مصرف الإنماء
alinma bank

ALINMA BANK

(A Saudi Joint Stock Company)

BASEL III Pillar 3 Disclosures

For the Financial Year ended December 31, 2017

alinma bank

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B.1 Table OVA: Risk Management Approach

Business Model

Alinma Bank (the Bank), a Saudi Joint Stock Company, with over SAR 20.6 billion in equity as of December 31, 2017, is a Sharia' Compliant Bank providing banking services through 85 branches in the Kingdom of Saudi Arabia. The Bank's activities are organized along four lines of business: Retail, Corporate (includes Commercial segment and SME), Treasury and Investment/Brokerage. The Bank also offers investment, asset management, insurance related products/services and retail remittance business through the following subsidiaries and associates:

- Alinma Investment Company, a fully owned subsidiary, is capitalized at SAR 250 million;
- Al-Tanweer Real Estate Company, a fully owned subsidiary, is capitalized at SAR 100,000. Its main purpose is to facilitate Alinma's mortgage financing and commercial financing backed by real estate collateral;
- Alinma Cooperative Insurance Agency, a fully owned subsidiary, is capitalized at SAR 3 million. It acts as an agent for Alinma Tokio Marine Company;
- Alinma Tokio Marine Company is an associated company with a share capital of 300 million in which the Bank holds a 28.75% ownership (i.e. an investment SAR 78 million). It operates as an insurance company;
- ERSAL is a Joint Venture between Alinma Bank and the Saudi Post and is capitalized at SAR 50 Million. It is owned 50% by Alinma Bank and 50% by Saudi Post.

The subsidiaries are consolidated fully in the Bank's financials, whereas the associates and Joint venture companies are accounted for under the equity method.

Alinma Bank has continued to grow its business at a rapid pace since inception of operations in 2009 and has continued to manage the business within tolerable risk parameters and the approved strategy. The following are the continuing Strategic Initiatives of the Bank:

1. Balance Sheet Growth and Sustainable Growth of Profits
2. Management and Stability of Human Resources
3. Quality of Assets
4. Liquidity Management
5. Operational Risks Assessment, Controls and Results.

Risk Profile

1. Credit Risk - potential failure of the counterparty to meet its obligations as per the contracted terms. The following are the primary credit-risk taking units: Corporate Banking Group (CBG); Retail Banking Group (RBG); Treasury Group (TG).
2. Market Risk - the price risk arising from the probability that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in market variables such as equity prices, profit rates, foreign exchange rates, and commodity prices.
3. Operational Risk - is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. All bank units carry operational risk with varying degrees of severity depending on the function of the unit.
4. Residual credit, market and operational risks - remaining threats which may not be covered above.
5. Concentration Risk - a single point of failure in the credit portfolio mix. The Bank is exposed to three types of these risks namely obligors (name), sector and collateral concentration risk.
6. Sharia'h Non-compliance Risk -the risk of non-adherence of the Bank to Sharia'h Guidelines.
7. Liquidity Risk - is the risk that the Bank will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets.
8. Profit Rate Risk in Banking Book - risk arises from changes in profit rates which affect either the fair values or the future cash flows of profit-rate sensitive financial instruments in the Banking Book.
9. Macroeconomic and Business Cycle Risk - is a risk associated with the cyclicality of the economy that drives other risk variables such as credit, market or liquidity due to changes in economic factors.

10. Strategic and Reputational Risk - a risk to the Bank's earnings and profitability arising from strategic decisions, changes in business conditions, the improper implementation of decisions and/or the improper management of issues important to the public at large.

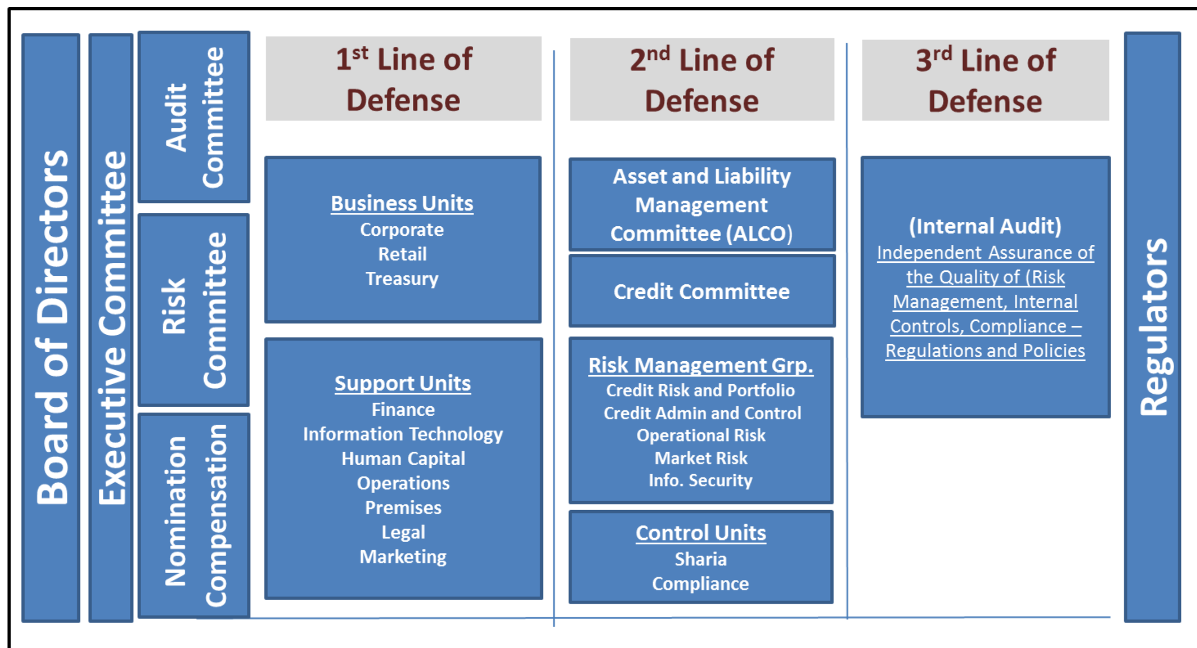
Risk Appetite

The risk appetite of the Bank is governed by the following parameters:

- The Capital Adequacy Ratio (CAR Pillar 1 and Pillar 2) must meet the minimum set by SAMA;
- The Bank shall maintain a credit rating that is no lower than BBB+;
- The Bank shall not extend any credit facilities with respect to any natural or juristic entities outside of its established Target Market and Risk Acceptance Criteria (TM/RAC). Exposure limits for corporate and individual exposures, will be guided by SAMA Guidelines on Large Exposures;
- The deposit liabilities of the Bank shall not exceed fifteen times (15x) its reserves and paid-up or invested capital;
- The Regulatory Liquidity Ratio must meet the minimum set by SAMA. Alinma will comply with whatever level of LCR and NSFR required by SAMA as these ratios are adjusted by the regulator from time to time;
- The Bank will pace its asset growth according to its ability at attracting customer deposits so that the Financing to Deposit Ratio set by SAMA is met;
- All risk limits should always be within the overall risk profile, local regulatory and BoD approved boundaries and governance based on the Risk Appetite Framework and Policy.

Exceptions, if any, are presented to ALCO and the corrective actions are taken as required.

(a) The risk governance structure



Board of Directors - The BoD sets the Bank's overall enterprise risk management philosophy, strategy, risk tolerance levels and risk policies. The Board has ultimate responsibility for the Bank's enterprise risk management;

Executive Committee of the Board - BoD has delegated to the ExCom the oversight of the enterprise risk management including the review and approval of all risk management policies and approval of specific large credits which are beyond the limits delegated to the Bank Management pursuant to the Credit Approval Authority Delegation Matrix;

Risk Committee of the Board - reviews and recommends for approval to the Board, and exercises oversight on an on-going basis of the Risk Appetite Framework and Policy of the Bank and the risk management framework that supports it;

Audit Committee and Nominations & Compensation Committee - The functions and authorities of these committees meet the SAMA Governance Guidelines and are all approved by the Board of Directors;

Assets and Liabilities Committee- evaluates, establishes, promulgates and enforces policies on the market and liquidity risk management and strategies, to optimize

shareholders' value through effective management of the Bank's balance sheet and assumes Management level oversight on the review, approval, implementation and monitoring of the Bank's Risk Appetite Framework and Policy;

Credit Committee - the main reviewing and approving authority for all credit exposures to counter-parties, Corporate, FI, Private Banking/High Net-worth customers and Individual and Self-Employed segment . All credit approvals require the signature of at least one (1) authorized credit approver from Risk Management in addition to the authorized credit approvers from Corporate Banking Group and/or Retail Group, as the case maybe.

Investment Committee - tasked with the responsibility of preparing, reviewing and recommending strategic investment policies of the Bank. It has also assumed the responsibility of reviewing and approving specific investments of the Bank as well as the regular monitoring of the performance of the various new and existing investment assets of the Bank.

