Pillar III Disclosures

Al Rajhi Bank

December 31, 2019

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. Leverage Ratio	LR1	Summary comparison of accounting assets vs leverage ratio exposure	Yes
	LR2	Leverage ratio common disclosure template	Yes
5. Liquidity	LIQA	Liquidity risk management	Yes
	LIQ1	Liquidity Coverage Ratio	Yes
	LIQ2	Net Stable Funding Ratio	Yes
6. 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	
	CR4	Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects	
	CR5	Standardised approach – exposures by asset classes and risk weights	
	CRE	Qualitative disclosures related to IRB models	No
	CR6	IRB - Credit risk exposures by portfolio and PD range	
	CR7	IRB – Effect on RWA of credit derivatives used as CRM techniques	
	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)	
7. Counterparty Credit Risk	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	
8. Securitisation	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	
	SEC4	Securitisation exposures in the Banking book and associated capital requirements – Bank acting as investor	
9. Market Risk	MRA	Qualitative disclosure requirements related to market risk	Yes
	MRB	Qualitative disclosures for Banks using the Internal Models Approach (IMA)	No
	MR1	Market risk under standardised approach	Yes
	MR2	RWA flow statements of market risk exposures under an IMA	No
	MR3	IMA values for trading portfolios	
	MR4	Comparison of VaR estimates with gains/losses	
10. Operational Risk Qualitative Disclosure		Operational Risk Qualitative disclosure	Yes
11. Profit Rate Risk in the Banking Book		Quantitative /Qualitative disclosure	Yes

