

# Pillar III Disclosures

Al Rajhi Bank



**December 31, 2018**



Section	#	Tables and templates	Applicable
1. Overview of Risk Management and RWA	OVA	Bank risk management approach	Yes
	OV1	Overview of RWA	
	KM1	Key Metrics	
2. 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	Yes
	LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	
	LIA	Explanations of differences between accounting and regulatory exposure amounts	
3. Composition of Capital And TLAC	CC1	Composition of regulatory capital	Yes
	CC2	Reconciliation of regulatory capital to balance sheet	Yes
	CCA1	Main features of regulatory capital instruments and of other TLAC-eligible instruments	Yes
4. Macroprudential Supervisory	CCyB1	Geographical distribution of credit exposures used in the countercyclical capital buffer	Yes
5. Leverage Ratio	LR1	Summary comparison of accounting assets vs leverage ratio exposure	Yes
	LR2	Leverage ratio common disclosure template	Yes
6. Liquidity	LIQA	Liquidity risk management	Yes
	LIQ1	Liquidity Coverage Ratio	Yes
	LIQ2	Net Stable Funding Ratio	Yes
7. Credit Risk	CRA	General information about credit risk	Yes
	CR1	Credit quality of assets	
	CR2	Changes in stock of defaulted loans and debt securities	
	CRB	Additional disclosure related to the credit quality of assets	
	CRC	Qualitative disclosure requirements related to credit risk mitigation techniques	
	CR3	Credit risk mitigation techniques – overview	
	CRD	Qualitative disclosures on Banks' use of external credit ratings under the standardised approach for credit risk	No
	CR4	Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects	
	CR5	Standardised approach – exposures by asset classes and risk weights	
	CR6	Qualitative disclosures related to IRB models	
8. Counterparty Credit Risk	CR7	IRB – Effect on RWA of credit derivatives used as CRM techniques	No
	CR8	RWA flow statements of credit risk exposures under IRB	
	CR9	IRB – Back testing of probability of default (PD) per portfolio	
	CR10	IRB (specialised lending and equities under the simple risk weight method)	
9. Securitisation	CCRA	Qualitative disclosure related to counterparty credit risk	No
	CCR1	Analysis of counterparty credit risk (CCR) exposure by approach	
	CCR2	Credit valuation adjustment (CVA) capital charge	
	CCR3	Standardised approach of CCR exposures by regulatory portfolio and risk weights	
	CCR4	IRB – CCR exposures by portfolio and PD scale	
	CCR5	Composition of collateral for CCR exposure	
	CCR6	Credit derivatives exposures	
	CCR7	RWA flow statements of CCR exposures under the Internal Model Method (IMM)	
CCR8	Exposures to central counterparties		
10. Market Risk	SECA	Qualitative disclosure requirements related to securitisation exposures	No
	SEC1	Securitisation exposures in the Banking book	
	SEC2	Securitisation exposures in the trading book	
	SEC3	Securitisation exposures in the Banking book and associated regulatory capital requirements – Bank acting as originator or as sponsor	
11. Operational Risk Qualitative Disclosure	SEC4	Securitisation exposures in the Banking book and associated capital requirements – Bank acting as investor	Yes
	MRA	Qualitative disclosure requirements related to market risk	
	MRB	Qualitative disclosures for Banks using the Internal Models Approach (IMA)	
	MR1	Market risk under standardised approach	
	MR2	RWA flow statements of market risk exposures under an IMA	
12. Profit Rate Risk in the Banking Book	MR3	IMA values for trading portfolios	No
	MR4	Comparison of VaR estimates with gains/losses	Yes
		Operational Risk Qualitative disclosure	Yes
		Quantitative /Qualitative disclosure	Yes



# 1. Overview of Risk Management and RWA

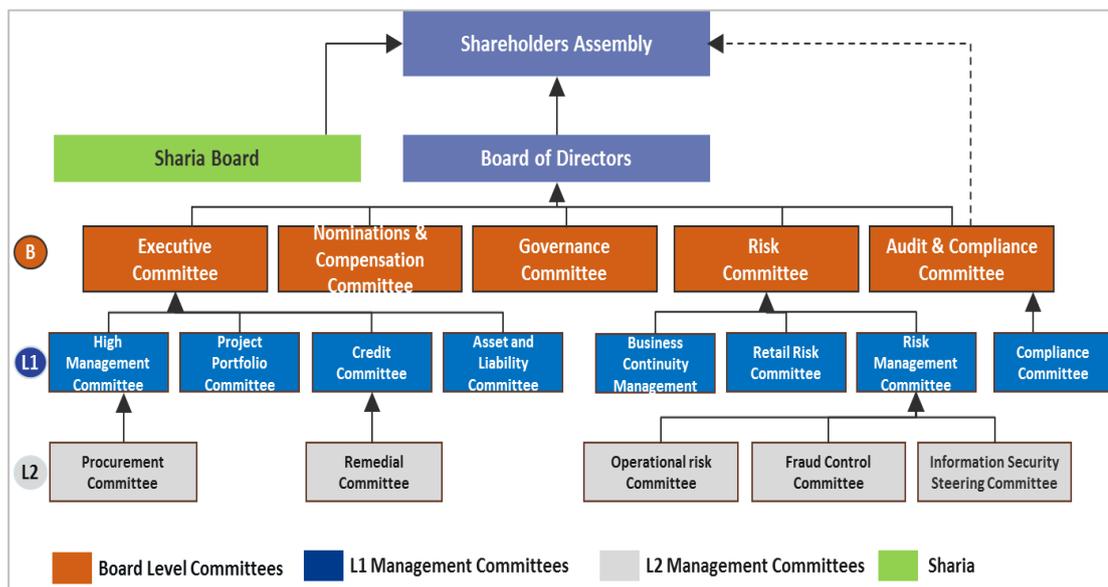
## OVA: Bank risk management approach

### 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 utilizes 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 encompasses 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. Besides, the Bank has comprehensive Liquidity Stress Testing in alignment with Internal Liquidity Adequacy Assessment Plan (ILAAP) guidelines issued by SAMA. The Bank has comprehensive and specific Management Action Plans to ensure that capital, leverage and all liquidity ratios are managed well within the Risk Appetite thresholds if the key ratios come under unexpected pressure.