Risk management Group (RMG) - In partnership with the business groups and the support units of the Bank, the RMG formulates and implements procedures and processes to help the Staff and Management of the Bank assess and mitigate the occurrence of all Risks (i.e., Credit, Operational, Market and other Risks); it escalate s these Risks, when necessary, to the CRO, the CEO, Ex-Com and Board, for their information and required action. With respect to Credit Risk, which is the largest risk of the Bank, the RMG through the CRO and the CCO, are the "enablers" who with their collective experience and knowledge, are tasked with the responsibility of conducting independent reviews and assessments of Credit Risks and (as part of the Credit Committee) and approving, modifying the terms, or completely rejecting the credit. The RMG also acts as the "goal keepers" by making sure that the Policies and Guidelines on Risk taking (including the Risk Appetite Framework) are met and all documentation and limits of the Credit Risk exposure are properly approved and monitored for compliance;

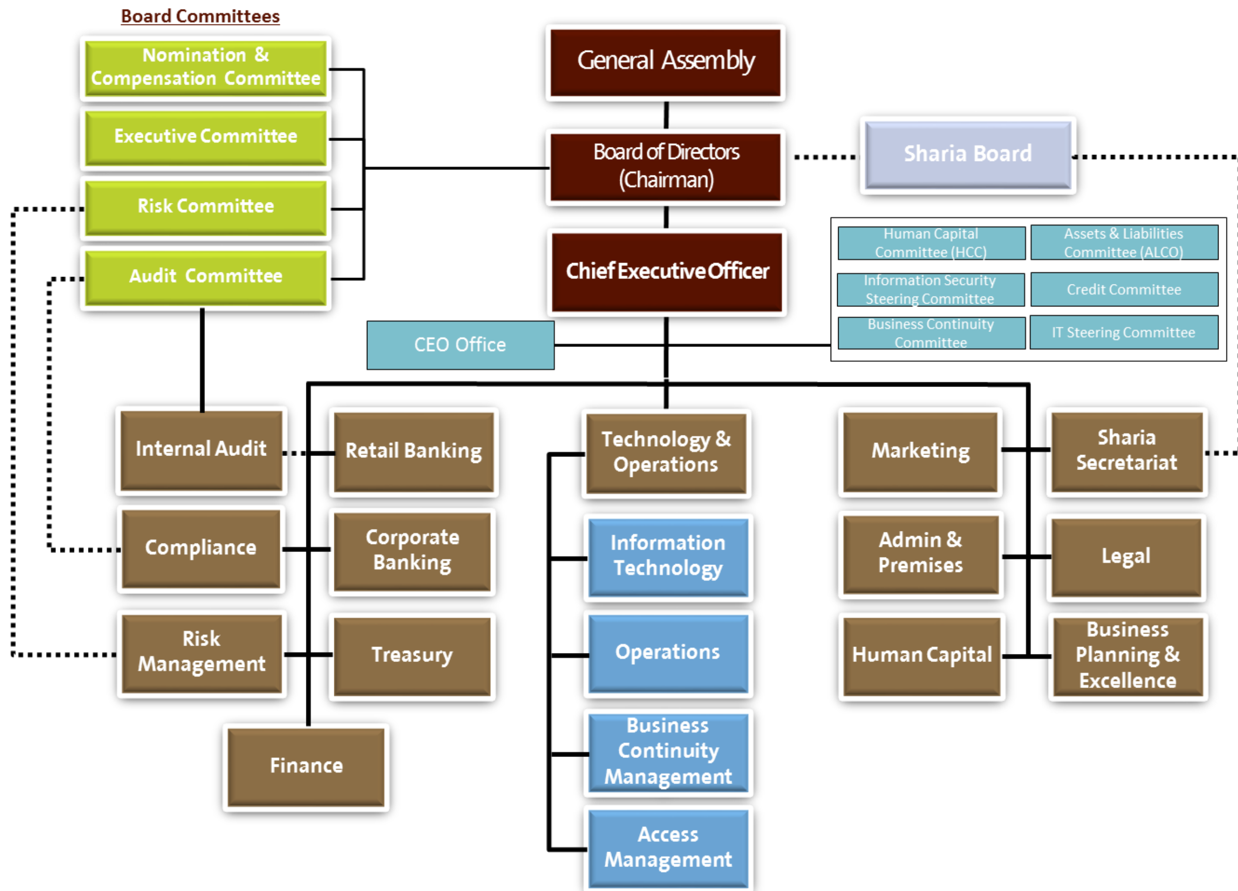
Business Units - the Corporate, Retail and Treasury Groups are the key business groups charged with originating, recommending, and managing the largest portion of the Bank's overall risk asset exposure. These key business units have the primary responsibility to implement the risk policies in their respective units under the monitoring and oversight of the Risk Management Group;

Support Units -perform Risk and Control Self-Assessment (RCSA) periodically to identify, analyze and evaluate operational risks in their respective business activities in support of the business units;

Control Units - ensure that the Bank is compliant through review of the Bank's transactions, activities and executive procedures vis-a-vis Sharia'h guidelines and laws & regulations of the country;

Internal Audit - evaluates independently the internal control of the overall risk profile, risk management governance, as well as the operating effectiveness of its policies and procedures.

Shown below is the Alinma Bank High Level Organizational Structure:



(b) Risk Culture

The primary documents that govern, define and guide the implementation of the risk culture of the Bank are the Policies of the Bank covering various disciplines, such as the Enterprise Risk Policy, the Risk Appetite Framework and Policy, the Credit (Corporate and Retail) Policies, the Treasury and Investment Policy, the Operational Risk Policy, the Market Risk Policy, the Liquidity Risk Management Policy, Internal Audit Policy, Information Security Policy, Anti-Fraud Policy and other Policies that govern the implementation, control and monitoring of the Bank's business. To oversee these

policies, management has created a number of Committees, the most important of which are: the Assets and Liabilities Committee (ALCO), the Credit Committee, the IT Steering Committee, the Information Security Steering Committee, the Business Continuity Steering Committee, the Human Capital Committee, the Procurement Committee.

Please refer to the Alinma High Level Organization Structure above for more details.

(c) Risk Measurement

Credit Risk

The Bank uses the Standardized Approach (TSA) for the calculation of the “Credit Risk” capital charge under Pillar 1. In the Corporate financing portfolio, “Name Concentration” is assessed using the Granularity Adjustment (GA) method and “Sector Concentration” is analyzed through the Herfindahl–Hirschman Index (HHI); an adjustment to the capital charge is administered relative to the actual concentration of the Bank’s business in the defined economic sectors. To validate the risk assessment and capital allocation under The Standardized Approach for credit risk (with accounts for about 76% of total risk capital allocation), the Risk Management calculates the capital allocation under the Internal Ratings Based Approach, where the regulatory capital of each Obligor under the Corporate Bank and FI are calculated using Probability of Default (PD), the SAMA dictated Loss Given Default (LGD) of 50 to 60%, multiplied by the Exposure at Default (total Funded and Non-Funded Exposure at any given time.) Historically, the resulting regulatory capital under both approaches is of comparable size, adding comfort and supporting the reasonableness and reliability of the Bank’s credit assessment and risk capital allocation.

Market Risk

The Bank uses The Standardized Approach (TSA) for calculation of the “Market Risk” capital charge. Under Pillar 1, the capital charge for “Market Risk” arising from the Profit Rate Risk, “Equity Price Risk” and “Foreign Exchange Risk,” is considered high, given the limited exposure of the Bank to Equity and FX risks. In addition, the Bank is focused in

managing and tracking its liquidity position through daily automated reports on cash flow gaps, intra-day liquidity, the SAMA Liquidity Ratio, the Basel III dictated ratios such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). These reports are system generated through the Asset Liability Management (ALM) and Fund Transfer Pricing (FTP) automated tools.

Operational Risk

The Bank uses the Basic Indicator Approach (BIA) for the calculation of "Operational Risk" capital charge. The Pillar 1 Operational Risk capital charge so calculated is also considered high given historical immaterial operational losses. For over a year, the Bank has been using SunGard's Operational risk tools that track the RCSA, Operational Losses, and other key operational risk monitoring systems and reports.

Other Pillar 2 Risks

The Bank actively manages its Asset/Liability using various metrics of "Liquidity" and "Profit Rate Risk." In its "Market Risk" dashboard, liquidity is monitored daily using the SAMA imposed, Basel III approaches on liquidity measurements and metrics - LCR, for short term liquidity and NSFR, for long term liquidity.

The capital charge for Liquidity is calculated as a percentage of the funding gap of the moderate stress scenario. Despite the strong liquidity indicators and full compliance with the Cash Reserve Requirement of SAMA, this assumption models a stressed economic scenario.

The capital charge for "Profit Rate Risk" is calculated using the Economic Value of Equity (EVE) methodology as the difference between the base case and the worst scenario.

For Macroeconomic and Business Cycle Risk, a simple scorecard is utilized using the key macroeconomic indicators. Similarly, increase in provisions in the financing portfolio is calibrated to a capital charge.

For "Strategic / Reputational Risk" and "Sharia' Non-compliance Risk," a detailed scorecard based model has been developed and the results are calibrated to a capital charge.

For the Sharia' product risks and other subsidiaries risks, a qualitative risk assessment is performed. For Alinma Investment Company (AIC), their risk assessment and stress testing is articulated in a separate ICAAP document due to their local regulator.

(d) Reporting of Risk

On a regular basis, the Risk Committee of the Board (Risk-Com) and the Executive Committee of the Board (ExCom) receive Portfolio reports covering existing approved limits and outstanding exposure for all facilities granted to a particular customer in the Corporate Banking Group, the Obligor Risk Rating, summary reports on Sector Concentration, obligations past due and non-performing and the level of provisions booked for each account (specific provisions or collective provisions). The ExCom also receives the details of the 20 largest corporate exposures and the total list of Classified Accounts, pursuant to the guidelines of the Credit Risk Policy.

ALCO oversees the compliance of the Risk Appetite Framework and compliance to which is reported quarterly to the Risk-Com and the ExCom. In addition to the reports which are sent to the Risk-Com and to the ExCom on risks covering credit, market and operational risks, the Bank through the Risk Management Group also prepares the annual Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and Stress Testing reports to SAMA which are approved by the Risk-Com and Ex-Com prior to submission to SAMA. The ICAAP and ILAAP are two of the most important risk assessment documents used to report the risk attributes being measured and monitored to the Bank's Senior Management and the Board Committees. These reports are only released once approved by the Risk-Com and Ex-Com.

