposure, recoveries, if any, collaterals, provisions held against these accounts and the action plan to regularize/recover the dues from these accounts.

B.7 - Template CR1: Credit quality of assets

		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
	SAR '000s	Defaulted exposures	Non-defaulted exposures		
1	Loans	1,770,178	237,320,603	5,555,209	233,535,573
2	Debt Securities	-	34,058,008	-	34,058,008
3	Off-balance sheet exposures	-	13,567,436	-	13,567,436
4	**Total**	**1,770,178**	**283,946,121**	**5,555,209**	**280,161,091**

Definition of default

- Accounts considered in default after failure to meet the obligations by 90 days.

B.8 - Template CR2: Changes in stock of defaulted loans and debt securities

	SAR '000s	a
1	Defaulted loans and debt securities at end of June 2017	**1,795,839**
2	Loans and debt securities that have defaulted since the last reporting period	1,629,085
3	Returned to non-defaulted status	853,094
4	Amounts written off	1,400,443
5	Other changes	598,792
6	Defaulted loans and debt securities at end of December 2017 (1+2-3-4±5)	**1,770,178**

- Defaulted Loans to total portfolio has been reduced due to better management of Watch List and Past Due Obligations and revised Retail write policy to align with other KSA Banks.

B.9 - Table CRB: Additional disclosure related to the credit quality of assets

Qualitative disclosures

a) **The scope and definitions of past due and impaired exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes.**
Common definitions are used for both accounting and regulatory purposes.
Financing past due for less than 90 days is not treated as impaired, unless other available information proves otherwise. Neither past due nor impaired and past due but not impaired comprise the total performing financing.

b) **The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.**
There is no such exposures. Bank considers the past due exposures for more than 90 days as impaired.

c) **Description of methods used for determining impairments.**
Financing past due for more than 90 days are treated as impaired. The Bank considers that the obligor is unlikely to pay its credit obligations in full, without recourse by the Bank to actions such as realising collateral (if held).

d) **The Bank's own definition of a restructured exposure.**
A loan in respect of which the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider.

Quantitative disclosures[1]

e) **Breakdown of exposures by geographical areas, industry and residual maturity.**

Geographical Area
KSA constitute 98% of the total funded credit portfolio and the rest is International Business.

Industry
About 69.58% of the total exposure is classified under Retail Loans. Within Retail Portfolio, Watani is the largest. The Corporate largest sectors are Commercial and Manufacturing.

Residual Maturity
- Corporate Portfolio weighted maturity is 2.0 years.
- Retail portfolio greater than 3 years represents 74% of the total Retail portfolio.
- Financing portfolio weighted maturity for exposures greater than 5 years is 15.8%.

f) **Amounts of impaired exposures (according to the definition used by the Bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry.**

[1] Carrying values under scope of regulatory consolidation,

The total non-performing portfolio is SAR 1.77BN. Allowances are SAR 5.6BN. Write-offs is SAR 3.7BN.

Geographical Area
KSA has 97.86% of the impaired exposures and allowances.

Industry
69.4% of the total impaired exposures are within Corporate Financing Portfolio.

g) Ageing analysis of accounting past-due exposures.

- More than 97.41% of the total funded credit portfolio is with 0 days past due.
- The 1.85% of the Performing Portfolio is under 1-89 days past due category.
- The Impairment portfolio is 0.74%.

h) Breakdown of restructured exposures between impaired and not impaired exposures.
Five Corporate customers were restructured for a total amount of SAR 1.2BN.