1. Overview of Risk Management and RWA

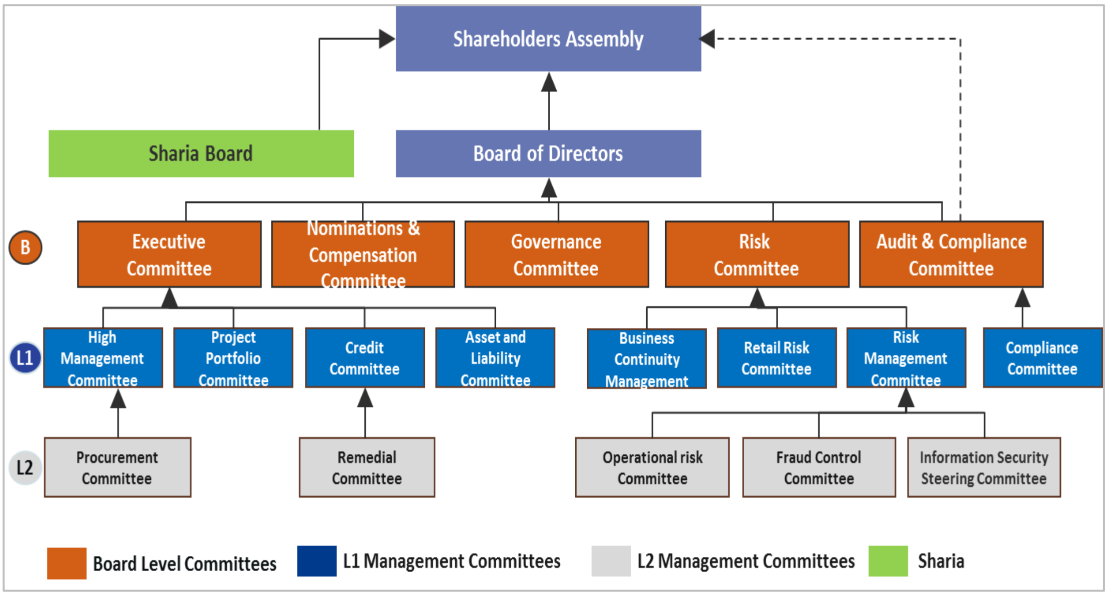
OVA: Bank risk management approach

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

	a	b	c
	RWA		Minimum capital requirements
SAR '000s	Dec-19	Sep-19	Dec-19
Credit risk (excluding counterparty credit risk) (CCR)	234,299,968	230,543,998	18,743,997
Of which standardised approach (SA)	234,299,968	230,543,998	18,743,997
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	7,236,637	7,827,894	578,931
Of which standardised approach (SA)	7,236,637	7,827,894	578,931
Of which internal model approaches (IMM)	-	-	-
Operational risk	30,784,119	28,094,351	2,462,730
Of which Basic Indicator Approach	-	-	-
Of which Standardised Approach	30,784,119	28,094,351	2,462,730
Of which Advanced Measurement Approach	-	-	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
Floor adjustment	-	-	-
Total (1+4+7+8+9+10+11+12+16+19+23+24)	**272,320,724**	**266,466,243**	**21,785,658**

- Credit RWAs slightly increased due to increase in Corporate 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.
- Operational risk increased by 9.57% due to increase in gross income

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

	SAR '000s	a Dec-19	b Sep-19	c Jun-19	d Mar-19	e Dec-18
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	51,191,657	49,180,839	50,139,702	51,260,014	48,554,020
1a	Fully loaded ECL accounting model	-	-	-	-	-
2	Tier 1	51,191,657	49,180,839	50,139,702	51,260,014	48,554,020
2a	Fully loaded accounting model Tier 1	51,191,657	49,180,839	50,139,702	51,260,014	48,554,020
3	Total capital	54,120,407	52,062,639	52,957,036	54,086,747	51,332,884
3a	Fully loaded ECL accounting model total capital	54,120,407	52,062,639	52,957,036	54,086,747	51,332,884
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	272,320,724	266,466,243	257,789,772	259,355,581	254,506,310
4a	Total risk-weighted assets (pre-floor)	272,320,724	266,466,243	257,789,772	259,355,581	254,506,310
	Risk-based capital ratios as **a** percentage of RWA					
5	Common Equity Tier 1 ratio (%)	18.80%	18.46%	19.45%	19.76	19.08%
5a	Fully loaded ECL accounting model CET1 (%)	0.00%	0.00%	0.00%	0.00%	0.00%
6	Tier 1 ratio (%)	18.80%	18.46%	19.45%	19.76%	19.08%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	18.80%	18.46%	19.45%	19.76%	19.08%
7	Total capital ratio (%)	19.87%	19.54%	20.54%	20.85%	20.17%
7a	Fully loaded ECL accounting model total capital ratio (%)	19.87%	19.54%	20.54%	20.85%	20.17%
	Additional CET1 buffer requirements as a percentage of RWA					
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 (%)	10.80%	10.46%	11.45%	11.76%	11.08%
	Basel III Leverage Ratio					
13	Total Basel III leverage ratio measure	391,128,442	381,696,738	383,290,676	377,927,998	377,675,579
14	Basel III leverage ratio (%) (row 2/row 13)	12.85%	12.88%	13.08%	13.56%	12.9%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	12.85%	12.88%	13.08%	13.56%	12.9%
14b	Basel III leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	12.85%	12.88%	13.08%	13.56%	12.86%
	Liquidity Coverage Ratio[1]					
15	Total HQLA	70,812,443	70,742,460	73,462,009	72,216,087	69,421,856
16	Total net cash outflow	40,469,707	40,476,398	42,794,812	39,521,810	35,335,318
17	LCR ratio (%)	175%	175%	172%	183%	196%
	Net Stable Funding Ratio					
18	Total available stable funding	304,921,867	293,134,467	292,898,709	288,889,269	281,442,784
19	Total required stable funding[2]	231,181,461	224,311,588	216,589,131	213,453,516	211,272,724
20	NSFR ratio (%)	132%	131%	135%	135%	133%

- Decrease in CET1 ratio December 2019 due to increase in overall RWA.
- Decrease in LCR due to increase in net cash outflow primarily from corporate book.