**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.



## OV1: Overview of RWA

SAR '000s	a	b	c
	RWA		Minimum capital requirements
	Dec-18	Sep-18	Dec-18
Credit risk (excluding counterparty credit risk) (CCR)	222,309,112	220,577,850	17,784,729
Of which standardised approach (SA)	222,309,112	220,577,850	17,784,729
Of which internal rating-based (IRB) approach	-	-	-
Counterparty credit risk	-	-	-
Of which standardised approach for counterparty credit risk (SA-CCR)	-	-	-
Of which internal model method (IMM)	-	-	-
Equity positions in banking book under market-based approach	-	-	-
Equity investments in funds – look-through approach	-	-	-
Equity investments in funds – mandate-based approach	-	-	-
Equity investments in funds – fall-back approach	-	-	-
Settlement risk	-	-	-
Securitisation exposures in banking book	-	-	-
Of which IRB ratings-based approach (RBA)	-	-	-
Of which IRB Supervisory Formula Approach (SFA)	-	-	-
Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
Market risk	4,102,847	5,219,629	328,228
Of which standardised approach (SA)	4,102,847	5,219,629	328,228
Of which internal model approaches (IMM)	-	-	-
Operational risk	28,094,351	26,832,383	2,247,548
Of which Basic Indicator Approach	-	-	-
Of which Standardised Approach	28,094,351	26,832,383	2,247,548
Of which Advanced Measurement Approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
Floor adjustment	-	-	-
<b>Total (1+4+7+8+9+10+11+12+16+19+23+24)</b>	<b>254,506,310</b>	<b>252,629,862</b>	<b>20,360,505</b>

- Credit RWAs slightly increased due to increase in Banks and Residential Mortgages exposures.
- 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.



## KM1: Key metrics (at consolidated group level): Overview of risk management, key prudential metrics and RWA categories

		a	b	c	d	e
SAR '000s		Dec-18	Sep-18	Jun-18	Mar-18	Dec-17
<b>Available capital (amounts)</b>						
1	Common Equity Tier 1 (CET1)	48,554,020	51,975,056	52,790,511	50,440,219	55,750,918
1a	Fully loaded ECL accounting model	-	-	-	-	-
2	Tier 1	48,554,020	51,975,056	52,790,511	50,440,219	55,750,918
2a	Fully loaded accounting model Tier 1	48,554,020	51,975,056	52,790,511	50,440,219	55,750,918
3	Total capital	51,332,884	54,732,279	55,504,495	53,118,197	58,497,018
3a	Fully loaded ECL accounting model total capital	51,332,884	54,732,279	55,504,495	53,118,197	58,497,018
<b>Risk-weighted assets (amounts)</b>						
4	Total risk-weighted assets (RWA)	254,506,310	252,629,862	249,355,478	246,707,255	251,115,121
4a	Total risk-weighted assets (pre-floor)	254,506,310	252,629,862	249,355,478	246,707,255	251,115,121
<b>Risk-based capital ratios as a percentage of RWA</b>						
5	Common Equity Tier 1 ratio (%)	19.08%	20.57%	21.17%	20.45%	22.20%
5a	Fully loaded ECL accounting model CET1 (%)	0.00%	0.00%	0.00%	0.00%	0.00%
6	Tier 1 ratio (%)	19.08%	20.57%	21.17%	20.45%	22.20%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	19.08%	20.57%	21.17%	20.45%	22.20%
7	Total capital ratio (%)	20.17%	21.67%	22.26%	21.53%	23.29%
7a	Fully loaded ECL accounting model total capital ratio (%)	20.17%	21.67%	22.26%	21.53%	23.29%
<b>Additional CET1 buffer requirements as a percentage of RWA</b>						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical bugger requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Bank 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)	3.00%	3.00%	3.00%	3.00%	3.00%
12	CET1 available after meeting the bank's minimum capital requirements (%)	11.08%	12.57%	13.17%	12.45%	14.20%
<b>Basel III Leverage Ratio</b>						
13	Total Basel III leverage ratio measure	377,675,579	369,122,730	360,339,055	362,766,055	354,194,643
14	Basel III leverage ratio (%) (row 2/row 13)	12.9%	14.1%	14.7%	13.9%	15.7%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	12.9%	14.1%	14.7%	13.9%	15.7%
14b	Basel III leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	12.86%	14.08%	14.65%	13.90%	15.74%
<b>Liquidity Coverage Ratio<sup>1</sup></b>						
15	Total HQLA	69,421,856	75,479,798	74,515,615	75,745,675	65,774,629
16	Total net cash outflow	35,335,318	39,827,024	35,828,464	34,512,233	33,133,803
17	LCR ratio (%)	196%	190%	208%	219%	199%
<b>Net Stable Funding Ratio</b>						
18	Total available stable funding	281,442,784	286,617,087	285,395,570	284,725,537	282,871,544
19	Total required stable funding <sup>2</sup>	211,272,724	203,524,865	200,649,042	192,548,314	222,083,587
20	NSFR ratio (%)	133%	141%	142%	148%	127%

- Reduction in CET December 2018 is due to one time IFRS 9 impact and materialization of Zakat demand. The impact of this reduction caused reduction in both leverage ratio and capital adequacy ratio.

<sup>1</sup> LCR computed as Quarterly Average.

<sup>2</sup> Includes Off Balance sheet component which is added to the Required Stable Funding (RSF).



## 2. Linkages between Financial Statements and Regulatory Exposures

### 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
SAR '000s							
	<b>Assets</b>						
Cash and Balances with SAMA & Central Banks	43,246,043	80,567,059	80,567,059	-	-	-	-
Due From Banks	30,808,011	35,687,774	35,687,774	-	-	-	-
Financing , net	234,062,789	241,697,236	241,697,236	-	-	-	-
Investments, net	43,062,565	2,385,747	2,385,747	-	-	-	-
Investment properties, net	1,297,590	-	-	-	-	-	-
Fixed assets, net	8,897,587	8,897,587	8,897,587	-	-	-	-
Other assets, net	3,629,245	3,629,245	3,629,245	-	-	-	-
<b>Total assets</b>	<b>365,003,830</b>	<b>372,864,648</b>	<b>372,864,648</b>	-	-	-	-
	<b>Liabilities</b>						
Customer deposits	293,909,125	-	-	-	-	-	293,909,125
Due to Banks	7,289,624	-	-	-	-	-	7,289,624
Other liabilities	15,251,063	-	-	-	-	-	15,251,062
<b>Total liabilities</b>	<b>316,449,812</b>	-	-	-	-	-	<b>316,449,812</b>
	<b>Shareholder's Equity</b>						
Share capital	16,250,000	16,250,000	-	-	-	-	-
Statutory reserve	16,250,000	16,250,000	-	-	-	-	-
Other reserves	-349,555	-349,555	-	-	-	-	-
Retained earnings	12,747,323	12,747,323	-	-	-	-	-
Proposed gross dividend	3,656,250	3,656,250	-	-	-	-	-
<b>Total Shareholder's Equity</b>	<b>48,554,018</b>	<b>48,554,018</b>	-	-	-	-	-
<b>Total Liabilities + Shares</b>	<b>365,003,830</b>	<b>48,554,018</b>	-	-	-	-	<b>316,449,812</b>

- Variance between the financial statements and the regulatory consolidation is due to assets mapping and Basel Asset class consideration under regulatory consolidation. Main difference in investment under scope of regulatory consolidation is due to consideration of equity investment whereas Sukuk are parked under respective asset class based on Basel asset classification.



## LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e
		Total	Items subject to:			
SAR '000s			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)	372,864,648	372,864,648	-	-	-
2	Liabilities + Shares carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	372,864,648	372,864,648	-	-	-
4	Off-balance sheet amounts	12,812,255	12,812,255	-	-	-
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	(7,832,471)		-	-	-
8	Differences due to investment provisions	(28,345)		-	-	-
9	Market risk on Foreign exchange	4,102,847		-	-	4,102,847
10	Exposure amounts considered for regulatory purposes	365,003,830	385,676,903	-	-	4,102,847

- Difference in total assets is due to accumulated provisions.



## **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**

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.

**d) Description of the independent price verification process.**

Most of our investment portfolio are in the form of placements with SAMA and KSA/ Government of Saudi Arabia bonds and Sukuks. The other investments are insignificant compared to Bank's Total Assets. Hence, there is no formal Independent Price Verification (IPV) function currently in place.

**e) 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.



### 3. Composition of Capital and TLAC

#### CC1- Composition of regulatory capital

SAR '000s		Amounts
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	16,250,000
2	Retained earnings	12,747,323
3	Accumulated other comprehensive income (and other reserves)	19,556,695
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	-
5	Common share capital issued by third parties (amount allowed in group CET1)	-
6	Common Equity Tier 1 capital before regulatory deductions	48,554,018
<b>Common Equity Tier 1 capital regulatory adjustments</b>		
7	Prudent valuation adjustments	-
8	Goodwill (net of related tax liability)	-
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	-
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences	-
11	Cash flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitization gain on sale (as set out in paragraph 36 of Basel III securitization framework)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-
15	Defined benefit pension fund net assets	-
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-
20	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding 15% threshold	-
23	Of which: significant investments in the common stock of financials	-
24	Of which: mortgage servicing rights	-
25	Of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-
28	<b>Total regulatory adjustments to Common Equity Tier 1</b>	-
29	<b>Common Equity Tier 1 capital (CET1)</b>	48,554,018
<b>Additional Tier 1 capital: instruments</b>		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
31	Of which: classified as equity under applicable accounting standards	-
32	Of which: classified as liabilities under applicable accounting standards	-
33	<i>Directly issued capital instruments subject to phase-out from additional Tier 1</i>	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	-
35	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>	-
36	Additional Tier 1 capital before regulatory adjustments	-
<b>Additional Tier 1 capital: regulatory adjustments</b>		
37	Investments in own additional Tier 1 instruments	-
38	Reciprocal cross-holdings in additional Tier 1 instruments	-
39	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
40	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
41	National specific regulatory adjustments	-
42	Regulatory adjustments applied to additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	Total regulatory adjustments to additional Tier 1 capital	-
44	<b>Additional Tier 1 capital (AT1)</b>	-
45	<b>Tier 1 capital (T1= CET1 + AT1)</b>	48,554,018



Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47	Directly issued capital instruments subject to phase-out from Tier 2	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	Of which: instruments issued by subsidiaries subject to phase-out	-
50	Provisions	2,778,864
51	Tier 2 capital before regulatory adjustments	2,778,864
Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	-
54	Investments in capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)	-
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments	-
57	<b>Total regulatory adjustments to Tier 2 capital</b>	-
58	<b>Tier 2 capital (T2)</b>	2,778,864
59	<b>Total regulatory capital (TC = T1 + T2)</b>	51,332,882
60	<b>Total risk-weighted assets</b>	254,506,310
Capital ratios and buffers		
61	<b>Common Equity Tier 1 (as a percentage of risk-weighted assets)</b>	19.08%
62	<b>Tier 1 (as a percentage of risk-weighted assets)</b>	19.08%
63	<b>Total capital (as a percentage of risk-weighted assets)</b>	20.17%
64	<b>Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)</b>	7.5%
65	<b>Of which: capital conservation buffer requirement</b>	2.5%
66	<b>Of which: bank-specific countercyclical buffer requirement</b>	0%
67	<b>Of which: G-SIB D-SIB buffer</b>	0.5%
68	<b>Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.</b>	11.08%
National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	-
70	National Tier 1 minimum ratio (if different from Basel III minimum)	-
71	National total capital minimum (if different from Basel III minimum)	-
Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities	-
73	Significant investments in common stock of financial entities	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	2,778,864
77	Cap on inclusion of provisions in Tier 2 under standardised approach	-
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase-out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase-out arrangements	-
83	Amount excluded from AT1 due to cap (excess after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase-out arrangements	-
85	Amount excluded from T2 due to cap (excess after redemptions and maturities)	-



## CC2: Reconciliation of regulatory capital to balance sheet

SAR '000s	a	b
	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	Dec-18	Dec-18
<b>Assets</b>		
Cash and balances at central banks	43,246,043	80,567,059
Items in the course of collection from other banks	30,808,011	35,687,774
Loans and advances to customers	234,062,789	241,697,236
Available for sale financial investments	43,062,565	2,385,747
investment properties	1,297,590	-
Property, plant and equipment	8,897,587	8,897,587
Other Assets	3,629,245	3,629,245
<b>Total assets</b>	<b>365,003,830</b>	<b>372,864,648</b>
<b>Liabilities</b>		
Deposits from banks	7,289,624	-
Customer accounts	293,909,125	-
Other liabilities	15,251,063	-
<b>Total liabilities</b>	<b>316,449,812</b>	<b>-</b>
<b>Shareholders' equity</b>		
Paid-in share capital	16,250,000	16,250,000
Of which: amount eligible for CET1	16,250,000	16,250,000
Of which: amount eligible for AT1	-	-
Retained earnings	12,747,323	12,747,323
Accumulated other Reserves	19,556,695	19,556,695
<b>Total shareholders' equity</b>	<b>48,554,018</b>	<b>48,554,018</b>

## CCA1: Main features of regulatory capital instruments and of other TLAC-eligible instruments

1 Issuer
2 Unique identifier (e.g CUSPIN, ISIN or Bloomberg identifier for private placement)
3 Governing law(s) of the instrument
3.a Means by which enforceability requirement of section 13 of the TLAC term sheet is achieved (for other TLAC-eligible instruments governed by foreign law)
4 Transitional Basel III rules
5 Post-transitional Basel III rules
6 Eligible at solo/group/group and solo
7 Instrument type
8 Amount recognized in regulatory capital (Currency in mil, as of most recent reporting)
9 Par value of instrument
10 Accounting classification
11 Original date of issuance
12 Original date of issuance
13 Original maturity date
14 Option call date, contingent call dates and redemption amount
15 Subsequent call dates if applicable
16 Fixed or Floating dividend/coupon
17 Coupon rate and any related index
18 Existence of a dividend stopper