B.10 - Table CRC: Qualitative disclosure requirements related to credit risk mitigation techniques

a) Core features of policies and processes for, and an indication of the extent to which the Bank makes use of, on- and off-balance sheet netting.
Not Applicable.

b) Core features of policies and processes for collateral evaluation and management.
The Bank in the ordinary course of financing activities holds collateral as security to mitigate credit risk in financing. This collateral mostly includes customer deposits and other cash deposits, financial guarantees, local and international equities, real estate and other property and equipment. The collateral is held mainly against commercial and consumer financing and managed against relevant exposures related to financing. The fair value of collateral is based on valuation performed by the independent experts, quoted prices (wherever available) and the valuation techniques. Experts have used various approaches in determining the fair value of real estate collateral including market comparable approach based on recent actual sales or discounted cash flow approach taking into account risk adjusted discount rates, rental yields and terminal values.

c) Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative providers).
Concentrations of credit risks arise when a number of customers are engaged in similar business activities, activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risks indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.
The Bank seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks with to individuals or groups of customers in specific geographical locations or economic sectors.
The Bank manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments. Such risks are monitored on a regular basis and are subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, economic sector and by country are reviewed at least annually by the Board Risk Management Committee.

B.11 - Template CR3: Credit risk mitigation techniques – overview

	SAR '000s	a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	**Loans**	220,173,272	13,362,300	11,569,252	-	-	-	-
2	**Debt securities**	34,058,008	-	-	-	-	-	-
3	**Total**	254,231,280	13,362,300	11,569,252	-	-	-	-
4	**Of which defaulted**	536,077	1,234,101	377,109	-	-	-	-

- No significant change over the last reporting period.

B.12 - Table CRD: Qualitative disclosures on Banks' use of external credit ratings under the standardised approach for credit risk

a) **Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the Bank, and the reasons for any changes over the reporting period.**
Moodys, Standard & Poors, Fitch and Capital Intelligence.

b) **The asset classes for which each ECAI or ECA is used.**
Externally rated Corporate, Banks and Securities Firms.

c) **A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the Banking book (see paragraphs 99–101 of the Basel framework); and**
Not Applicable.

d) **The alignment of the alphanumerical scale of each agency used with risk buckets (except where the relevant supervisor publishes a standard mapping with which the Bank has to comply).**
The Bank master rating scale is mapped to external rating agency (Standard & Poors) Investment grades (1-4) are mapped to (AAA to BBB-), Sub-investment grades (5-7) mapped to (BB+ to C) and default grades (8-10).

B.13 - Template CR4: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

		a	b	c	d	e	f
	SAR '000s	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central Banks	71,204,098	293	71,204,098	-	-	0%
2	Non-central government public sector entities	-	871				0%
3	Multilateral development Banks	1,530,653	-	1,530,653	-	-	0%
4	Banks	17,358,495	212,078	17,358,495	133,917	8,969,364	51%
5	Securities firms	-	-	-	-	-	0%
6	Corporates	63,347,255	13,115,249	62,282,819	5,090,930	65,160,311	97%
7	Regulatory retail portfolios	138,652,444	238,946	138,551,493	2,113	103,937,339	75%
8	Secured by residential property	26,032,744	-	26,133,951	-	19,545,700	75%
9	Secured by commercial real estate	4,466,688	-	4,483,074	-	4,440,131	99%
10	Equity	3,034,543	-	3,034,543	-	3,034,543	100%
11	Past-due loans	1,770,178	-	1,770,178	-	1,946,158	110%
12	Higher-risk categories	-	-	-	-	-	0%
13	Other assets	21,570,586	-	21,570,585	-	12,654,443	59%
14	*Total*	348,967,684	13,567,436	347,919,889	5,226,960	219,687,988	62%

B.14 - Template CR5: Standardised approach – exposures by asset classes and risk weights

	SAR '000s	a	b	c	d	e	f	g	h	i	j
	Asset classes/ Risk weight*	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central Banks	71,204,098	-	-	-	-	-	-	-	-	71,204,098
2	Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
3	Multilateral development Banks (MDBs)	1,530,653	-	-	-	-	-	-	-	-	1,530,653
4	Banks	-	-	549,034	-	16,166,947	-	625,969	74,884	-	17,416,834
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	1,025,750	-	3,855,127	-	63,083,987	-	-	67,964,864
7	Regulatory retail portfolios	-	-	-	-	-	138,444,031	104,217	-	-	138,548,248
8	Secured by residential property	-	-	-	-	-	26,060,933	-	-	-	26,060,933
9	Secured by commercial real estate	-	-	-	-	-	-	4,440,131	-	-	4,440,131
10	Equity	-	-	-	-	-	-	3,034,543	-	-	3,034,543
11	Past-due loans	-	-	-	-	-	-	181,210	1,194,748	-	1,375,958
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other assets	8,521,439	-	493,379	-	-	-	12,555,767	-	-	21,570,585
14	*Total*	81,256,191	-	2,068,163	-	20,022,074	164,504,964	84,025,824	1,269,632	-	353,146,848

- No significant change over the last reporting period.