(e) Qualitative information on stress testing

The Bank performs stress testing to model its resilience under extreme but potential conditions arising from macroeconomic, strategic, political and business environmental factors, among others.

The potential unfavorable effects of stress scenarios, to the institution's risk weighted assets and capital adequacy are modeled to assess the Bank's resiliency in terms of solvency, liquidity and profitability. The following are the key risk indicators:

- Assets quality - increase/decrease in nonperforming assets measured in terms of ratio to financing assets;
- Profitability - increase/decrease in the accounting profit/loss;
- Capital adequacy – measured in terms of changes in total amount of capital and the Capital Adequacy Ratio (CAR);
- Liquidity position - measured in terms of changes in key liquidity indicators.

(f) Managing and Mitigating Risk

1. Credit Risk

Credit risk arises when a counterparty fails to fulfill its contractual obligation to the Bank. All credit proposals are subject to a high degree of due diligence intended to identify all risks associated with granting the credit. An internal rating system is used to determine the Obligor Risk Rating (ORR) - a measure of the obligor's probability of default. Ratings by the major credit rating agencies are also considered, if available.

It is the responsibility of the Chief Risk Officer (CRO) and the Chief Credit Officer (CCO) to monitor and assess the counterparty's ability to meet its obligations. This is achieved by customer visits, conducted by the Relationship Management Team and Risk Officers of the Bank and regular reviews of the obligor's financial health. Embedded in the credit process is the necessity to spot early warning indicators on issues facing the counterparty

to improve the effectiveness of remedial action through timely intervention to protect the Bank's exposure. Credit Administration and Control Unit under RMG are tasked with the responsibility of ensuring that the credit approval terms and conditions are reflected in legal agreements, that security collateral is perfected, that credit reviews are conducted on time and exceptions followed up for closure.

The Bank controls concentrations in the portfolio mix in terms of economic activity, geography, collateral and products. Alinma seeks diversification of the portfolio through customer acquisition across different economic activities, through geographical presence across the country, through targeting large, medium and small corporate clients, through its diverse services to individuals. Obligor and Sector Concentrations are monitored as are funding concentrations (Large Fund Providers). The following types of concentration are monitored regularly:

- Business Segments;
- Economic Sectors;
- Single Customer Groups/ Obligor /Counterparty;
- Large Exposure at an Obligor level and Group Connected
- Banks & Non-Bank Financial Institutions;
- Risk Rating; Types of Collaterals (specifically those secured by real estate).

The Bank regularly revises its credit polices to align its policies with the economic, market and legal landscape.

1.1. Provisions for Financing

The Bank makes provisions according to IFRS9 and the guidelines set by SAMA. The Bank recognizes impairment allowances based on a forward looking Expected Credit Loss (ECL) approach. The inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The above parameters are derived from internally developed statistical models, other historical data and are adjusted for forward looking information. The Bank categorizes its financial assets into the following three stages in accordance with IFRS 9 methodology:

- Stage 1: Performing assets: Financial asset(s) that have not significantly deteriorated in credit quality since origination. The impairment allowance will be recorded based on 12 months ECL.

- Stage 2: Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination. This credit quality assessment is made by comparing the remaining lifetime PD as at reporting date with the remaining lifetime PD point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations). The impairment allowance will be recorded based on lifetime ECL.

- Stage 3: Impaired assets: For Financial asset(s) that are impaired, the Bank recognizes the impairment allowance based on lifetime ECL.

The Bank also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs. Based on an assessment of the likelihood that the specific counterparty will not meet its obligations, specific provisions for impaired accounts are created.

The Bank also makes collective provisions for the remaining assets of the portfolio based on an assessment of the probability of default and the loss given default. Specific and collective provisioning methodology / requirements are reviewed and agreed by the CCO, the CRO, the Heads of the Business Units, the Chief Finance Officer (CFO) and by the Chief Executive Officer (CEO).

2. Market Risk

Market or price risk arises from a confluence of factors internal and external to the economy including volatility across different markets, and macroeconomic factors. Market risk is controlled by setting market risk limits (including position limits) and implementing risk policies that not only meet regulatory requirements but are designed to mitigate and/or cap potential exposure. . The Market Risk Management Team under the RMG independently monitors the market risk exposure of the Bank and prepares regular reports for the Asset and Liability Management Committee (ALCO), through the CRO.

ALCO is responsible for monitoring the market risk exposure against the approved Risk Appetite Framework and the Treasury Risk Policy. ALCO's primary objective is to manage volatility in earnings, control the liquidity risk at the Bank level with reporting to the Board's Risk Committee (Risk-Com), Executive Committee (Ex-Com), BoD and the local regulators.

3. Operational Risk

The Operational Risk Management (ORM) Framework is designed to regulate the dependency between the risk management and the risk owners represented by the various business groups within the Bank. While keeping the responsibility of managing the business (and the associated risks) within the business or support groups, common grounds are established that involve the operational risk management team in facilitating risk identification, measurement and assessing of risks and the implementation of relevant controls - including documenting and tracking the risk mitigation plans, or risk acceptance. Each business or support group is responsible for managing the inherent risks of its function.

During the year, the operational risk management team conducts specialized data gathering through meetings with department, business heads and senior management - endeavoring to gain a clear understanding of direction and the potential risks. The

approach is designed to associate the management directions, with the allocated operational risk appetite, and the risk profile.

In preparation for and before commencing the risk identification and assessment activity across the Bank, a comprehensive risk awareness program was developed and implemented involving management, risk champions and respective risk owners.

Covering all business and support units within the Bank specific risk profiles containing key and significant risks presented at their residual values was arrived at after detailed assessment and testing of the respective controls. A detailed risk heat-map is formed in consultation with business group management to draw their attention to significant and key risks that require management attention and action on a priority basis.

4. Sharia'h Non-Compliance

Sharia'h Governance

The Sharia'h Compliance Framework is the basis for implementing Sharia compliance. The Sharia Compliance Framework is the enterprise-wide Sharia management plan consisting of Sharia'h Governance Structure, systems processes and control to be undertaken by relevant business entities across the group. Sharia governance is affected through the following functions:

- Sharia Review;
- Sharia Advisory & Research;
- Sharia Audit.

Sharia Board

All licensed Islamic banks are required to establish a Sharia'h advisory body to advise on the policies and processes and ensure that these do not incorporate elements which are not in compliance with Sharia principles. The Sharia'h Board is responsible to:

- Advise the Board on Sharia matters in its business operations;

- Endorse Sharia Compliance Manual and Framework;
- Endorse and validate relevant transactions and documentation;
- Advise the Bank on the computation and distribution of Zakat;
- Assist related parties on Sharia matters;
- Provide written Sharia opinions.

The control structure for handling and reporting Sharia'h non-compliance and Potential Sharia' Non-compliance is in place.

Key measures undertaken by the Bank for managing Sharia'h Compliance risk include having in place the following processes:

- Awareness and Communication;
- Identification and assessment;
- Mitigation and control; and
- Monitoring and reporting.

5. Liquidity Risk

In terms of day-to-day liquidity management, the Treasury Group ensures sufficient funding to meet its intraday payments and all settlement obligations on a timely basis.

The process of managing liquidity risk includes:

- Maintaining sufficient amounts as unencumbered high quality liquidity buffer - a protection against any unforeseen interruptions to cash flow;
- Managing short-term and long-term cash flows via maturity mismatch report and various indicators;
- Monitoring depositor concentration at Bank level to avoid undue reliance on large fund providers;
- Diversifying funding sources to ensure proper funding mix;
- Ensuring that regulatory ratios such as SAMA Liquidity Ratio, LCR and NSFR are maintained at the required minimum;
- Constant review and assessment of the Contingency Funding Plan;

- Conducting biannually liquidity stress testing under various scenarios as part of prudent liquidity control to examine the effectiveness and robustness of the plans.

All liquidity policies and procedures are covered by the Liquidity Risk Policy, the Treasury Risk Policy and the Risk Appetite Framework and Policy which are subject to review and Oversight by the Asset and Liabilities Committee (ALCO) and approval by the Executive Committee of the Board (ExCom).

In accordance with Banking Control Law and the regulations issued by SAMA, the Bank maintains a statutory deposit with SAMA equal to 7% of total demand deposits and 4% of customers' time investments.

In addition to the statutory deposit, the Bank also maintains liquid reserves of no less than 20% of its deposit liabilities, in the form of cash and assets, which can be converted into cash within a period not exceeding 30 days.

The Bank has the ability to raise overnight funds through special investment arrangement facilities with SAMA (i.e. Murabaha with SAMA).

The Bank estimates the Liquidity Risk based on the results of LCR and NSFR and the standard SAMA Liquidity Ratio.

6. Profit Rate Risk in the Banking Book

Profit rate risk arises from changes in profit rates which affect either the fair values or the future cash flows of profit-rate sensitive financial instruments in the Banking Book.

The Bank uses the Economic Value of Equity (EVE) methodology and Income-based Approach to assess the Profit-Rate-Risk in the Banking Book (PRRBB whereby six scenario shocks (based on the revised IRRBB standards) are applied across the profit risk yield curve to measure the impact on the Bank's equity position resulting from changes of the values of all profit rate sensitive assets and liabilities.

7. Macroeconomic and Business Cycle Risk

The macroeconomic and business cycle risk is a combination of attributes that give rise to other risk types like credit, market or liquidity. The Bank has assessed this risk using hypothetical but plausible scenario based analysis. The major activity of the Bank is financing, so it is assumed that the impact of such risks would be primarily on the credit risk.