[1] LCR computed as Quarterly Average.
[2] 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 of items:				
SAR '000s	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	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	39,294,099	78,460,893	78,460,893	-	-	-	-
Due From Banks	32,058,182	33,795,511	33,795,511	-	-	-	-
Financing , net	249,682,805	260,947,484	260,947,484	-	-	-	-
Investments, net	46,842,630	3,099,542	3,099,542	-	-	-	-
Investment properties, net	1,383,849	-	-	-	-	-	-
Fixed assets, net	10,407,247	10,407,247	10,407,247	-	-	-	-
Other assets, net	4,417,764	4,417,764	4,417,764	-	-	-	-
Total assets	384,086,576	391,128,442	391,128,442	-	-	-	-
Liabilities							
Customer deposits	312,405,823	-	-	-	-	-	-
Due to Banks	2,219,604	-	-	-	-	-	-
Other liabilities	18,269,492	-	-	-	-	-	-
Total liabilities	**332,894,919**	-	-	-	-	-	-
Shareholder's Equity							
Share capital	25,000,000	-	-	-	-	-	-
Statutory reserve	21,789,632	-	-	-	-	-	-
Other reserves	(216,041)	-	-	-	-	-	-
Retained earnings	868,066	-	-	-	-	-	-
Proposed gross dividend	3,750,000	-	-	-	-	-	-
Total Shareholder's Equity	**51,191,657**	-	-	-	-	-	-
Total Liabilities + Shares	**384,086,576**	-	-	-	-	-	-

- 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

	SAR '000s	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	391,128,442	391,128,442	-	-	7,236,637
2	Liabilities + Shares carrying value amount under	-	-	-	-	-
3	Total net amount under regulatory scope of	391,128,442	391,128,442	-	-	7,236,637
4	Off-balance sheet amounts	17,825,198	-	-	-	-
5	Differences in valuations	-	-	-	-	-
6	Differences due to different netting rules, other than	-	-	-	-	-
7	Differences due to consideration of provisions	7,019,596	7,019,596	-	-	-
8	Market risk on Foreign exchange	-	-	-	-	-
9	**Exposure amounts considered for regulatory purposes**	**391,128,442**		-	-	

- 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 portfolios 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
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	25,000,000
2	Retained earnings	868,066
3	Accumulated other comprehensive income (and other reserves)	25,323,591
4	Common Equity Tier 1 capital before regulatory deductions	51,191,657
	Common Equity Tier 1 capital regulatory adjustments	
5	**Total regulatory adjustments to Common Equity Tier 1**	-
6	**Common Equity Tier 1 capital (CET1)**	51,191,657
	Additional Tier 1 capital: instruments	
7	Additional Tier 1 capital before regulatory adjustments	-
	Additional Tier 1 capital: regulatory adjustments	
8	**Additional Tier 1 capital (AT1)**	-
9	**Tier 1 capital (T1= CET1 + AT1)**	**51,191,657**
	Tier 2 capital: instruments and provisions	
10	Provisions	2,928,750
11	Tier 2 capital before regulatory adjustments	2,928,750
	Tier 2 capital: regulatory adjustments	
12	**Total regulatory adjustments to Tier 2 capital**	-
13	**Tier 2 capital (T2)**	2,928,750
14	**Total regulatory capital (TC = T1 + T2)**	54,120,407
15	**Total risk-weighted assets**	272,320,724
	Capital ratios and buffers	
16	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	18.80%
17	**Tier 1 (as a percentage of risk-weighted assets)**	18.80%
18	**Total capital (as a percentage of risk-weighted assets)**	19.87%
19	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher**	3.00%
20	**Of which: capital conservation buffer requirement**	2.50%
21	**Of which: bank-specific countercyclical buffer requirement**	0.00%
22	**Of which: G-SIB D-SIB buffer**	0.50%
23	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital**	10.80%
	National minima (if different from Basel III)	
24	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	-
25	National Tier 1 minimum ratio (if different from Basel III minimum)	-
26	National total capital minimum (if different from Basel III minimum)	-
	Amounts below the thresholds for deduction (before risk weighting)	
27	Non-significant investments in the capital and other TLAC liabilities of other financial entities	-
28	Significant investments in common stock of financial entities	-
29	Mortgage servicing rights (net of related tax liability)	-
30	Deferred tax assets arising from temporary differences (net of related tax liability)	-
	Applicable caps on the inclusion of provisions in Tier 2	
31	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of	2,928,750