Reports B15 to B34 are not applicable

B.35 - Table MRA: Qualitative disclosure requirements related to market risk

Banks must describe their risk management objectives and policies for market risk according to the framework below (the granularity of the information should support the provision of meaningful information to users):

a) **Strategies and processes of the Bank: this must include an explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the Bank's market risks, including policies for hedging risk and strategies/processes for monitoring the continuing effectiveness of hedges.**
Being an Islamic Bank, the Bank is not facing any Market Risk except Profit Rate Risk in Banking Book (PRRBB). Separate model, approved by SAMA, to compute PRRBB and the resultant PRRBB is provided as capital charge under Pillar 2 Risks. PRRBB arises on account of mismatches in maturity or re-pricing of assets and liabilities. It refers to the risk of changes in market prices of assets and liabilities in the Banking book due to changes in the profit rate term structure.

b) **Structure and organisation of the market risk management function: description of the market risk governance structure established to implement the strategies and processes of the Bank discussed in row (a) above, and describing the relationships and the communication mechanisms between the different parties involved in market risk management.**
Market Risk function is part of Enterprise Risk Management (ERM) function. ERM reports to Group Chief Risk Officer (CRO). Market Risk function independently reviews the compliance to the approved Treasury Limits and communicates to Senior Management in case of any comments.

c) **Scope and nature of risk reporting and/or measurement systems.**
Comprehensive Market & Liquidity Risks reports are presented to ALCO for its review and discussion. Besides, Market & Liquidity Risk Dashboard highlighting various positions/limits, are presented to RMC/BRMC.

Report B36 is not applicable

B.37 - Template MR1: Market risk under standardised approach

		a
	SAR '000s	RWA
	Outright products	4,594,750
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	4,594,750
4	Commodity risk	-
	Options	-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	Total	4,594,750

- No significant change over the last reporting period.
- The Bank continues to follow the Standardized approach to compute Market Risk capital charge.

Reports B38 to B40 are not applicable

B.41 - Operational risk

Qualitative Disclosures

a) **In addition to the general qualitative disclosure requirement (paragraph 824), the approach(es) for operational risk capital assessment for which the Bank qualifies.**
Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements. The Operational Risk Framework sets the policies to identify, assess, measure, monitor, manage (mitigate, transfer, accept etc.) and report Operational Risk., The Bank's directors, management and all staff members are accountable for managing Operational risk in line with the roles and responsibilities. The overall effectiveness of the sound operational risk governance relies upon the following three lines of defense model: 1st line - Business Line Management; 2nd line - An independent Operational Risk Management function; 3rd line - An independent review function i.e. Internal Audit.

The Operational Risk Management Department (ORMD) within the Credit & Risk Management Group facilitates the management of operational risk in the Bank. ORMD promotes a responsible culture of transparency, vigilance, openness, awareness, and of being proactive across the Bank. They enforce responsibility and accountability for the management of Operational Risk across the Bank. They are responsible for developing processes, tools and methodologies, overseeing their implementation and use within the business units and providing on-going monitoring and guidance across the Bank. The Group Operational Risk Committee oversee the implementation of the Operational Risk Framework and reports to the Risk Management Committee.

b) **Description of the advanced measurement approaches for operational risk (AMA), if used by the Bank, including a discussion of relevant internal and external factors considered in the Bank's measurement approach. In the case of partial use, the scope and coverage of the different approaches used.**
Not Applicable. The Bank adopts Standardized Approach for computing Operational Risk Capital Charge.

c) **For Banks using the AMA, a description of the use of insurance for the purpose of mitigating operational risk.**
Not Applicable. The Bank adopts Standardized Approach for computing Operational Risk Capital Charge.