## 4. Macroprudential Supervisory

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### CCyB1 – Geographical distribution of credit exposures used in the countercyclical capital buffer

Geographical breakdown	Countercyclical capital buffer rate	Bank-specific countercyclical capital buffer rate
KSA	0.00%	0.00%
GCC and ME	0.0% to 2.5%	0.006%
South East Asia	0.0%	0.00%
Others	0.0% to 2.5%	0.00%
Total		0.006%



## 5. Leverage Ratio

### LR1: Summary comparison of accounting assets vs leverage ratio exposure

TABLE 1: LEVERAGE DISCLOSURE		
Summary comparison of accounting assets versus leverage ratio exposure measure		Table 1
Row #	Item	SAR '000s
1	Total consolidated assets as per published financial statements	365,003,830
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 recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	4,810,945
7	Other adjustments <sup>3</sup>	7,860,804
8	<b>Leverage ratio exposure</b>	<b>377,675,579</b>

### LR2: Leverage ratio common disclosure template

TABLE 2: LEVERAGE DISCLOSURE		
#	Item	SAR '000s
<b>On-balance sheet exposures</b>		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	372,864,634
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)	372,864,634
<b>Derivative Exposures</b>		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	-
5	Add-on amounts for Potential Financial Exposure (PFE) associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
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)	-
<b>Securities financing transaction exposures</b>		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales 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)	-
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposure at gross notional amount	12,812,255
18	(Adjustments for conversion to credit equivalent amounts)	(8,001,310)
19	Off-balance sheet items (sum of lines 17 and 18)	4,810,945
<b>Capital and total exposures</b>		
20	Tier 1 capital	48,554,018
21	Total exposures (sum of lines 3, 11, 16 and 19)	377,675,579
<b>Leverage ratio</b>		
22	<b>Basel III leverage ratio</b>	<b>12.86%</b>

<sup>3</sup> Other adjustments are due to consideration of credit provisions and other provisions.



## 6. Liquidity

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### **LIQA: Liquidity risk management**

- a) Governance of liquidity risk management, including: risk tolerance; structure and responsibilities for liquidity risk management; internal liquidity reporting; and communication of liquidity risk strategy, policies and practices across business lines and with the board of directors.**

The liquidity risk management structure at ARB has a top down approach from the Board of Directors (BOD) to Group Treasury. ARBs Board of Directors have the ultimate responsibility for the management of overall liquidity risk function within the Bank. However, the BOD have delegated their authority to Group Asset Liability Management Committee (GALCO) to ensure daily, timely and effective risk management across the ARB Group. ARB Group has adopted a holistic approach towards maintaining a liquidity risk management and control framework. The Bank recognizes that there is no one metric or event that could address all the dimensions or causes of liquidity risk. Hence, Liquidity risk control framework has been established along-with approved liquidity risk appetite parameters within which the Banks's liquidity function operates. The delegation of approval authorities is formalized and governed by a clear mandate set by the GALCO. The Group Treasurer keeps GALCO informed of Liquidity and Funding risk/requirements as and when they arise. The Liquidity Risk tolerances are defined as part of Bank's Liquidity/Treasury Risk Appetite statement which is again approved by the Board. The key Liquidity risk measures include gaps and ratios viz., LCR, NSFR, LAR and LDR. All these Liquidity measures are reported to GALCO on a monthly basis and to BRMC at frequent intervals. The related Liquidity risk and ALM policies are updated on an annual basis to reflect the changing operating environment and Bank's strategy given each stakeholder's responsibility as per contemporary situations.

- b) Funding strategy, including policies on diversification in the sources and tenor of funding, and whether the funding strategy is centralized or decentralized.**

The Funding Strategy of the Bank is developed every year at the time of annual Budget exercise and this is undertaken at a centralized level. The Bank's deposit base largely comprises of retail deposits which are highly diversified. Besides, ARB seeks for a constant diversification of its funding sources by continuing to tap the retail funding route. The Bank additionally ensures that the Asset-Liability maturity profile does not create significant gaps beyond approved limits. The Bank rarely funds itself through term deposits with long dated maturities. Concentration limits on the lending and borrowing side have been established as part of the Risk appetite and these are monitored and reported on a regular basis to Senior Management and RMC/BRMC. Customer deposit through current account forms the main source to fund the balance sheet, as this consist of several, well diversified segments of Retail, Corporate and SME businesses. Based on various behavioral analysis conducted by both external consultants and internal teams, the current account deposits are assessed as stable. The top 20 deposit concentration level is significantly below the market levels.

- c) Liquidity risk mitigation techniques.**

Identifying and assessing, measuring and monitoring liquidity risks, conducting regular and 'ad hoc' risk analyses (such as stress tests), reporting the findings and



recommending to the GALCO through CRO are the key control and mitigation of liquidity risks techniques. The Bank has also started conducting its annual ILAAP exercise. This provides the Bank with an opportunity to estimate / project its Liquidity Gap positions and ratios over next one-year horizon. This enables the Bank to plan accordingly for any systemic or bank driven internal liquidity stress assessment. Accordingly, corrective action and management action plan is drafted to overcome such stress situations. As part of its ILAAP exercise the Bank has a well drafted CFP in place that can be invoked in stress liquidity situations. The Bank has regularly been testing its CFP to ascertain its feasibility in times when needed.

**d) An explanation of how stress testing is used.**

The Bank Conducts Liquidity stress testing as part of its ILAAP exercise. The Bank identifies historical and hypothetical events that can lead to an impact on its liquidity positions. The impact of Liquidity events are quantified by defining liquidity risk factors covering Retail funding risk, Wholesale funding risk, deposit concentration risk, deposit pricing risk, marketable assets risk, assets delinquency risk, contingent liability risk and other material risks. Thereafter, severe, moderate and mild liquidity risk scenarios are evaluated over a time horizon of three months. The impact of these scenarios is assessed on gap positions and all regulatory ratios. Accordingly, management action plans are devised to enable the Bank plan for its liquidity actions in such stressed liquidity situations.

**e) An outline of the bank's contingency funding plans.**

ARB's Group-Contingency Funding Plan ("GCFP" or "CFP") is a written response mechanism to be followed under adverse or stress liquidity scenarios, in order to enable the Bank to efficiently meet all liquidity obligations as they fall due up to a 3 months horizon. This includes components of liquidity management that are pre-emptive in nature, components that address immediate liquidity requirements, components required to restore the liquidity positions and ratios to regulatory or appetite thresholds and finally long term strategic actions to improve the liquidity profile of the Balance sheet. The contents of the CFP may be tailored to adapt any situation as it unfolds, under the directions of the Liquidity Response Team (LRT). The ARB GCFP is applicable to Al Rajhi Bank KSA and to all its banking branches, subsidiaries and overseas entities.