CC2: Reconciliation of regulatory capital to balance sheet

	a	b
	Balance sheet as in published financial statements	Under regulatory scope of consolidation
SAR '000s	Dec-19	Dec-19
Assets		
Cash and balances at central banks	39,294,099	78,460,893
Items in the course of collection from other banks	32,058,182	33,795,511
Loans and advances to customers	249,682,805	260,947,484
Available for sale financial investments	46,842,630	3,099,542
investment properties	-	-
Property, plant and equipment	10,407,247	10,407,247
Other Assets	4,417,764	4,417,764
Total assets	384,086,576	391,128,442
Liabilities		
Deposits from banks	2,219,604	-
Customer accounts	312,405,823	-
Other liabilities	18,269,492	-
Total liabilities	332,894,918	-
Shareholders' equity		
Paid-in share capital	25,000,000	25,000,000
Statutory Reserve	21,789,632	21,789,632
Other Reserve	(216,041)	(216,041)
Retained earnings	868,066	868,066
Proposed gross Dividends	3,750,000	3,750,000
Total shareholders' equity	51,191,657	51,191,657

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

	Quantitative / qualitative information
1 Issuer	AlRajhi Bank
2 Unique identifier (e.g CUSPIN, ISIN or Bloomberg identifier for private placement)	RJHI.AB
3 Governing law(s) of the instrument	The instrument is governed by the laws of the Kingdom of Saudi Arabia
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)	Not Applicable
4 Transitional Basel III rules	Not Applicable
5 Post-transitional Basel III rules	Not Applicable
6 Eligible at solo/group/group and solo	Not Applicable
7 Instrument type	Not Applicable
8 Amount recognized in regulatory capital (Currency in mil, as of most recent reporting	Not Applicable
9 Par value of instrument	Not Applicable
10 Accounting classification	Not Applicable
11 Original date of issuance	Not Applicable
12 Original date of issuance	Not Applicable
13 Original maturity date	Not Applicable
14 Option call date, contingent call dates and redemption amount	Not Applicable
15 Subsequent call dates if applicable	Not Applicable
16 Fixed or Floating dividend/coupon	Not Applicable
17 Coupon rate and any related index	Not Applicable
18 Existence of a dividend stopper	Not Applicable

4. 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	384,086,576
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)	7,165,090
7	Other adjustments[3]	7,041,866
8	**Leverage ratio exposure**	398,293,532

LR2: Leverage ratio common disclosure template

TABLE 2: LEVERAGE DISCLOSURE		
#	Item	SAR '000s
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	391,128,442
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)	391,128,442
	Derivative Exposures	
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)	-
	Securities financing transaction exposures	
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)	-
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	17,839,210
18	(Adjustments for conversion to credit equivalent amounts)	(10,674,120)
19	Off-balance sheet items (sum of lines 17 and 18)	7,165,090
	Capital and total exposures	
20	Tier 1 capital	51,191,657
21	Total exposures (sum of lines 3, 11, 16 and 19)	398,293,532
	Leverage ratio	
22	**Basel III leverage ratio**	**12.85%**

[3] Other adjustments are due to consideration of credit provisions and other provisions.