B.42 - Profit rate risk in the Banking book (PRRBB)

Table A

Qualitative disclosures

a) A description of the Bank defines IRRBB for purposes of risk control and measurement.

- PRRBB is defined as the process of managing risks that arises due to mismatches (of cash-flow/ repricing) between the assets and liabilities positions of the Bank. It is a process of strategic planning which assists the Bank to mitigate or hedge, it's on and off balance sheet risks while focusing on return optimization.
- The Bank currently focuses on monitoring earning variability for PRRBB management in line with the established Risk Appetite and; is in the course of instituting Economic Value of Equity (EVE) related measures for PRRBB management as required by BCBS 368 guidelines, along with associated limits for active monitoring.

b) A description of the Bank's overall IRRBB management and mitigation strategies.

- Monitoring of EVE and NII in relation with established limits: As mentioned above in the response of point (a)
- Hedging practices: Being an Islamic Bank, currently the Bank does not have specific products to hedge the Interest rate risk on its Banking Book. However, wherever possible conscious attempts are made to create natural hedge by matching the maturities/re-pricing of rate sensitive assets and liabilities.
- Conduct of Stress Testing: The Bank currently conducts stress tests for Net Interest Income (NII) variation, by assessing the impact of various profit rate shocks on Bank's earnings. In addition, EVE Stress Tests as required by the BCBS 368 guidelines are being established by the Bank.
- Outcomes analysis: NII related stress tests based on the Bank's current gap profile is utilized to assess, whether risks to Earning at Risk (EAR) measure, which measures variation in NII remains within the stipulated Risk Appetite. In addition, the Bank is in the course of setting up a similar process to ensure that the outcome of EVE related stress tests remain within a targeted Risk Appetite threshold through active Balance Sheet management.
- The role of Independent Audit: Internal Auditors play a key role in evaluating the effectiveness of Group Profit Rate Risk Management. Their role extends to evaluation of the reliability of reporting effectiveness and efficiency of operations, and ensuring that laws and regulations are complied with.
- The role and practices of ALCO: The Bank's Asset and Liability Committee (ALCO):
  - Ensures that policy guidelines pertaining to PRRBB and; related decisions of the Board and ALCO are enforced within the Bank
  - Regularly reviews the market activities and in ensuring that effective decisions are taken and implemented in a timely way
  - Ensures that adequate stress Testing is undertaken with respect to PRRBB and a set of key management actions that would be progressively taken in advance of and during any deterioration in economic environment/Bank specific factors that would negatively impact its Risk Appetite profile on a timely basis

- The Bank's practices to ensure appropriate model validation: The Bank has engaged external consultants to formulate the PRRBB models as per the Basel and SAMA guidelines. The models developed by the consultants are subjected to back testing and validation by the consultants who have developed the models.
- Timely updates in response to changing market conditions: The Bank's Treasury actively monitors variations in market conditions, which may require balance sheet rebalancing. Risk Group at the Bank also supports Treasury to perform the task effectively. Additionally, ALCO being responsible for periodic monitoring of PRRBB profile of the Bank, takes requisite key management actions to implement corrective measures (if any) to ensure that the market dynamics do not cause breach of risk thresholds in place at the Bank.

c) The periodicity of the calculation of the Bank's IRRBB measures. and a description of the specific measures that the Bank uses to gauge its sensitivity to IRRBB.

- The Bank would undertake its PRRBB measurement on a monthly basis through measurement of specific parameters like EVE and NII sensitivity.

d) A description of the interest rate shock and stress scenarios that the Bank uses to estimate changes in the economic value and in earnings.

- The Bank uses regulatory shock scenarios as prescribed in BCBS 368 guidelines for ΔEVE (six regulatory shock scenarios) and ΔNII (two regulatory shock scenarios) computation.

e) Where significant modelling assumptions used in the Bank's IMS (i.e. the EVE metric generated by the Bank for purposes other than disclosure, e.g. for internal assessment of capital adequacy) are different from the modelling assumptions prescribed for the disclosure in Table B, the Bank should provide a description of those assumptions and of their directional implications and explain its rationale for making those assumptions (e.g. historical data, published research, management judgment and analysis).