While the ARB Group Liquidity Risk Management Policy is applicable under all operating environments, the GCFP will be operative only in the event of an adverse or stressed liquidity situation. Each International branch and subsidiary of ARB will also have in place its own CFP, which should be consistent with the Group CFP and should meet their local regulatory requirements. In case of any conflict between the GCFP and local CFPs of the international branches/subsidiaries of ARB, the more conservative document shall prevail.

The GCFP is an integral part of the Bank's overall Group Liquidity Risk Governance framework. Both the GCFP and Group Liquidity Risk Management Policy complement each other.

**f) Customized measurement tools or metrics that assess the structure of the bank's balance sheet or that project cash flows and future liquidity positions, taking into account off-balance sheet risks which are specific to that bank.**



## On Balance

SAR '000s	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Fixed Maturity	Total
<b>Assets</b>						
Cash and balance with SAMA and central banks	35,490,644	-	-	-	7,755,399	43,246,043
Due from banks and other financial institutions	10,569,683	8,273,620	10,908,457	-	1,056,251	30,808,011
<b>Financing, net</b>						
Corporate Mutajara	14,480,073	15,127,724	13,950,532	2,456,174	-	46,014,503
Installment sale	10,769,129	30,019,044	101,794,885	29,391,728	-	171,974,786
Murabaha	1,193,548	4,462,625	5,665,908	2,792,068	-	14,114,149
Credit cards	1,959,351	-	-	-	-	1,959,351
<b>Investments</b>						
Investment in an associate	-	-	-	-	172,753	172,753
Investments held at amortized cost	370,447	213,900	14,118,036	25,142,380	-	39,844,765
Investments held as FVSI	-	1,941,584	-	-	-	1,941,584
FVOCI investments	-	-	-	1,103,463	-	1,103,463
Other assets, net	-	-	-	-	13,824,422	13,824,422
<b>Total</b>	<b>74,832,876</b>	<b>60,038,498</b>	<b>146,437,818</b>	<b>61,058,566</b>	<b>22,636,073</b>	<b>365,003,830</b>
<b>Liabilities</b>						
Due to banks and other financial institutions	3,951,361	2,583,028	-	-	755,235	7,289,624
Demand deposits	19,701,796	32,451,597	173,021,496	43,241,953	-	268,416,842
Customers' time investments	17,027,753	1,661,472	-	-	-	18,689,225
Other customer accounts	1,662,667	1,359,251	3,781,140	-	-	6,803,058
Other liabilities	-	-	-	-	15,251,063	15,251,063
<b>Total Liabilities</b>	<b>42,343,577</b>	<b>38,055,348</b>	<b>176,802,636</b>	<b>43,241,953</b>	<b>16,006,297</b>	<b>316,449,812</b>
<b>On Balance sheet Gap</b>	<b>32,489,299</b>	<b>21,983,150</b>	<b>(30,364,818)</b>	<b>17,816,613</b>	<b>6,629,775</b>	<b>48,554,019</b>

## Off Balance

SAR '000s	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Letters of credit	562,899	417,925	1,945	-	982,769
Acceptances	261,183	208,706	-	-	469,889
Letters of guarantee	1,270,202	2,405,041	1,159,962	41,956	4,877,161
Irrevocable commitments to extend credit	2,459,684	2,901,726	855,965	265,061	6,482,436
<b>Total</b>	<b>4,553,968</b>	<b>5,933,398</b>	<b>2,017,872</b>	<b>307,017</b>	<b>12,812,255</b>

### **g) Concentration limits on collateral pools and sources of funding (both products and counterparties.**

Sources of Funding Distribution	
Due to banks and other financial institutions	2.4%
Demand deposits	89.1%
Customers' time investments	6.2%
Other customer accounts	2.3%

### **h) Liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of liquidity.**

ARB's Liquidity policy applies to all banking operations of ARB Group including banking subsidiaries and branches (inside & outside KSA). In case of any differences between the Home and Host regulations, the stringent/ conservative regulations will be applied.



The oversight of liquidity risk is maintained by GALCO through liquidity risk reports which are produced and submitted by Market & Liquidity Risk Unit of OBS entities as part of the ALCO pack. This unit is independent of liquidity management function, which is the responsibility of Treasuries/ALM units of ARB-KSA and OBS.

The Bank has a set of approved Liquidity Gap Limits and ratios for the H.O. and OBS. These are closely monitored for breaches, if any. In case of breach of these limits it should be reported to respective ALCOs/Group ALCO for ratification.

Liquidity risk will be monitored and reported both on a solo and group level. While OBS are responsible to ensure timely monitoring and reporting of liquidity risk to their local ALCO.

**i) Balance sheet and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps.**

Please refer to point f) above for details.



## LIQ1: Liquidity Coverage Ratio (LCR)

SAR '000s

		TOTAL UNWEIGHTED VALUE (Average)	TOTAL WEIGHTED VALUE (Average)
<b>HIGH-QUALITY LIQUID ASSETS</b>			
1	Total high-quality liquid assets (HQLA)		<b>69,421,856</b>
<b>CASH OUTFLOWS</b>			
2	<b>Retail deposits and deposits from small business customer, of which:</b>	210,127,329	21,012,733
3	Stable deposits	-	-
4	Less stable deposits	210,127,329	21,012,733
5	<b>Unsecured wholesale funding, of which:</b>	66,481,711	26,506,533
6	Operational deposits (all counterparties)	-	-
7	Non-Operational deposits (all counterparties)	66,481,711	26,506,533
8	Unsecured debt	-	-
9	<b>Secured wholesale funding</b>	-	-
10	<b>Additional requirements, of which:</b>	<b>5,343,895</b>	<b>512,328</b>
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	5,343,895	512,328
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	6,105,516	122,110
16	<b>TOTAL CASH OUTFLOWS</b>	-	<b>48,153,704</b>
<b>CASH INFLOWS</b>			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	20,294,205	12,818,387
19	Other cash inflows	-	-
20	<b>TOTAL CASH INFLOWS</b>	<b>20,294,205</b>	<b>12,818,387</b>
<b>TOTAL ADJUSTED VALUE</b>			
21	<b>TOTAL HQLA</b>	-	69,421,856
22	<b>TOTAL NET CASH OUTFLOWS</b>	-	35,335,318
23	<b>LIQUIDITY COVERAGE RATIO (%)</b>		196%

- Data is presented as simple daily average of the fourth quarter of 2018. Some assumptions are revised as per latest directives.
- Saudi Arabian Monetary Agency requires banks to maintain minimum LCR of 90% in 2018.
- Un-weighted values are calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows).
- Weighted values are calculated after the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).
- Adjusted values are calculated after the application of both (i) haircuts and inflow and outflow rates and (ii) any applicable caps (i.e., cap on Level 2B and Level 2 assets for HQLA and cap on inflows).