5. Liquidity

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
Assets						
Cash and balance with SAMA and	10,855,000	-	-	-	28,439,099	39,294,099
Due from banks and other financial	11,494,160	6,575,839	13,988,183	-	-	32,058,182
Financing, net						
Corporate Mutajara	13,875,181	11,750,437	12,908,065	3,043,561	-	41,577,244
Installment sale	12,151,486	29,194,865	97,755,730	48,621,920	-	187,724,001
Murabaha	3,771,541	4,221,613	3,878,893	5,356,019	-	17,228,066
Credit cards	1,447,050	731,273	975,171	-	-	3,153,494
Investments						
Investment in an associate	-	-	-	-	196,235	196,235
Investments held at amortized cost	2,566,987	-	16,089,945	24,286,155	-	42,943,087
Investments held as FVSI	-	-	800,000	-	1,230,711	2,030,711
FVOCI investments	-	-	-	-	1,672,597	1,672,597
Other assets, net	-	-	-	-	16,208,860	16,208,860
Total	56,161,405	52,474,027	146,395,987	81,307,655	47,747,502	384,086,576
Liabilities						
Due to banks and other financial	1,885,035	-	-	-	334,569	2,219,604
Demand deposits	-	-	-	-	284,299,851	284,299,851
Customers' time investments	17,095,711	4,578,41	450,331	1,773	-	22,126,226
Other customer accounts	1,569,561	2,072,232	2,337,953	-	-	5,979,746
Other liabilities	-	-	-	-	18,269,492	18,269,492
Total Liabilities	20,550,307	6,650,643	2,788,284	1,773	302,903,912	332,894,919
On Balance sheet Gap	35,611,098	45,823,384	143,607,703	81,305,882	(255,156,410)	51,191,657

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	474,436	327,843	88,663	-	890,942
Acceptances	219,370	105,592	-	-	324,962
Letters of guarantee	1,178,236	2,985,474	765,867	43,623	4,973,200
Irrevocable commitments to	4,148,570	7,339,501	103,595	44,428	11,636,094
Total	6,020,612	10,758,410	958,125	88,051	17,825,198

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	2,219,604
Demand deposits	284,299,851
Customers' time investments	22,126,226
Other customer accounts	5,979,746

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 the 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)
HIGH-QUALITY LIQUID ASSETS			
1	Total high-quality liquid assets (HQLA)	-	**70,812,443**
CASH OUTFLOWS			
2	**Retail deposits and deposits from small business customer, of which:**	228,591,924	22,851,852
3	Stable deposits	-	-
4	Less stable deposits	228,591,924	22,851,852
5	**Unsecured wholesale funding, of which:**	74,509,138	29,878,517
6	Operational deposits (all counterparties)	-	-
7	Non-Operational deposits (all counterparties)	74,509,138	29,878,517
8	Unsecured debt	-	-
9	**Secured wholesale funding**	-	-
10	**Additional requirements, of which:**	10,331,818	1,024,652
11	Outflows related to derivative exposures and other collateral	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	10,331,818	1,024,652
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	6,185,427	123,709
16	**TOTAL CASH OUTFLOWS**	-	53,878,730
CASH INFLOWS			
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	22,061,012	13,409,023
19	Other cash inflows	-	-
20	**TOTAL CASH INFLOWS**	22,061,012	13,409,023
TOTAL ADJUSTED VALUE			
21	**TOTAL HQLA**	-	**70,812,443**
22	**TOTAL NET CASH OUTFLOWS**	-	**40,469,707**
23	**LIQUIDITY COVERAGE RATIO (%)**	-	**175%**