- Currently, the Bank prepares PRRBB IMS for Internal Capital Adequacy Assessment Process (ICAAP). As advised by SAMA, the Bank needs to maintain consistency in methodology between ICAAP and Pillar III PRRBB disclosures. Hence, the Bank will align the ICAAP 2018 PRRBB computation as per BCBS 368 guidance.
- Assumptions considered for computation of ΔEVE and ΔNII provided in Table B:
  - Current portfolio distribution (amount wise) considered to arrive at the Weighted Average Lending Rate (WALR) for each portfolio
  - CPR has been computed only for Retail portfolio at the product level i.e. same CPR has been applied for a product across time maturity buckets. CPR models for different Retail products (Personal Loans, Auto Loans and Real Estate Loans) are developed based on 14-month historical data. The Bank endeavours to enrich the available data to generate long term history of data for improved Conditional Prepayment Rate (CPR) numbers.
  - Credit/ Charge card are exempted from the prepayment behavioural modelling because:
    - ➢ Profit rate charged for the product is higher compared to other relevant alternatives. Accordingly, there will be no/ miniscule impact of market interest rate movements for credit/ charge cards; and
    - ➢ Overall duration for the settlement for the product is around 1-2 months with no contractual cash flow schedule for which no prepayment assessment can be made.

- Cash flow shifting to earlier time maturity buckets has been considered after application of CPR to the Retail products. Interest component for the last time maturity bucket (after shifting of cash flows) has been considered proportionally based on the outstanding notional in second last time maturity bucket and scheduled principal of last time maturity bucket.
- Term deposits out of the total deposits is only miniscule portion and also as per the past experience, the Bank does not have early redemption risk for Term Deposits; Therefore, TDRR has not been computed.

f) A high-level description of how the Bank hedges its IRRBB, as well as the associated accounting treatment.

- Same as mentioned above in point (b).

g) A high-level description of key modelling and parametric assumptions used in calculating ∆EVE and ∆NII in Table B, which includes:

- For ∆EVE. whether commercial margins and other spread components have been included in the cash flows used in the computation and discount rate used:
  - The Bank has used the current indicative lending rate for products in scope for the discounting purpose which comprises of commercial margin and other risk spreads as specified in BCBS 368 guidelines. The Bank computes Weighted Average Lending Rate (WALR) for the entire portfolio based on the amount wise distribution and average/ median/ mode indicative lending rates for each tenor for respective portfolio under PRRBB purview (e.g. Corporate, Treasury, SME and Retail). Discounting factor is computed according to regulatory formula based on computed WALR for the entire portfolio.
- How the average repricing maturity of non-maturity deposits[2] in (1) has been determined (including any unique product characteristics that affect assessment of repricing behavior):
  - The NMDs have been split into Retail and Wholesale deposits. The non-core portion of the Retail NMDs have been taken at 15% in overnight bucket. Correspondingly the remaining 85% has been considered as core which has been distributed on a time weighted manner till the longest maturity of 5 years for the Retail deposits. For the Wholesale deposits, the non-core portion of the NMDs have been taken at 50% in overnight bucket. Correspondingly the remaining 50% has been considered as core which has been distributed on a time weighted manner till the longest maturity of 4 years. Thereafter, the average re-pricing has been computed on a weighted exposure basis.
- The methodology used to estimate the prepayment rates of customer loans, and/or the early withdrawal rates for time deposits, and other significant assumptions:
  - ARB performs behavioral modelling for fixed rate Retail products with material exposures to early prepayment risk. The standardized framework as specified by the Basel Committee for Banking Supervision (BCBS) is followed, whereby baseline constant prepayment rates are calibrated using historical data for each relevant sub-product and scaled by a factor of 0.8

[2] The average re-pricing maturity/longest re-pricing maturity of these NMD's would be subject to change post model validation by consultants (refer para IV.1.2 above).

for downward interest rate shock scenarios and 1.2 for upward scenarios. Behavioral modelling is performed for the currency that these loans are denominated in, namely SAR.