## LIQ2: Net Stable Funding Ratio

SAR '000s		a	b	c	d	e
		Unweighted value by residual maturity				Weighted Value
		No Maturity	< 6 Months	6 months to < 1 year	> 1 year	
<b>ASF Item</b>						
1	<b>Capital:</b>	<b>51,332,884</b>	-	-	-	<b>51,332,884</b>
2	Regulatory capital	51,332,884	-	-	-	51,332,884
3	Other capital instruments	-	-	-	-	-
4	<b>Retail deposits and deposits from small business customers:</b>	<b>219,511,484</b>	-	-	-	<b>197,612,106</b>
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	219,511,484	-	-	-	197,612,106
7	<b>Wholesale funding:</b>	<b>48,466,466</b>	-	<b>5,837,358</b>	<b>10,691,766</b>	<b>32,497,795</b>
8	Operational deposits	-	-	-	-	0
9	Other wholesale funding	48,466,466	-	5,837,358	10,691,766	32,497,795
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	<b>Other liabilities:</b>	-	-	-	<b>29,163,872</b>	-
12	NSFR derivative liabilities	-	-	-	-	-
13	All other liabilities and equity not included in the above categories	-	-	-	29,163,872	-
14	<b>Total ASF</b>	<b>319,310,834</b>	-	<b>5,837,358</b>	<b>39,855,638</b>	<b>281,442,784</b>
<b>RSF Item</b>						
15	<b>Total NSFR high-quality liquid assets (HQLA)</b>	<b>42,654,895</b>	-	-	<b>35,399,574</b>	<b>1,769,979</b>
16	Deposits held at other financial institutions for operational purposes	740,611	-	-	-	370,306
17	<b>Performing loans and securities:</b>	-	<b>12,676,113</b>	<b>83,959,267</b>	<b>164,292,162</b>	<b>183,529,388</b>
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	12,676,113	8,365,231	-	6,084,032
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	-	75,594,037	159,389,085	173,277,740
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	-	-	-	-	-
22	Performing residential mortgages, of which:	-	-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	-	-	-	-	-
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	4,903,078	4,167,616
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	<b>Other assets:</b>	<b>3,304,608</b>	-	-	<b>21,976,599</b>	<b>25,281,207</b>
27	Physical traded commodities, including gold	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
29	NSFR derivative assets	-	-	-	-	-
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	3,304,608	-	-	21,976,599	25,281,207
32	<b>Off-balance sheet items</b>	-	-	<b>12,766,708</b>	-	<b>321,844</b>
33	<b>Total RSF</b>	<b>50,004,722</b>	<b>25,352,227</b>	<b>180,685,242</b>	<b>407,937,096</b>	<b>211,272,723</b>
34	<b>Net Stable Funding Ratio (%)</b>					<b>133%</b>

- As at 31 December 2018, the Bank held a balance of 14% of its Available Stable Funding (ASF) in form of Tier I & II capital, with a 100% ASF factor. The majority of the remaining balance of Available Stable Funding was 60% in retail deposits, with a 90% ASF factor, and a 18% composition of wholesale funding with 50% ASF factor.
- The Required Stable Funding (RSF) as at 31 December 2018 primarily consisted of loans and securities, which constituted 71% of total unweighted balance of total RSF, with varying risk factor. HQLA securities constituted 10% of total un-weighted RSF with 5% risk factor. Off-balance sheet contributed to 7% of the total un-weighted RSF.



## 7. Credit Risk

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### **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 organization 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, which includes Management level Credit Committee and Executive Committee of the Board. 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.



## CR1: Credit quality of assets

SAR '000s		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	2,290,312	239,604,949	7,832,471	234,062,789
2	Debt Securities	-	40,673,102	-	40,673,102
3	Off-balance sheet exposures	-	12,812,255	-	12,812,255
4	<b>Total</b>	<b>2,290,312</b>	<b>293,115,627</b>	<b>7,832,471</b>	<b>287,336,440</b>

### Definition of default

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

## CR2: Changes in stock of defaulted loans and debt securities

SAR '000s		a
1	Defaulted loans and debt securities at end of June 2018	<b>1,918,122</b>
2	Loans and debt securities that have defaulted since the last reporting period	2,097,787
3	Returned to non-defaulted status	94,492
4	Amounts written off	2,009,373
5	Other changes	378,269 <sup>4</sup>
6	Defaulted loans and debt securities at end of December 2018 (1+2-3-4±5)	<b>2,290,312</b>

- Defaulted Loans to total portfolio has marginally increased due to challenging macroeconomic climate.

<sup>4</sup> Other changes include addition, deletion and re-measurement.



## 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 are 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<sup>5</sup>

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

#### Geographical Area

KSA constitutes about 90% of the total exposures and around 7% are concentrated in other GCC and Middle East countries. Remaining exposures are taken in South East Asia, Europe and North America.

SAR '000s	Kingdom of Saudi Arabia	Other GCC and Middle East	Europe	North America	South East Asia	Other Countries	Total
Financing, net	221,453,318	5,847,858	2,100,074	-	4,661,539	-	234,062,789 <sup>6</sup>
Corporate Mutajara	42,890,888	1,023,541	2,100,074	-	-	-	46,014,503
Installment sale	167,591,118	2,885,814	-	-	1,497,854	-	171,974,786
Murabaha	9,018,760	1,932,928	-	-	3,162,461	-	14,114,149
Credit cards	1,952,552	5,575	-	-	1,224	-	1,959,351

<sup>5</sup> Carrying values under scope of regulatory consolidation

<sup>6</sup> Exclusive of Credit provisios.



### **Industry**

About 71.40% of the total exposure is classified under Retail Loans. Within Retail Portfolio, Watani is the largest. The Corporate largest sectors are Commercial and Industrial.

SAR '000s	Performing	Non-Performing	Allowance for impairment	Net financing
Commercial	19,670,493	746,180	(618,139)	19,798,534
Industrial	28,007,663	774,347	(696,112)	28,085,898
Building and construction	3,442,028	71,682	(82,411)	3,431,299
Consumer	171,255,069	603,423	(470,400)	171,388,092
Services	16,295,853	80,751	(75,584)	16,301,020
Agriculture and fishing	467,960	-	-	467,960
Others	465,882	13,929	(6)	479,805
<b>Total</b>	<b>239,604,948</b>	<b>2,290,312</b>	<b>(1,942,652)</b>	<b>239,952,608</b>
<b>Collective allowance for impairment</b>			<b>(5,889,819)</b>	<b>(5,889,819)</b>
<b>Balance</b>			<b>(7,832,471)</b>	<b>234,062,789</b>

### **Residual Maturity**

More than 77% of the assets are with a maturity of five years or less.