- Data is presented as simple daily average of the fourth quarter of 2019. Some assumptions are revised as per latest directives.
- Saudi Arabian Monetary Agency requires banks to maintain minimum LCR of 100% in 2019.
- 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				
		No Maturity	< 6 Months	6 months to < 1 year	> 1 year	Weighted Value
	ASF Item					
1	Capital:	54,120,657	-	-	-	54,120,657
2	*Regulatory capital*	54,120,657	-	-	-	54,120,657
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and deposits from small business	239,674,180	1,376,622	1,028,394	749,697	218,620,974
5	*Stable deposits*	-	-	-	-	-
6	*Less stable deposits*	239,674,180	1,376,622	1,028,394	749,697	218,620,974
7	Wholesale funding:	53,437,329	8,830,202	2,092,942	-	32,180,236
8	*Operational deposits*	-	-	-	-	-
9	*Other wholesale funding*	53,437,329	8,830,202	2,092,942	-	32,180,236
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	-	-	-	22,776,553	-
12	*NSFR derivative liabilities*	-	-	-	-	-
13	*All other liabilities and equity not included in the above*	-	-	-	22,776,553	-
14	Total ASF	347,232,166	10,206,824	3,121,336	23,526,250	304,921,867
	RSF Item					
15	Total NSFR high-quality liquid assets (HQLA)	29,264,436	13,353,864	-	35,388,163	1,894,351
16	Deposits held at other financial institutions for	774,500	-	-	0	387,250
17	Performing loans and securities:	-	42,995,521	48,065,486	181,248,195	194,587,048
18	*Performing loans to financial institutions secured by*	-	-	-	-	-
19	*Performing loans to financial institutions secured by*	-	12,735,601	5,708,879	-	4,764,780
20	*Performing loans to non-financial corporate clients,*	-	30,259,920	42,356,607	175,467,673	184,908,824
21	*With a risk weight of less than or equal to 35%*	-	-	-	-	-
22	*Performing residential mortgages, of which:*	-	-	-	-	-
23	*With a risk weight of less than or equal to 35%*	-	-	-	-	-
24	*Securities that are not in default and do not qualify*	-	-	-	5,780,522	4,913,444
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	8,282,621	-	-	24,713,791	32,996,412
27	*Physical traded commodities, including gold*	-	-	-	-	-
28	*Assets posted as initial margin for derivative*	-	-	-	-	-
29	*NSFR derivative assets*	-	-	-	-	-
30	*NSFR derivative liabilities before deduction of*	-	-	-	-	-
31	*All other assets not included in the above categories*	8,282,621	-	-	24,713,791	32,996,412
32	Off-balance sheet items	-	-	-		491,064
33	Total RSF	38,321,557	56,349,385	63,823,100	241,350,149	230,356,125
34	Net Stable Funding Ratio (%)	-	-	-	-	132%

- The Automation of Pillar III disclosure reports have improved the bucketing of asset/liability exposures as compared to previous years.
- As at 31 December 2019, the Bank held a balance of 14.09% 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 63.22% in retail deposits, with a 90% ASF factor, and a 16.76% composition of wholesale funding with 50% ASF factor.
- The Required Stable Funding (RSF) as at 31 December 2019 primarily consisted of loans and securities, which constituted 70.90% of total un-weighted balance of total RSF, with varying risk factor. HQLA securities constituted 20.30% of total un-weighted RSF with 4.1% risk factor. Off-balance sheet contributed to 7% of the total un-weighted RSF.

6. Credit Risk

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	2,316,793	254,385,608	7,019,596	249,682,805
2	Debt Securities	-	46,842,630	-	46,842,630
3	Off-balance sheet exposures	-	17,825,198	-	17,825,198
4	Total	2,316,793	319,053,436	7,019,596	314,350,633

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 2019	2,099,910
2	Loans and debt securities that have defaulted since the last reporting period	2,401,287
3	Returned to non-defaulted status	-109,783
4	Amounts written off	-2,265,206
5	Other changes	190,586
6	Defaulted loans and debt securities at end of December 2019	2,316,793

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

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 releasing 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[4]

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

<u>**Geographical Area**</u>
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							
Corporate Mutajara	39,952,031	1,104,910	520,303	-	-	-	41,577,244
Installment sale	183,365,159	3,035,239	-	-	1,323,603	-	187,724,001
Murabaha	11,574,137	2,131,177	-	-	3,522,752	-	17,228,066
Credit cards	3,146,433	7,061	-	-	-	-	3,153,494

[4] Carrying values under scope of regulatory consolidation

Industry

About 75.60% of the total exposure is classified under Retail Loans. Within Retail Portfolio, Watani is the largest. The Corporate largest sectors are Industrial and Commercial.