8. Strategic and Reputational risks

Strategic risk refers to the threat to earnings and profitability arising from strategic decisions, changes in business conditions and improper implementation of decisions. Thus, strategic risk arises from external causes, the adoption of wrong strategies and the implementation of specific choices that cause losses to the Bank in the form of reduction of shareholder value, loss of earnings, etc. On the other hand, reputational risk refers to the potential adverse effects, which cause damage to the Bank's due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, negative/adverse publicity and etc.

9. Other risks

Displaced Commercial Risk (DCR) arises from the assets managed by the Bank on behalf of the investment account holders which could directly impact the entity's capital position. In case the interest rates rise, Islamic banks usually increases the return to the investment account holders to prevent them from transferring their funds to conventional banks for higher yield.

In the case of Alinma, these fluctuations in the interest rates are self-mitigated in nature due to the composition of the Balance Sheet of the Bank. Almost half of the financing are reprised every six (6) months to one (1) year, therefore, any loss in the Liability side are offset with the gain from the Asset side. Nevertheless, in a worst scenario whereby customers decided to withdraw their accounts prior to its maturity, the Bank has additional cushion for any loss this may incur by not giving the account holders their return of investments for the period covered.

ALCO is overseeing the risk associated with these Sharia'h products through the Dynamic (forecasted) Balance Sheet. Fluctuations of interest rates and the impact on the target financial and regulatory ratios are discussed at every ALCO meeting. The relevant reports of the revised IRRBB standards are already incorporated in the reporting package. The daily reports have been amended so that the Treasury Group can monitor these risk on a more frequent basis. The Risk Management Group independently monitors this risk on an ongoing basis.

The Bank's Subsidiaries and Associates Risk: Alinma has consolidated the balance sheets of its subsidiaries and associates into Alinma's financials. In terms of the nature of their operations and capitalization, the Bank assesses no major risk impact for Al-Tanweer Real Estate Company and Alinma Cooperative Insurance Agency. In case of ERSAL, it is independently managed through a formally designated management team, governance bodies with appropriate operating framework, and policies & procedures. Similarly, Alinma Investments Company (AIC), has a separate Risk Management Unit . AIC submits an independent ICAAP report annually to its regulator, the Capital Market Authority (CMA).

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B.2 - Template OV1: Overview of RWA

		a	b	c
		RWA		Minimum capital requirement
		Dec-17	Sep-17	Dec-17
1	Credit risk (excluding counterparty credit risk) (CCR)	93,545,905	92,189,928	7,483,672
2	Of which standardised approach (SA)	93,545,905	92,189,928	7,483,672
3	Of which internal rating-based (IRB) approach			-
4	Counterparty credit risk	-	-	-
5	Of which standardised approach for counterparty credit risk (SA-CCR)	-	-	-
6	Of which internal model method (IMM)	-	-	-
7	Equity positions in banking book under market-based approach	-	-	-
8	Equity investments in funds – look-through approach	2,344,813	1,665,056	187,585
9	Equity investments in funds – mandate-based approach	-	-	-
10	Equity investments in funds – fall-back approach	-	-	-
11	Settlement risk	-	-	-
12	Securitisation exposures in banking book	-	-	-
13	Of which IRB ratings-based approach (RBA)	-	-	-
14	Of which IRB Supervisory Formula Approach (SFA)	-	-	-
15	Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	870,356	724,828	69,628
17	Of which standardised approach (SA)	870,356	724,828	69,628
18	Of which internal model approaches (IMM)	-	-	-
19	Operational risk	6,727,186	6,366,341	538,175
20	Of which Basic Indicator Approach	6,727,186	6,366,341	538,175
21	Of which Standardised Approach	-	-	-
22	Of which Advanced Measurement Approach	-	-	-
23	Amounts below the thresholds for deduction (subject to 250% risk weight)			-
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	103,488,259	100,946,153	8,279,061

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

SAR '000

	a	b	c	d	e	f	g
	Carrying values as reported in published financial	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with Saudi Arabian Monetary Agency	7,299,371	7,299,371	7,299,371	-	-	-	-
Due from banks and other financial institutions	9,788,857	9,788,857	9,788,857	-	-	-	-
Investments, net	15,319,590	15,319,590	15,242,544	-	-	77,046	-
Financing, net	79,062,597	79,062,597	79,062,597	-	-	-	-
Property and equipment, net	1,876,423	1,876,423	1,876,423	-	-	-	-
Other assets	1,658,229	1,658,229	1,658,229	-	-	-	-
Total assets	**115,005,067**	**115,005,067**	**114,928,021**	-	-	**77,046**	-
Liabilities							
Due to banks and other financial institutions	1,352,887	1,352,887		-	-	-	1,352,887
Customers' deposits	89,064,751	89,064,751		-	-	-	89,064,751
Other liabilities	3,990,276	3,990,276		-	-	-	3,990,276
Total liabilities	**94,407,914**	**94,407,914**	-	-	-	-	**94,407,914**

Almost all the on-balance sheet exposure of the bank is under credit risk except an insignificant exposure of Trading investments which are classifed under Market risk.

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

SAR '000

		a	b	c	d	e
		Total	Items subject to:			
			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)	115,005,067	114,928,021	-	-	77,046
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	94,407,914	-	-	-	-
3	Total net amount under regulatory scope of consolidation	115,005,067	114,928,021	-	-	77,046
4	Off-balance sheet amounts	11,233,247	6,562,416	-	-	639,219
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	-	-	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
9	Exposure amounts considered for regulatory purposes	126,238,314	121,490,438	-	-	716,264

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

The Bank does not have any difference between carrying value as reported in published financial statements and regulatory exposure amounts.

In case of on-Balance sheet, there are no differences between carrying value and regulatory exposure amount. However in case of off-Balance sheet, total carrying amount are populated as accounting value whereas credit equivalent amounts (after applying conversion factors) are disclosed under respective regulatory framework.

Valuation Methodologies: Please refer note 31 of the annual consolidated financial statement available at Bank's website (www. alinma.com).

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Leverage Ratio-Common Disclosure-December 31, 2017

LR1: Summary Comparison of accounting assets Vs leverage ratio exposure measure (Table 1)

Row #	Item	In SR 000's
1	Total consolidated assets as per published financial statements	115,005,067
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)	6,562,400
7	Other adjustments	-
8	**Leverage ratio exposure**	**121,567,467**

LR2: Leverage Ratio Common Disclosure Template (Table 2)

		Dec 2017	Sep 2017
Row #	**Item**	**In SR 000's**	**In SR 000's**
On –balance sheet exposures			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	115,005,067	111,372,966
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)	115,005,067	111,372,966
Derivatives Exposure			
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 exposure			
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	11,233,231	10,452,537
18	(Adjustments for conversion to credit equivalent amounts)	(4,670,831)	(4,287,730)
19	Off-balance sheet items (Sum of lines 17 and 18)	6,562,400	6,164,807
Capital and total exposures			
20	Tier 1 capital	20,597,153	20,101,154
21	Total exposures (Sum of lines 3, 11, 16 and 19)	121,567,467	117,537,773
Leverage ratio			
22	Basel III leverage ratio	17%	17%

Row #	Reconciliation (Table 5)	SR 000's
1	Total Assets amounts on Financial Statements	115,005,067
2	Total on balance sheet assets according Row #1 on Table 2	115,005,067
3	Difference between 1 and 2 above	-

LIQA-Liquidity risk Management

Liquidity risk is the risk that the Bank will be unable to fund itself or meet its liquidity needs in the event of firm-specific, market-wide or in a combined liquidity stress events. Liquidity is of critical importance to the Bank and Bank has in place a comprehensive and conservative set of liquidity and funding policies.

Bank's primary objective is to be able to fund itself and to enable its core businesses to continue to serve clients and generate revenues, even under adverse circumstances. In addition, the Bank also strives to ensure that it maintains key liquidity metrics within the regulatory thresholds & Bank's risk appetite framework to remain in a safe position against liquidity stress and associated risks. The key ratios are SAMA specified requirements, namely, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and SAMA Liquidity Ratio. The second objective of the bank is to create an effective strategy for diversification in the sources and tenor of funding to improve the bank's capacity to raise available funds under stress situations. To minimize concentration risk, relationship between different markets, depth of each market and period of products which have not matured is taken into consideration. In order to avoid large funding gaps in the balance sheet, the Bank regularly monitors maturity profile of the assets and liabilities on the basis of the remaining maturity.

Bank's Treasury Group is responsible for the management of the Bank's liquidity position and the structural maturity mismatches. Treasury coordinates closely with the Market Risk Unit of Risk Management to track liquidity ratios and conduct liquidity stress tests to better prepare the bank for business as usual and unexpected stress scenarios. Liquidity ratios and Liquidity Stress Scenarios are regularly presented to ALCO together with the Contingent Funding Plans. Treasury group works under the liquidity guidelines and principles set by the Bank's Asset Liability Committee (ALCO), who is the approving authority for the Liquidity Risk Appetite and the Liquidity Risk Policy. The Executive Committee of the Board (ExCom) has the ultimate ownership for the Bank's Liquidity Risk management framework and reviews the liquidity position of the bank on a regular basis.

Liquidity Stress Testing

In order to determine the appropriate size of liquidity buffer, Bank uses an internal Liquidity Stress Model and other applicable regulatory requirements and a qualitative assessment of Bank's condition, as well as the financial markets. In addition, stress testing model is used to configure Bank's Contingency Funding Plan (CFP).

The Bank follows a risk factor approach for stress testing. Bank has defined a list of relevant liquidity risk factors that affect the net cash outflows of the Bank and assesses the impact of these risk factors on the liquidity position of the Bank under business-as-usual (BAU) and various stress scenarios. The scenarios are categorized into idiosyncratic stress, market wide stress and a combination of the two. The stress horizon is assumed to start with a two-week severe stress period followed by a gradual improvement over a three-month time horizon.