SAR '000s	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	No Fixed Maturity	Total
<b>Financing, net</b>	<b>28,402,101</b>	<b>49,609,393</b>	<b>121,411,325</b>	<b>34,639,970</b>	-	<b>234,062,789<sup>7</sup></b>
Corporate Mutajara	14,480,073	15,127,724	13,950,532	2,456,174	-	46,014,503
Installment sale	10,769,129	30,019,044	101,794,885	29,391,728	-	171,974,786
Murabaha	1,193,548	4,462,625	5,665,908	2,792,068	-	14,114,149
Credit cards	1,959,351	-	-	-	-	1,959,351

<sup>7</sup> Exclusive of Credit provisios.



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.

**Industry breakdown of impaired exposures**

Impaired exposures are mainly distributed between Retail Financing and the Corporate exposures from Commercial and Industrial segments.

SAR '000s	Impaired loans	Defaulted	Aging of Past Due Loans (days)				Specific allowances				General allowances
			Less than 90	90-180	180-360	Over 360	Balance at Dec-17	Charges during the period	Charge-offs during the period	Balance at the end of the period	
Government and quasi government	-	-	-	-	-	-	-	-	-	-	7,173
Banks and other financial institutions	-	-	-	-	-	-	-	-	-	-	5,418
Agriculture and fishing	-	-	-	-	-	-	-	-	-	-	7,611
Manufacturing	763,783	763,783	684,897	25,984	35,675	17,228	518,703	558,583	(381,174)	696,112	627,991
Mining and quarrying	-	-	-	-	-	-	-	-	-	-	3,359
Electricity, water, gas and health services	27,453	27,453	11,966	6,952	8,535	-	8,442	57,405	(65,847)	-	71,094
Building and construction	42,560	42,560	10,419	9,726	22,415	-	178,804	6,654	(103,047)	82,411	45,704
Commerce	631,236	631,236	230,351	289,788	101,073	10,024	255,377	1,419,294	(1,056,532)	618,139	393,007
Transportation and communication	37,569	37,569	847	35,580	1,143	-	14,761	5,807	(20,568)	-	488,335
Services	26,010	26,010	12,924	3,830	9,256	-	10,928	189,173	(124,516)	75,584	117,956
Consumer loans and credit cards	603,423	603,423	-	603,423	-	-	641,327	1,440,012	(1,610,939)	470,400	4,050,565
Others	158,278	158,278	-	158,278	-	-	-	5	-	5	71,606
<b>Total</b>	<b>2,290,312</b>	<b>2,290,312</b>	<b>951,404</b>	<b>1,133,560</b>	<b>178,096</b>	<b>27,252</b>	<b>1,628,342</b>	<b>3,676,933</b>	<b>(3,362,623)</b>	<b>1,942,652</b>	<b>5,889,819</b>

**Geographical distribution of impaired exposures**

Similar to the exposure levels, KSA constitutes more than 90% of the total impaired exposures.

SAR '000s	Impaired loans	Aging of Past Due Loans (days)				Specific allowances	General allowances
		Less than 90	90-180	180-360	Over 360		
Saudi Arabia	2,100,121	951,404	943,368	178,096	27,252	1,807,188	5,781,814
Other GCC & Middle East	129,522	-	129,522	-	-	120,296	31,232
South East Asia	60,670	-	60,670	-	-	15,167	76,773
<b>Total</b>	<b>2,290,312</b>	<b>951,404</b>	<b>1,133,560</b>	<b>178,096</b>	<b>27,252</b>	<b>1,942,652</b>	<b>5,889,819</b>



**g) Breakdown of restructured exposures between impaired and not impaired exposures.**

All restructured accounts are performing, totaling SAR 742MM accounting seven customers.



## **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, which is achieved through Risk Appetite thresholds, Target Market Criteria and Risk Acceptance Criteria

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.



### 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	220,470,593	13,179,147	10,244,978	413,050	313,108	-	-
2	Debt securities	40,673,102	-	-	-	-	-	-
3	<b>Total</b>	<b>261,143,695</b>	<b>13,179,147</b>	<b>10,244,978</b>	<b>413,050</b>	<b>313,108</b>	<b>-</b>	<b>-</b>
4	Of which defaulted	1,694,516	485,134	415,993	110,662	69,733	-	-

- No significant change over the last reporting period.

### 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.**

Moody's, 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).



## CR4: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

SAR '000s		a	b	c	d	e	f
		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	71,661,791	50	71,661,791	-	-	0%
2	Non-central government public sector entities	-	871	-	-	-	0%
3	Multilateral development Banks	776,594	-	776,594	-	-	0%
4	Banks	35,687,774	1,130,361	35,687,774	944,192	16,898,636	46%
5	Securities firms	-	-	-	-	-	0%
6	Corporates	65,267,611	11,393,279	64,606,584	3,851,846	65,421,500	96%
7	Regulatory retail portfolios	136,918,074	200,517	136,918,074	3,066	102,690,856	75%
8	Secured by residential property	33,355,666	-	33,355,666	-	16,677,833	50%
9	Secured by commercial real estate	3,952,750	-	3,952,750	-	3,952,750	100%
10	Equity	2,385,747	-	2,385,747	-	2,385,747	100%
11	Past-due loans	2,203,135	87,177	1,438,722	11,841	2,019,476	139%
12	Higher-risk categories	-	-	-	-	-	0%
13	Other assets	20,655,506	-	20,655,506	-	12,262,316	59%
14	<b>Total</b>	<b>372,864,648</b>	<b>12,812,255</b>	<b>371,439,206</b>	<b>4,810,945</b>	<b>222,309,112</b>	<b>59%</b>

- No significant change over the last reporting period.

## 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	71,661,791								-	71,661,791
2	Non-central government public sector entities (PSEs)									-	-
3	Multilateral development Banks (MDBs)	776,594								-	776,594
4	Banks			5,077,815		31,373,590		149,885	30,675	-	36,631,965
5	Securities firms									-	-
6	Corporates			1,211,613		4,134,331		63,112,486		-	68,458,430
7	Regulatory retail portfolios						136,921,140			-	136,921,140
8	Secured by residential property					33,355,666	-			-	33,355,666
9	Secured by commercial real estate							3,952,750		-	3,952,750
10	Equity							2,385,747		-	2,385,747
11	Past-due loans							312,736	1,137,826	-	1,450,562
12	Higher-risk categories									-	-
13	Other assets	8,133,635		324,444				12,197,427		-	20,655,506
14	<b>Total</b>	<b>80,572,020</b>	<b>-</b>	<b>6,613,872</b>	<b>-</b>	<b>68,862,765</b>	<b>136,921,140</b>	<b>82,110,289</b>	<b>1,168,501</b>	<b>-</b>	<b>376,250,151</b>

- No significant change over the last reporting period.