SAR '000s	Performing	Non-Performing	Allowance for impairment	Net financing
Commercial	19,661,771	590,056	(424,883)	19,826,944
Industrial	26,775,778	375,395	(283,941)	26,867,232
Building and construction	2,031,147	573,757	(401,434)	2,203,470
Consumer	192,926,177	674,114	(532,585)	193,067,706
Services	12,336,880	103,471	(70,882)	12,369,469
Agriculture and fishing	340,974	-	-	340,974
Others	312,881	-	-	312,881
Total	254,385,608	2,316,793	(1,713,725)	254,988,676
Collective allowance for impairment	-	-	(5,305,871)	(5,305,871)
Balance	254,385,608	2,316,793	(7,019,596)	249,682,805

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
Financing, net						
Corporate Mutajara	13,875,181	11,750,437	12,908,065	3,043,561	-	41,577,244
Installment sale	12,151,486	29,194,865	97,755,730	48,621,920	-	187,724,001
Murabaha	3,771,541	4,221,613	3,878,893	5,356,019	-	17,228,066
Credit cards	1,447,050	731,273	975,171	-	-	3,153,494

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 Building and Construction segments.

SAR '000s	Performing	Non-Performing	Allowance for impairment	Net financing
Commercial	19,661,771	590,056	(424,883)	19,826,944
Industrial	26,775,778	375,395	(283,941)	26,867,232
Building and construction	2,031,147	573,757	(401,434)	2,203,470
Consumer	192,926,177	674,114	(532,585)	193,067,706
Services	12,336,880	103,471	(70,882)	12,369,469
Agriculture and fishing	340,974	-	-	340,974
Others	312,881	-	-	312,881
Total	254,385,608	2,316,793	(1,713,725)	254,988,676
12 month and life time ECL not credit impaired	-	-	(5,305,871)	(5,305,871)
Balance	**254,385,608**	**2,316,793**	**(7,019,596)**	**249,682,805**

Geographical distribution of impaired exposures

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

(SAR'000)

SAR '000s	Kingdom of Saudi Arabia	GCC and Middle East	South East of Asia	Total
Non-performing				
Mutajara	1,642,684	5,420	38,970	1,687,074
Installment sale	538,829	24,736	18,412	581,977
Murabaha	-	-	-	-
Credit cards	47,742	-	-	47,742
Allowance for impairment of financing	-	-	-	-
Mutajara	(1,285,340)	(1,088)	(19,427)	(1,305,855)
Installment sale	(522,160)	(7,734)	(497)	(530,391)
Murabaha	(144,794)	-	(10,751)	(155,545)
Credit cards	(9,083)	-	(287)	(9,370)

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

Restructured accounts are totaling SAR 3.4BN constituting of 65 customers, which reflect 1.3% of total gross financing.

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 Exposures unsecured: carrying amount	b Exposures secured by collateral	c Exposures secured by collateral, of which: secured amount	d Exposures secured by financial guarantees	e Exposures secured by financial guarantees, of which: secured amount	f Exposures secured by credit derivatives	g Exposures secured by credit derivatives, of which: secured amount
1	Loans	253,166,424	3,123,041	1,468,188	412,936	275,690	-	-
2	Debt securities	46,842,630	-	-	-	-	-	-
3	Total	300,009,054	3,123,041	1,468,188	412,936	275,690	-	-
4	Of which defaulted	1,854,247	443,361	31,424	19,185	1,024	-	-