Contingency Funding Plan

The Bank is in the process of enhancing its contingency funding plan (CFP) to be more granular and set out the strategies for addressing liquidity shortfalls in emergency situations and facilitates prudent actions required to protect depositors, creditors, and shareholders.

The Bank has defined a business-as-usual situation along with three levels of emergency situations, i.e. mild, moderate and severe by identifying liquidity early warning indicators (LEWI) with their threshold emergency situation. The drivers for the LEWI are drawn from market/systemic crisis or Bank specific events or operational crisis. Some of these LEWI are large scale deposit withdrawal, major deterioration of financials of the Bank, deterioration of macro-economic variables, drastic reduction in wholesale liquidity/credit availability, financial stress in the economy, to name a few. To ensure an effective liquidity management during a crisis event, the Bank has established a Liquidity Crisis Management Team (LCMT) comprising of key personnel from various departments with defined roles, responsibilities and escalation procedures. The LCMT is triggered during a crisis event and conducts frequent meetings and coordination between all relevant stakeholders of the Bank until the crisis returns to a normal situation. The Board and ALCO have overall responsibility for the CFP.

Liquidity Risk Appetite Framework

The Bank has a comprehensive Risk Appetite Framework and Policy within which the liquidity risk appetite is defined with limits/triggers set for both business as usual (BAU) and stressed levels for escalation and management action. The bank has defined the stressed level by assessing the impact of the stress testing conducted over the next twelve month forecast balance sheet positions. The BAU limits have been defined by looking at the forecast ratios without any stress assumptions.

The Bank ensures that the management actions are triggered well in advance depending on the stressed situations and Pillar 1 regulatory ratios are maintained at all times. The Bank consistently monitors these liquidity ratios and periodically reviews the internal MAT limits which are generally kept at close to 80% of the approved limits.

Funding Strategy

The Bank has a conservative strategy to manage its liquidity positions - maintaining a higher than required level of liquidity as measured by the regulatory liquidity ratios of LCR, NSFR and SAMA Liquidity Ratio. The Bank achieves this by building a base of high quality liquid assets through investments in Government assets (Sukuk and SAMA Murabaha). On the funding side, the strategy of the bank is to build core funding base comprising of stable retail deposits to meet the bulk of its funding needs and further diversify the funding sources by establishing direct investments and money market lines with local and foreign banks. The Bank has adequate policies and processes in place to regularly measure and monitor its net cash outflows, deposit maturities, funding concentration and other liquidity ratios

Intraday Liquidity Model

The Bank has developed an automated system which is able to track and measure daily gross liquidity inflows and outflows; the intraday timing of these flows; and measure the range of net liquidity shortfalls during the day.

The liquidity requirements are monitored though close coordination with the business groups such as Corporate, Retail and Treasury for managing intraday liquidity positions. There are triggers set to alert the management in real time of unforeseen large outflows happening

during intraday. The daily reports generated are used to prepare a monthly summary which is being submitted to SAMA as per the requirements. The bank continues to improve its intraday liquidity management framework for measuring its positions during the day and forecast and anticipate intraday cash flows and liquidity positions.

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LIQ1: Liquity Coverage Ratio (LCR)
LCR Common Disclosure Prudential Return Templates

		SAR '000	
		Total Unweighted Value (average)	Total weighted Value (average)
HIGH QUALITY LIQUID ASSETS			
1	Total High-Quality liquidt assets (HQLA)	16,443,814	16,446,531
CASH OUTFLOWS			
2	Retail deposits and deposits from small business of which:	25,455,452	2,545,545
3	*Stable deposits*		
4	*Less stable deposits*	25,455,452	2,545,545
5	Unsecured wholesale funding of which	38,935,490	17,036,834
6	*Operational deposits (all counterparties*		
7	*Non-operational deposits (all counterparties)*	36,497,760	14,599,104
8	*Unsecured debt*	2,437,730	2,437,730
9	Secured wholesale funding		
10	Additional requirements of which	43,103,706	1,212,047
11	*Outflow related to derivative exposures and other collateral requirements*		
12	*Outflows related to loss of funding on debt products*		
13	*Credit and liquidity facilities*	43,103,706	1,212,047
14	Other contractual funding obligations		
15	Other contingent funding obligations		
16	**TOTAL CASH OUTFLOWS**	**107,494,647**	**20,794,427**
CASH INFLOWS			
17	Secured lending (eg reverse repos)		
18	Inflows from fully perfomring exposures		
19	Other cash inflows		
20	**TOTAL CASH INFLOWS**	**12,254,696**	**9,716,978**
			TOTAL ADJUSTED VALUE
21	**TOTAL HQLA**		**16,446,531**
22	**TOTAL NET CASH OUTFLOWS**		**11,077,449**
23	**LIQUIDITY COVERAGE RATIO (%)**		**148%**

a) Unweighted values are calculated as outstanding balances maturing or callable within 30 days (for inflows and Outflows).
b) Weighted values are calculated after application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).
c) Adjusted values are calculated after application of both i) haircuts and inflow and outflow rates and ii) any applicable caps (i.e. cap on level 2B and level 2 assetsfor HQLA and cap on inflows.
d) Average of Last three months data.

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

(a) How the business model translates into the components of the bank's credit risk profile:

Alinma as a premier full service Sharia compliant institution is committed in all its dealings to adhering to the highest standards of Sharia compliant banking. The Bank's enterprise risk management objective is to maximize return to shareholders by optimizing the use of the Bank's risk capital. The Bank assesses market and service strategies based on a thorough understanding of the financial results of those strategies, including measurement and calculation of the exposure to risk and/or loss, and the consumption of risk capital required to implement those strategies; The Bank recognizes the importance of statutory and regulatory requirements and guidelines and complies with their guidance in all risk decisions. The Bank is committed to a strong pro-active credit process to ensure that credit risk falls within the institutional risk appetite. TM (Target market) is a key component of this process as it provides the tools to filter prospective and existing Obligors in order to avoid initiating or keeping relationships that would not fit the Bank's strategy and desired risk profile. RAC (Risk Acceptance Criteria) establishes the requirement under which the Bank is willing to initiate and/or maintain a credit relationship with companies which fall under its target market. The front end business team is primarily responsible for originating, evaluating and recommending credit proposals and approval will be granted in accordance with the Board approved Credit Approval Authority Delegation Matrix, the Credit Committee Charter, Corporate Banking and Retail Banking Credit Policy Guidelines and Risk Appetite Framework and Policy.

(b) Criteria and approach used for defining credit risk management policy and for setting credit risk limits:

The TM and RAC are jointly developed by business and Risk Management Group (RMG) to guide annual business development planning and activities in line with the established risk philosophy, strategy and appetite.

The TM defines the economic sectors and clients that the Bank intends to include in its portfolio. The sector and clients are recognized as having good risk / reward characteristics such that inclusion of the sector or client in the portfolio a) increases diversification b) enhances the profits of the Bank on a risk-adjusted basis. To manage concentration risk, the Bank has set targets for portfolio mix and for exposure limits on significant risk concentration areas. Risk concentration areas include single counterparties and groups of connected counterparties, specific industries or economic sectors, geographic regions, specific products, collateral types, or any other concentration area deemed of risk. In order to ensure an effective management of the limit exposure, a comprehensive monthly Risk Dashboard is published and circulated widely within relevant areas including Management Committees for their review, feedback and corrective action if deemed necessary.

(c) Structure and organization of the credit risk management and control function:

All financing activities are only undertaken in accordance with documented and approved policies and procedures which are accessible to all relevant staff and are effectively implemented. These documents (manuals, programs, bulletins etc.) clearly define the applicable risk measures and controls. The Business Units (CBG, RBG and Treasury) initiate the origination of the accounts. Based on Credit Policy Guidelines, CBG then processes their due diligence of the credit based on established guidelines, conducts a Credit Round Table (CRT) which is a preliminary discussions with the

authorized approvers mainly from Risk Management, on the acceptability of the credit and to generate specific conditions, if any, to enhance the credit worthiness and acceptability of the credit. After this, the formal credit recommendation is prepared which is routed within the business unit and is then escalated to the Risk Management approvers for their independent review and approval, prior to escalation to the CEO and to the ExCom (if the limit is beyond the CEO.) Once the credit is approved, the credit is then handled by Credit Administration and Control to ensure that the terms and conditions of approval are captured in the Legal Documentation, that the required signatures of the customer are procured and all the supporting documents, securities and collateral are received, accepted and are lodged in the required custodianship unit. All real estate collateral which are subject to Unconditional Sale to the Bank are controlled by a fully owned subsidiary of the Bank under which entity, the title deeds are registered. All other documentation are managed and kept by Credit Administration (Documentation Unit) to ensure that all required documents are executed and are delivered and received by the Bank. After the Documentation Unit has reviewed the documents to their satisfaction, they send internal confirmation to the Limit Control Unit of Credit Administration which will then release the approved limit, with its terms and conditions including pricing terms, in the system for the utilization of the business unit.

Clearly there is clear delineation and segregation of duty between the Business Unit and Risk Management in reviewing and approving the credit in the first instance, and in managing the documentation and controlling the limits, through the Credit Administration’s Documentation and Limit Control Units.

Post approval, the monitoring of the Accounts’ payment of dues and other documentation requirements and compliance of financial covenants, are monitored by Credit Administration who notifies the business unit on what needs to be done. Subject to the established Credit Policies, the limits maybe withdrawn or suspended, if the Account does not meet certain conditions or the scheduled annual review is not completed or is not granted a formal extension by the Credit Committee.