### Not Applicable Reports:

**CRE, CR6, CR7, CR8, CR9, CR10**



## 8. Counterparty Credit Risk

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**Not Applicable Reports:**

**CCRA, CCR1, CCR2, CCR3, CCR4, CCR5, CCR6, CCR7, CCR8**



## 9. Securitisation

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**Not Applicable Reports:**

**SECA, SEC1, SEC2, SEC3, SEC4**



## 10. Market Risk

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### **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, ARB does not face any major “Market Risk” except for Profit Rate Risk in Banking Book (PRRBB) under Pillar II. Although, as per the scope of “Market Risk” as defined by BCBS, the Bank is also exposed to Foreign Exchange risk but this is only in a limited way. All Foreign exchange exposures are taken by the Bank for client purposes and therefore there are no trading/proprietary positions. Besides, for these client oriented foreign exchange positions very limited overnight position limits are given which results in insignificant foreign exchange risk for the Bank. The major foreign exchange position for the Bank originates from USD which again is a pegged currency, therefore, the risk is minimal.

For the measurement of PRRBB risk, Bank has developed a separate model in line with BCBS 368, which was approved by SAMA. The computation of PRRBB is now automated and the resultant PRRBB capital charge is provided accordingly under Pillar 2 Risks. PRRBB arises on account of mismatches in maturity / re-pricing profile of assets and liabilities. It refers to the risk of changes in market value of assets and liabilities in the Banking book due to changes in the profit rate term structure.

- b) Structure and organization 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 MRB is not applicable**



## MR1: Market risk under standardised approach

SAR '000s		a
		RWA
	<b>Outright products</b>	4,102,847
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	4,102,847
4	Commodity risk	-
	<b>Options</b>	-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	<b>Total</b>	4,102,847

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

## Not Applicable Reports: MR2, MR3, MR4



## 11. Operational Risk Qualitative Disclosure

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### 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 Framework encompasses, Risk & Control Self-Assessment, Key Risk Indicators, Incident reports, Operational Risk loss data, Anti-Fraud Monitoring & Management, Information Technology Risk and Business Continuity & Disaster Recovery Plan. The Group Operational Risk Committee oversees the implementation of the Operational Risk Framework and reports to the Risk Management Committee.

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.

- 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.



## 12. Profit Rate Risk in the Banking Book

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### 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.**

Profit Rate Risk in Banking Book (PRRBB) is defined as the process of managing risks that arises due to mismatches (of cash-flow/ re-pricing) 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 has instituted Economic Value of Equity (EVE) and Net Interest Income (NII) related measures for PRRBB management as required by BCBS 368 guidelines, along with associated Board approved limits for active monitoring.

As at December 31, 2018, the Bank has undertaken the PRRBB analysis at Group level. As part of PRRBB enhancements, data quality changes were undertaken to ensure appropriate reflection of customer segments, maturities and benchmark fixes for the asset book. The Bank has also now automated the PRRBB reports.

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

There is monthly monitoring of EVE and NII through GALCO in relation with established limits: As mentioned above in the response of point (a)

Hedging practices: Currently the Bank does not have specific products to hedge the Interest rate risk on its Banking Book. Wherever possible conscious attempts are being made to create natural hedge by matching the maturities/re-pricing of rate sensitive assets and liabilities. However, the Bank is working on products to hedge its interest rate risk.

Conduct of Stress Testing: The Bank currently conducts stress tests for Net Interest Income (NII) variation, by assessing the impact of interest rate shifts on Bank's earnings. In addition, EVE Stress Tests as required by the BCBS 368 guidelines are also conducted for the six shock scenarios.

Outcomes analysis: NII related stress tests based on the Bank's current gap profile is utilized to assess impact on Net Income up to 1 year. It helps us to measure variations in NII if it remains within the stipulated approved Risk Appetite. In addition, the Bank has a similar process to ensure that the outcome of EVE related stress tests remains within the targeted Risk Appetite threshold through active Balance Sheet management. These EVE/NII thresholds are revised as part of yearly Risk Appetite review process given the forward looking business strategy of the Bank.

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 review the market activities and ensure that effective decisions are taken and implemented in a timely way
- Ensures that adequate stress Testing is undertaken with respect to PRRBB and that a set of key management actions that would be progressively taken in advance of such event and/or during any deterioration in economic environment on a timely basis.

The Bank's practices to ensure appropriate model validation: The Bank had formulated the PRRBB models as per the Basel and SAMA guidelines. The NMD model was developed internally and was subsequently subjected to validation by an independent consultant whose review feedback was taken in to consideration and will also be considered for any major model improvements going forward, if any.

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 Board approved risk thresholds which are 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 undertakes its PRRBB measurement on a monthly basis through measurement of specific parameters like EVE and NII sensitivity analysis.

**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  $\Delta$ EVE (six regulatory shock scenarios) and  $\Delta$ NII (two regulatory shock scenarios) computation.

**e) Where significant modeling 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 modeling 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).**

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 has aligned the ICAAP and PRRBB computation as per BCBS 368 guidance.

- Assumptions considered for computation of  $\Delta$ EVE and  $\Delta$ NII provided in Table B.
- Current portfolio distribution (amount wise) considered to arrive at the Weighted Average Lending Rate (WALR) for each portfolio.



- Conditional Prepayment Rate (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 21-month historical data. The Bank endeavors to enrich the available data to generate long term history of data for improved Conditional Prepayment Rate (CPR) numbers as we move forward.
- Credit/ Charge card are exempted from the prepayment behavioral modeling 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 modeling and parametric assumptions used in calculating  $\Delta$  EVE and  $\Delta$  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 re-pricing maturity of non-maturity deposits<sup>8</sup> in (1) has been determined (including any unique product characteristics that affect assessment of re-pricing 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

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<sup>8</sup> The average re-pricing maturity/longest re-pricing maturity of these NMD's would be subject to change as per model review changes, if any (refer para IV.1.2 above).



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.

**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 re-pricing 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  $\Delta EVE$  and  $\Delta NII$ . The Bank will compute Add-on factor for Less Amenable category when it will start dealing in such products.

**Quantitative disclosures**

**i) Average re-pricing maturity assigned to NMDs**

Currently, the Bank has developed a behavioral model for Non Maturing Deposit (NMD) 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 reporting of 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 re-pricing maturity.

Average re-pricing maturity	
Wholesale portfolio	0.77
Retail portfolio	2.70
Overall Portfolio	1.86

**j) Longest re-pricing 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	EVE		NII	
	Dec-18	Dec-17	Dec-18	Dec-17
Parallel up	1,639,605	456,380	644,152	720,632
Parallel down	-1,531,933	-555,562	-644,152	-720,632
Steepener	353,412	504,887		
Flattener	99,814	-479,298		
Short rate up	799,787	138,780		
Short rate down	-374,942	-76,879		
<b>Maximum</b>	<b>1,639,605</b>	<b>504,887</b>	<b>644,152</b>	<b>720,632</b>
Period	Dec-18		Dec-17	
Tier 1 Capital	<b>48,554,019</b>		<b>55,750,918</b>	