- 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		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance	Off-balance	On-balance	Off-balance	RWA	RWA density
1	Sovereigns and their central Banks	70,662,856	45	70,662,856	-	-	-
2	Non-central government public	-	748	-	-	-	-
3	Multilateral development Banks	802,828	-	802,828	-	-	-
4	Banks	33,795,511	1,508,506	33,795,511	1,092,072	16,682,840	48%
5	Securities firms	-	-	-	-	-	-
6	Corporates	69,548,797	16,011,929	69,234,087	5,982,327	68,692,810	91%
7	Regulatory retail portfolios	133,948,551	275,316	133,933,314	1,066	100,450,785	75%
8	Secured by residential property	-	-	-	-	-	-
9	Secured by commercial real estate	-	-	-	-	-	-
10	Equity	-	-	-	-	-	-
11	Past-due loans	2,316,793	-	1,399,176	89,625	1,857,212	125%
12	Higher-risk categories	-	-	-	-	-	-
13	Other assets	23,630,578	-	23,630,578	-	15,911,935	67%
14	*Total*	391,128,442	17,837,737*	389,875,347	7,165,090	234,299,968	59%

*Including derivatives.

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%	Other	Total credit
1	Sovereigns and their central	70,662,8	-	-	-	-	-	-	-	-	70,662,856
2	Non-central government	-	-	-	-	-	-	-	-	-	-
3	Multilateral development	802,828	-	-	-	-	-	-	-	-	802,828
4	Banks	-	-	2,941,17	-	30,612,48	-	241,353	500	-	33,795,511
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	4,742,32	-	2,640,129	-	61,851,634	-	-	69,234,087
7	Regulatory retail portfolios	-	-	-	-	-	133,933,31		-	-	133,933,314
8	Secured by residential	-	-	-	-	-	-	1,892,230	-	-	1,892,230
9	Secured by commercial real	-	-	-	-	-	-		-	-	-
10	Equity	-	-	-	-	-	-	3,099,542	-	-	3,099,542
11	Past-due loans	-	-	-	-	-	-	662,353	736,824	-	1,399,176
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other assets	7,404,27	-	392,958	-	-	-	15,833,344	-	-	23,630,578
14	*Total*	78,869,96	-	8,076,453	-	84,677,842	133,933,314	83,580,455	737,323	-	389,875,347

** On-Balance Sheet Credit Risk Exposure.

Not Applicable Reports:

CRE, CR6, CR7, CR8, CR9, CR10

7. Counterparty Credit Risk

Not Applicable Reports:

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

8. Securitisation

Not Applicable Reports:

SECA, SEC1, SEC2, SEC3, SEC4

9. Market Risk

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
	Outright products	
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	7,236,637
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	**Total**	7,236,637

- 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

10. Operational Risk Qualitative Disclosure

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.

11. Profit Rate Risk in the Banking Book

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. The bank has also 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 of the PRRBB.
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 profit 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 ensuring 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. With the improvement in banking systems, now we intend to monitor this on a more frequent basis.

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 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 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.

• 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 ∆ 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 re-pricing maturity of non-maturity deposits 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 10% in overnight bucket. Correspondingly the remaining 90% 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.

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.**

The increase in Δ EVE figure as compared to last year is on account of new asset bookings with longer maturities on Fixed rate basis. As against this the current market conditions does not provide opportunities to fund these asset growths through similar long dated liabilities. Hence, the increase in Δ EVE. 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 ΔEVE and ΔNII. 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 90% of total retail NMDs with longest maturity capped at 5 years i.e. 10% non-core NMDs have been slotted in overnight time maturity bucket.
- Wholesale Portfolio – 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 NMDs.

Table B

SAR '000s	EVE		NII	
Period	**Dec-19**	**Dec-18**	**Dec-19**	**Dec-18**
Parallel up	2,730,329	1,639,605	769,778	644,152
Parallel down	-3,602,170	-1,531,933	-769,778	-644,152
Steepener	1,669,931	353,412	-	-
Flattener	-1,310,082	99,814	-	-
Short rate up	82,000	799,787	-	-
Short rate down	-274,671	-374,942	-	-
Maximum	2,730,329	**1,639,605**	**769,778**	**720,632**
Period	**Dec-19**		**Dec-18**	
Tier 1 Capital	**51,191,657**		**48,305,866**	