(d) Relationships between the credit risk management, risk control, compliance and internal audit functions:

As a premier Islamic banking institution Alinma places strong emphasis on high standards of transparency, integrity, ethical accountability and professionalism with every cross functional areas in the pursuit of its goals. As mentioned above, Risk Management is the second line of defense after business in terms of reviewing and approving credits, maintaining compliance to approved terms and conditions of approval and documentation and management of limits and utilization. Risk Management also prepares and reviews the Enterprise Risk Policy, the Credit Risk Policy and the Risk Appetite Framework and Policy to ensure that these policies are effective to manage the Bank's business within bank accepted guidelines and risk parameters. Internal Audit, conducts regular audit of banks assets, policies and processes to ensure that the interest of the Bank is always protected.

(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:

The Risk Committee of the Board (Risk-Com) and the Executive Committee of the Board (Ex-Com) receive Portfolio reports covering existing approved limits and outstanding of all facilities granted to a particular customer in the corporate bank, their Obligor Risk Rating, summary reports on Sector Concentration, Large Exposure Concentration by counterparty and Group Connected level, portions past due and non-performing and the level of provisions booked for each account either for specific provisions or collection provisions. The ExCom also receives the details of the 20 largest corporate exposures and the total list of Classified and Impaired Accounts, pursuant to the guidelines of the Credit Risk Policy. Concurrently, with the anticipated implementation of IFRS 9 in January 2018, the Lifetime PD models and the Provisioning Models for all exposures, corporate, retail and investments held in the

banking book have been calculated and parallel runs are being conducted on a quarterly basis, the last one of which was done for the 31 December 2017closing balances. It shall be noted that all limits which govern the business of Corporate, Retail and Treasury Groups are defined and described in the Risk Appetite Framework and Policy which is the primary strategic document from which all business units will comply. ALCO oversees the compliance of the Risk Appetite Framework and will report quarterly the compliance to the Risk-Com and the Ex-Com.

B.7 - Template CR1: Credit quality of assets

SAR '000

		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	1,076,438	104,120,695	1,503,330	103,693,803
2	Debt Securities	-	11,234,219	-	11,234,219
3	Off-balance sheet exposures	-	6,562,416	-	6,562,416
4	Total	1,076,438	121,917,330	1,503,330	121,490,438

Default exposure comprises of non performing financing exposures and past due more than 90 day, but not yet impaired.

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

SAR '000

		a
1	**Defaulted loans and debt securities at end of the previous reporting period**	**711,178**
2	Loans and debt securities that have defaulted since the last reporting period	365,977
3	Returned to non-defaulted status	-
4	Amounts written off	(717)
5	Other changes	-
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**1,076,438**

Accompanying narrative: Explain the drivers of any significant changes in the amounts of defaulted exposures from the previous reporting period and any significant movement between defaulted and non-defaulted loans.

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

Qualitative disclosures

(a) The scope and definitions of "past due" and "impaired" exposures used for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes.

A financial asset or group of financial assets is classified as impaired when there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset. Such objective evidences include but are not limited to:

- Significant financial difficulties of the obligor
- A breach of contract, such as a default etc.
- The rescheduling of financing facility by the lender based on the financial difficulties of the obligor.
- It becomes probable that the obligor will enter bankruptcy
- Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financing assets since their initial recognition.

An assessment for impairment is made on regular basis to determine the amount of impairment loss. The Bank follows Basel definition for default i.e." The borrower is more than 90 days past due on principal or profit on any material obligation to the Bank".

Description of methods used for determining impairments.

Currently impairments are determined based on IAS 39 guidelines. From January 1,2018 impairments will be determined based on the IFRS 9 guidelines. Under IFRS 9, the accounting for financial liabilities will largely remain similar to IAS 39.The de-recognition rules have been transferred from IAS 39 and have not been changed. The Bank therefore does not expect any material impact on its financial liabilities and the de-recognition from accounting policy perspective.

(b) The Bank's own definition of a restructured exposure.

There are cases where an Obligation despite being a performing account will require tenor restructuring where the repayment schedule of its medium term loan facility may be extended due to the delays in completion of the original project, or changes in the timing of the cash flows of the project. In almost all cases, a tenor restructuring will result in the Obligor being asked to pay a restructuring fee and its rate structure is typically adjusted to compensate for the tenor extension. In almost all cases, the Net Present Value of the Facility will not deteriorate and in many cases, the Bank will also negotiate better mitigants (such as collateral, or assignment of cash flow sources, etc.) which technically would reduce the Loss Given Default (LGD) in view of the potential to liquidate the collateral as additional sources of repayment.

Quantitative disclosures

Below are few of the significant quantitative analysis of credit risk of the Bank.:

SAR'000

B 9.1 CREDIT RISK: GENERAL DISCLOSURES-December 2017							
Geographic Breakdown							
Portfolios	Geographic area						
	Saudi Arabia	Other GCC & Middle East	Europe	North America	South East Asia	Other countries	Total
Sovereigns and central banks:							
SAMA and Saudi Government	15,378,518	-	-	-	-	-	15,378,518
Others	56,459	-	-	-	-	-	56,459
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-
Banks and securities firms	7,441,942	1,800,032	875,412	91,323	-	5,963	10,214,672
Corporates	68,584,594	128,992	106,617	2,452,116	122,122	55	71,394,496
Retail non-mortgages	8,069,553	-	-	-	-	-	8,069,553
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-	-	-
Mortgages	-	-	-	-	-	-	-
Residential	6,619,356	-	-	-	-	-	6,619,356
Commercial	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-
Equity	103,688	-	-	-	-	-	103,688
Others	9,727,976	94,076	14	715,837	-	-	10,537,903
Total	**115,982,086**	**2,023,100**	**982,043**	**3,259,277**	**122,122**	**6,018**	**122,374,645**

SAR'000

B 9.2 : CREDIT RISK: GENERAL DISCLOSURES-December 2017

Industry Sector Breakdown

Portfolios	Industry sector												
	Government and quasi government	Banks and other financial institutions	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building, construction and real estate	Commerce	Transportation and communication	Services	Consumer loans and credit cards	Others	Total
Sovereigns and central banks:													
SAMA and Saudi Government	15,378,518												15,378,518
Others	56,459												56,459
Multilateral Development Banks (MDBs)													-
Public Sector Entities (PSEs)													-
Banks and securities firms		10,214,671											10,214,671
Corporates	6,854,419	-	2,349,869	9,845,090	537,112	1,423,791	21,678,916	10,938,536	5,030,178	8,292,725	-	4,443,860	71,394,496
Retail non-mortgages											8,069,553		8,069,553
Small Business Facilities Enterprises (SBFE's)													-
Mortgages													-
Residential											6,619,356		6,619,356
Commercial													-
Securitized assets													-
Equity	-	-	-	-	-	-	82,996	-	20,692	-	-	-	103,688
Others	-	453,974	-	2,648,945	-	-	-	-	-	1,997,820	-	5,437,164	10,537,903
Total	**22,289,395**	**10,668,645**	**2,349,869**	**12,494,035**	**537,112**	**1,423,791**	**21,761,912**	**10,938,536**	**5,050,870**	**10,290,545**	**14,688,909**	**9,881,024**	**122,374,644**

SAR'000

B 9.3: CREDIT RISK: GENERAL DISCLOSURES-December 2017									
Residual Contractual Maturity Breakdown									
Portfolios	Maturity breakdown								
	Less than 8 days	8-30 days	30-90 days	90-180 days	180-360 days	1-3 years	3-5 years	Over 5 years	Total
Sovereigns and central banks:									-
SAMA and Saudi Government	451,093	5,146,454	700,963	-	-	-	4,562,611	4,517,396	15,378,518
Others	-	-	-	-	-	-	-	56,459	56,459
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-
Banks and securities firms	3,363,650	5,067,851	208,417	71,967	410,982	1,091,621	139	45	10,214,671
Corporates	831,383	4,654,628	8,322,620	13,665,807	7,335,172	19,200,371	5,815,418	11,569,098	71,394,496
Retail non-mortgages	17,061	194,798	371,349	573,749	1,089,895	3,821,967	1,751,964	248,770	8,069,553
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-	-	-	-	-
Mortgages	-	-	-	-	-	-	-	-	-
Residential	1,553	23,367	51,658	82,598	191,189	920,430	967,127	4,381,434	6,619,356
Commercial	-	-	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	103,688	-	-	-	103,688
Others	1,902,511	-	663,940	1,425,140	-	5,452,915	37,616	1,055,780	10,537,903
Total	**6,567,252**	**15,087,098**	**10,318,946**	**15,819,260**	**9,130,926**	**30,487,304**	**13,134,876**	**21,828,983**	**122,374,644**

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B 9.4: CREDIT RISK: GENERAL DISCLOSURES-December 2017										
Impaired Loans, Past Due Loans and Allowances										
Industry sector	**Impaired loans**	**Defaulted**	**Aging of Past Due Loans (days)**				**Specific allowances**			**General allowances**
			Less than 90	**90-180**	**180-360**	**Over 360**	**Charges during the year**	**Charge-offs during the year**	**Balance at the end of the period**	
Government and quasi government	-	-	-	-	-	-	-	-	-	42,078
Banks and other financial institutions	-	-	-	-	-	-	-	-	-	-
Agriculture and fishing	-	-	23,683	-	-	-	-	-	-	-
Manufacturing	-	-	903,381	-	-	-	-	-	-	300,128
Mining and quarrying	-	-	-	-	-	-	-	-	-	769
Electricity, water, gas and health services	-	-	710,738	-	-	-	-	-	-	6,970
Building and construction	94,698	280,102	1,141,294	25,473		254,628	-		94,698	234,967
Commerce	267,037	433,173	1,280,509	216,491		216,682	205,471	-	205,471	61,326
Transportation and communication		-	-							-
Services	54,177	24,177	4,888,101	4,977		19,200	8,745		8,745	114,516
Consumer loans and credit cards	398,095	398,095	1,204,789	50,819	45,927	301,348	33,859	717	310,209	46,863
Others		215,381	-			215,381				76,589
Total	**814,007**	**1,350,928**	**10,152,495**	**297,762**	**45,927**	**1,007,239**	**248,075**	**717**	**619,123**	**884,207**