  - Time Deposits (TDs) early withdrawal risk assumptions: The Bank has raised Time Deposits, albeit a small portion out of the total customer deposits, majorly from corporate where early redemption has not been observed. Accordingly, the Bank does not compute Term Deposit Redemption Risk (TDRR) for current portfolio of TDs. In future, if the Bank raises term deposit products with early redemption risk (for which Profit Rate risk is not recovered from the customer); the Bank will compute TDRR and appropriate cash flow treatment will be considered.

- Any other assumptions (including for instruments with behavioral optionalities that have been excluded) that have a material impact on the disclosed ΔEVE and ΔNII in Table B, including an explanation of why these are material:
  - Assumptions for prepayment behavior modeling have been described above.
  - Being majorly focused on Retail Lending (forming app. 70% of the portfolio); the Bank has developed behavioral models for prepayment risk i.e. Conditional Prepayment Rate (CPR) for Retail portfolios only.
  - Assumption/ clarification for early withdrawal risk for time deposits already provided above.
- Any methods of aggregation across currencies and any significant interest rate correlations between different currencies:
  - As per the guidelines, the Bank has significant currency exposure lying in only base currency i.e. SAR. Exposure from all Foreign Currencies (FCY) are insignificant as they are less than 5% of Assets or Liabilities. The Bank has included FCY exposures in the base currency with the conversion rate as on the reporting date. Accordingly, significant interest rate correlations between different currencies are not applicable for Bank's current portfolio.

h) Interpretation of the significance and sensitivity of the IRRBB measures disclosed and/or an explanation of any significant variations in the level of the reported IRRBS since previous disclosures.

- Currently, the Bank does not deal in the products with optionality that makes the timing of notional repricing cash flows uncertain/ non-linear in nature. Hence, no product in the existing portfolio has been mapped to Less Amenable category and consequently, no Add-on factor computation is made for ΔEVE and ΔNII. The Bank will compute Add-on factor for Less Amenable category when it will start dealing in such products.
- Current report is on solo basis at Bank level. The Bank would undertake group level submission going forward.

Quantitative disclosures

i) Average repricing maturity assigned to NMDs

- Currently, the Bank has developed a behavioral model for NMDs to identify Core, Non-Core, Stable and Non-Stable amount of deposits. The Bank has followed regulatory limits (in terms of cap for core deposits and cap for average maturity) for pro-forma reporting for PRRBB. As per regulatory definition, all the NMDs at the Bank can be classified under Transactional category as Specifically, following approach has been considered for NMDs cash flow slotting:

- Retail Portfolio – Core deposits are at 85% of total retail NMDs with longest maturity capped at 5 years i.e. 15% non-core NMDs have been slotted in overnight time maturity bucket.
- Wholesale Portfolio (Corporate and SME) – Core deposits are at 50% of total Wholesale NMDs with longest maturity capped at 4 years i.e. 50% non-core NMDs have been slotted in overnight time maturity bucket.
- Time weighted average maturity is used for cash flow slotting for Core NMDs up to mentioned longest repricing maturity.

- Average repricing maturity for
  - Wholesale portfolio: 1
  - Retail portfolio: 2.13
  - Overall Portfolio: 2.04.

j) Longest repricing maturity assigned to NMDs

- As mentioned above i.e. 5 years for Retail NMDs and 4 years for Wholesale (corporate and SME) NMDs.

Table B

SAR '000s	ΔEVE		ΔNII	
Period	Dec-17	Sep-17	Dec-17	Sep-17
Parallel up	456,380,577	447,248,524	720,632,326	740,105,862
Parallel down	-555,562,058	-521,820,684	-720,632,326	-740,105,862
Steepener	504,887,178	553,484,276		
Flattener	-479,298,999	-522,280,063		
Short rate up	138,780,063	109,316,491		
Short rate down	-76,879,957	-47,173,068		
Maximum	**504,887,178**	**553,484,276**	**720,632,326**	**740,105,862**
Period	Dec-17		Sep-17	
Tier 1 Capital	55,750,918		53,376,390	