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B 9.5: CREDIT RISK: GENERAL DISCLOSURES December 2017

Impaired Loans, Past Due Loans And Allowances

Geographic area	Impaired loans	Aging of Past Due Loans (days)				Specific allowances	General allowances
		Less than 90	90-180	180-360	Over 360		
Saudi Arabia	814,007	10,152,495	297,762	45,927	1,007,239	619,123	884,207
Other GCC & Middle East	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-
South East Asia	-	-	-	-	-	-	-
Others countries	-	-	-	-	-	-	-
Total	**814,007**	**10,152,495**	**297,762**	**45,927**	**1,007,239**	**619,123**	**884,207**

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B 9.6: CREDIT RISK: GENERAL DISCLOSURES December 2017

Reconciliation Of Changes In The Allowances For Loan Impairment

Particulars	Specific allowances	General allowances
Balance, beginning of the period	371,765	573,800
Charge-offs taken against the allowances during the period	-	-
Amounts set aside (or reversed) during the period	247,358	310,407
Other adjustments:	-	-
- exchange rate differences	-	-
- business combinations	-	-
- acquisitions and disposals of subsidiaries	-	-
- etc.	-	-
Transfers between allowances	-	-
Balance, end of the period	**619,123**	**884,207**

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

(a) Core features of policies and processes for, and an indication of the extent to which the Bank makes use of, on- and off-balance sheet netting:

Bank does not use the netting arrangements.

(b) Core features of policies and processes for collateral evaluation and management:

Based on existing guidelines, collaterals being held by the Bank to secure certain exposures to an Obligor are re-appraised every 2 years by two approved external evaluators. The valuation is supported by a written appraisal duly signed by the Evaluator.

A maximum of 15% margin between each evaluator is acceptable, where the lower of the two will be the taken. If the gap between the two evaluators is more than 15%, a third evaluator will be required, where the lowest valuation amongst the three (3) valuations, is taken as the valuation on record of the asset. Real estate/fixed assets valuations should be updated at least every two years, and should be updated as soon as feasible if: a) the collateral becomes the first way-out for any reason, b) the collateral assumes higher importance as a way-out due to deterioration of the credit. In the event the real estate market is extremely volatile, the Bank may opt to obtain fresh appraisals for all clients/portfolio or should CC requests for more frequent valuations on all customers. In case of a large commercial or residential real estate project which offers few types of distinct category in terms of size, location of the real estate property. The detailed evaluation report for one fully completed unit will be considered as valid for a similar standard type of the property to derive appraised value. Appraisers are not permitted to appraise the same real estate/asset for more than two consecutive terms. Exceptions are subject to approval by Risk SCO.

For Retail / Consumer Financing

The Real Estate properties taken as collateral, are evaluated through two evaluators from the approved panel of authorized evaluators. In case the difference between the two appraised evaluations exceeds 15%, then a third evaluation is obtained unless an exception is approved. Properties are free from any known construction default/damages. Generally

the properties are not be older than 15 years. The property title deeds are transferred to Al-Tanweer, a company formed principally to hold legal title of properties as collateral for the finance extended by the Bank.

(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).

The Bank, in the ordinary course of business holds collaterals as security to mitigate credit risk. These collaterals mostly include customers' deposits, financial guarantees, equities, real estate and other fixed assets.

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

SAR '000

		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	65,348,157	38,345,646	36,036,145	-	-	-	-
2	Debt securities	11,234,219	-	-	-	-	-	-
3	Total	76,582,375	38,345,646	36,036,145	-	-	-	-
4	Of which defaulted	690,118	386,320	922,350	-	-	-	-

Although a significant portion of credit is secured by collateral, however, bank is currently not availaing the CRM benefit as a prudence measure.

B.12 - Table CRD: Qualitative disclosures on banks' use of external credit ratings under the standardized 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;

Following external credit assessment institutions (ECAIs) are used by the Bank:

- Moody's
- Standard & Poor's
- Fitch

There has been no change over the reporting period.

(b) The asset classes for which each ECAI or ECA is used;

Bank uses ECAI for its exposures to other banks and financial institutions wherever such ratings are available. Credit exposure to corporate customers are rated internally using the Moody's Risk Analyst model.

(c) 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);

Where the Bank's claim is not an investment in a specific assessed issue, under the Standardized Approach, the Bank applies risk weights based on the following:

- If the borrower has a specific assessment for an issued debt, risk weight pertaining to a high quality assessment is applied where the un-assessed claim ranks pari-passu or senior to the claim with an assessment;
- Where the borrower has as an issuer assessment and the Bank's claim is a senior unsecured claim, the risk weight pertaining to the high quality assessment is used;
- If either a specific issue or the issuer has a low quality assessment, the risk weight applicable to low quality assessment is used;
- Other un-assessed claims are treated as unrated.

(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 has mapped the Risk Ratings of Credit agencies to its Risk rating grades.

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

SAR '000

		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	15,434,977	-	15,434,977	-	-	0%
2	Non-central government public sector entities	-	-	-	-	-	0%
3	Multilateral development banks	-	-	-	-	-	0%
4	Banks	9,788,857	1,610,421	9,788,857	425,815	2,815,664	28%
5	Securities firms	-	-	-	-	-	0%
6	Corporates	65,150,896	9,622,827	65,150,896	6,136,602	71,287,498	100%
7	Regulatory retail portfolios	8,016,968	-	8,016,968	-	6,263,985	78%
8	Secured by residential property	6,584,056	-	6,584,056	-	4,938,042	75%
9	Secured by commercial real estate	-	-	-	-	-	0%
10	Equity	103,688	-	103,688	-	311,065	300%
11	Past-due loans	908,229	-	194,884	-	194,884	100%
12	Higher-risk categories	5,100,739	-	5,100,739	-	6,544,927	128%
13	Other assets	5,437,164	-	5,437,164	-	3,534,652	65%
14	Total	116,525,573	11,233,247	115,812,228	6,562,416	95,890,718	78%

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

SAR '000

		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	15,434,977	-	-	-	-	-	-	-	-	15,434,977
2	Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
3	Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	8,348,596	-	1,440,260	-	425,815	-	-	10,214,671
5	Securities firms	-	-		-		-		-	-	-
6	Corporates	-	-	-	-	-	-	71,287,498	-	-	71,287,498
7	Regulatory retail portfolios	-	-	-	-	-	7,011,931	1,005,037	-	-	8,016,968
8	Secured by residential property	-	-	-	-	-	6,584,056	-	-	-	6,584,056
9	Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
10	Equity	-	-	-	-	-	-	-	-	103,688	103,688
11	Past-due loans	-	-	-	-	-	-	194,884	-	-	194,884
12	Higher-risk categories	-	-	-	-	-	-	2,719,446	-	2,381,294	5,100,739
13	Other assets	1,902,511	-	-	-	-	-	3,534,652	-	-	5,437,164
14	Total	17,337,488	-	8,348,596	-	1,440,260	13,595,987	79,167,331	-	2,484,982	122,374,645

Increase in 0% risk weight exposure was mainly due to Govt. sukuks investment of SAR 8.1 million during the period.

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

A. Market risk management framework

The market risk management framework at the Bank is built along the following:

1. Market Risk Assessment
2. Market Risk Strategy and Governance
3. Management Monitoring and Reporting
4. Market Risk Management Information and Communication
5. Market Risk Mitigation
6. Market Risk Control and Assurance

(a) Strategies and processes of the Bank

As a fully Sharia compliant bank, Alinma ensures that all its products, business activities and practices are Sharia compliant. These products, activities and practices are regularly reviewed by the Sharia Committee to ensure it is always compliant.

In terms of business targets and directions, the Bank is guided by its Board Approved Business Strategies where volume, asset quality and reasonable risk adjusted returns are required for the assets being deployed. Also, the Board requires that in the implementation of the business plans and strategies, that Regulatory and Legal Compliance in additional to Sharia compliance are met and are never compromised. The Bank has zero tolerance for non-compliance.

To ensure that all concerned are properly guided, the Bank has prepared several Policies and Procedures that would define the parameters, limits and guidelines to be followed by all concerned in running the business. Foremost among these policies is the Risk Appetite Framework and Policy that defines the qualitative and quantitative targets the Business Units must maintain in pursuit of their goals within regulatory and legal requirements. The Bank also prepared the over-arching Enterprise Risk Policy which integrates and establishes the linkages of the various Policies the various Business and Support Units of the Bank have prepared and are following, defining the process, the Risk Owners, the

Controllers and the Approvers. To ensure that all of these Policies are implemented properly and are modified if needed, the Bank established several management committees to oversee and manage its Assets and Liabilities, Credit Approval of financing and investment assets, manage Information Technology, oversee Information Security and Business Continuity and implement Human Capital policies and guidelines. All of these Management Committees report to the CEO. However, based on the Governance Structure of the Bank those Committees that oversee the Business strategies and Management of Risks also provide reports to the Risk Committee of the Board and to the ExCom and those pertaining to Human Capital report to the Remunerations and Nominations Committee of the Board and Internal Audit report to the Audit Committee of the Board. All credits, budgets, strategies and major decisions of the Bank, are presented to the Executive Committee of the Board which acts as the mini-board of the Bank and is chaired by the Chairman of the Board of the Bank and is participated by Board members nominated by the strategic owners plus an independent member of the Board.

In addition to the above processes, the Regulator has imposed extensive controls, supervision and prudential reporting on Capital Adequacy, Liquidity and other prudential reporting to ensure that the Bank manages its business in accordance with generally accepted principles guided by methodologies and controls which the Regulator have developed over the years and those which they have adopted from the guidelines of the Basel Committee of the Bank for International Settlements and the Financial Stability Board based in Switzerland.

(b) Structure and organization of the market risk management function

- The following are the key players in the market risk management process at the Bank:
- Risk Committee of the Board - Oversee on behalf of the Board of Directors (BoD) the market risk management practice at the Bank.
- Board Executive Committee (ExCom) - Approve overall market risk policy and setting broad market risk guidelines for the Bank.
- Asset and Liability Management (ALCO) - Approve asset allocation and investment of the balance sheet. Set tolerance levels for the Bank, covering the components of

Market Risk (including Asset Price Risk and Profit Rate Risk) and investment. Oversee management of market risk. Approve frameworks for monitoring market risk. Monitor overall actual risk levels. Monitor resilience of balance sheet to future changes, through reviewing stress testing. React if risk moves outside agreed tolerance.

- Investment Committee - Approve allocation of investments managed by Treasury. Set tolerance levels for the bank, covering the components of investment and market risk. Oversee management of investment risk. Approve frameworks for monitoring investment risk. Monitor overall actual investment risk levels. Monitor resilience of balance sheet vis-à-vis investment risk to future changes, through reviewing stress testing. React if investment risk moves outside agreed tolerance.
- Treasury Front Office - Manage bank's own investment portfolio and manage asset price risk associated with these investments. Manage risks resulting from balance sheet composition (liquidity and profit rate risks) for the entire bank.
- Treasury Support - Support decision making in Treasury, through producing rapid response Treasury MIS (e.g. dealer performance, position reports and etc.).
- Treasury Operations - Process all transactions initiated in Treasury, from confirmation through to settlement.
- Risk Management - Ensure decision makers, bank-wide, to make decisions with full understanding of the risks involved. Review investment objectives, both in terms of risk and return. Support ALCO in setting risk tolerance levels and monitoring actual risk levels. Develop frameworks to measure risk. Propose risk limits, as request by and in discussion with Business units, and present to ALCO for approval. Measure overall risk levels both under steady conditions, and under stress scenarios. If the Bank moves outside approved risk limits, analyze options for bank to react, and present to ALCO for discussion and decision. Approve those decisions within delegated authority (e.g. counterparty limits). Monitor and report to ALCO all limit excesses in accordance with the Risk Appetite.
- Finance - Act as ALCO secretary. Manage funds transfer pricing mechanism. Address tax concerns, including zakat which may be applicable on any investments. Escalate any un-reconciled trades.

- Sharia'h Control - Sharia Control shall review to ensure that the Treasury business activities are in full compliance with Sharia Board Rulings as any violation may affect the Bank's profit.
- Audit - Conduct the review of the design and operating effectiveness of the market risk management process.

(c) Scope and nature of risk reporting and/or measurement systems

The primary tool used by Market Risk to manage the market risks of the Bank is the Asset Liability Management system which is linked to the Fund Transfer Pricing System. The ALM system produces the Intra-day Liquidity system, the gap analysis and the various methods used in calculating the Profit Rate Risks of the Banking Book of the Bank. Investments in Traded Equities are also monitored in terms of VaR and CVaR. Limits for Market Risks, Liquidity, Profit Rate and Treasury Trading Limits are guided and managed through the Risk Appetite Framework and Policy which is monitored for compliance by Risk Management. Risk Committee of the Board and the ExCom receive periodic report on the compliance of the Risk Appetite Framework. In addition, all types of risks assessment are consolidated in the annual Internal Capital Adequacy and Assessment Process (ICAAP) which the regulator require from Banks to be completed and submitted within the month of February after the closing of the calendar year.

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

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		a
		RWA
	Outright products	**870,356**
1	Interest rate risk (general and specific)	
2	Equity risk (general and specific)	231,137
3	Foreign exchange risk	639,219
4	Commodity risk	
	Options	-
5	Simplified approach	
6	Delta-plus method	
7	Scenario approach	
8	Securitisation	
9	**Total**	**870,356**

The increase in RWA of current period compared to June 2017 was mainly due to increase in foreign exchange risk. (increased from SAR 591 million in June 2017 to SAR 639 million). On the other hand Equity risk remained at the same level.

41 – Operational Risk

Qualitative Disclosures

(a) In addition to the general qualitative disclosure requirement (paragraph 824), the approach for operational risk capital assessment for which the Bank qualifies.

- The Bank has many policies to guide the business execution, embed the required controls and institutionalized performance and requires regular audit reporting to track the compliance of the various units to their Operating Guidelines. The Bank created a dedicated unit - ORM Team, under the RMG which manages the operational risk exposure of the Bank vis-à-vis the risk appetite thresholds. The ORM Team has rolled out across the Bank a Risk and Control Self-Assessment (RCSA) to identify and control the operational risk at the granular level. There is also an active Anti-Fraud, Loss & Data and Insurance Management in place. The Business Continuity Plan readiness level is satisfactory and the Disaster Recovery Site (DRC) is operational.
- An ORM system is also in place which automates the core ORM processes such as RCSA, Key Risk Indicators (KRI), Lost Data Management (LDM) and Insurance Management. To quantify the tolerance and risk appetite limit for Operational Losses, the Business and Support Unit have been allocated specific limits of Operational Losses which are defined in the Risk Appetite Framework and Policy. Operational Risk Unit of Risk Management tracks the periodic losses of the various Units and report to Risk Management and to the Bank Senior Management. These losses are also reported in the periodic ICAAP report.
- In terms of calculating its Operational Risk Capital in the annual ICAAP report, and the Q17, quarterly reports, the Bank is currently using the Basic Indicator Approach.

(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

(c) For banks using the AMA, a description of the use of insurance for the purpose of mitigating operational risk.

Not applicable

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

Table A	
Purpose: To provide a description of the risk management objectives and policies concerning PRRBB.	
Qualitative disclosure	
a	**A description of the bank's definition of PRRBB for purposes of risk control and measurement.**
The Bank has adopted the Basel definition of PRRBB, which refers to the current or prospective risk to a bank's capital and to its earnings, arising from the impact of adverse movements in market rates on its banking book. Excessive PRRBB can pose a significant threat to a bank's current capital base and/or future earnings if not managed appropriately. Changes in market rates can affect the underlying economic value of the bank's assets, liabilities and off-balance sheet instruments, because the present value of future cash flows (and, in many cases, the amounts of cash flows themselves), change when market profit rates change. Changes in market profit rates also affect a bank's earnings by increasing or decreasing its Net Income after Investments and Financing (NIIF) and the level of other profit rate-sensitive income and operating expenses.	
b	**A description of the bank's overall PRRBB management and mitigation strategies.**
Provided below are the key principles followed by the Bank for management and mitigation of PRRBB: 1. PRRBB is as an important risk for the Bank which has implications on profitability in the short term and economic value of the bank in the long term. Therefore, this	

Risk is specifically identified, measured, monitored and controlled.

2. The Executive Committee of the Board (ExCom) is responsible for the oversight of the PRRBB Risk Management Framework and the Bank's Risk Appetite for PRRBB. Monitoring and management of PRRBB is part of the functions of Asset Liability Management Committee (ALCO). ALCO further delegates the responsibility of measurement, reporting, monitoring, mitigation and control to various departments as per a defined PRRBB management framework. Risk Management Group is responsible for initiating the development and review of the policy and framework. The review aims to continuously update the PRRBB practices, if needed, to align them with latest regulatory requirements, bank strategy and market environment. ALCO reviews and approves the PRRBB at the minimum once every two (2) years. However, depending on the recommendations of Risk Management, ALCO will approve changes as and when these are required.
3. On a day-to-day basis, Risk Management Group is responsible for generating the PRRBB reports and monitoring the limits for breaches. Finance is responsible for development and maintenance of the historical data in conjunction with IT. Treasury department which is the primary owner of PRRBB is responsible for mitigation and control of the risk through strategic repositioning of the balance sheet and tactical hedging (if needed) to reduce risk exposure following the direction of ALCO.
4. The Bank's Risk Appetite for PRRBB is articulated in terms of the risk to both economic value (EVE at risk) and earnings (NIIF at risk). The strategy adopted for managing the risk is not to fully hedge the risk but to stay within the defined risk appetite and within the regulatory limits supported by regular monitoring of the EVE and NIIF sensitivities. The Management Action Trigger (MAT) is set at 80% of the risk appetite limit and whenever the MAT is breached, Risk Management Group will coordinate with the Units concerned, and with ALCO the appropriate corrective actions. The bank maintains its risk position at the desired level through fine-tuning the balance sheet composition rather than entering, where allowed, into artificial profit rate hedges.
5. In measuring PRRBB, key behavioral and modeling assumptions are developed

using conceptually sound logic and are documented in detail. Such assumptions are rigorously tested and aligned with the Bank's business strategies on an annual basis. Models used to measure PRRBB are comprehensive and independently validated prior to implementation and are subject to formal periodic review at a minimum on an annual basis.

6. Capital adequacy requirement for PRRBB is specifically considered as part of the Internal Capital Adequacy Assessment Process (ICAAP) approved by the Board and the results of the PRRBB measurement are feed into computation of the capital charge under Pillar 2.

c	**The periodicity of the calculation of the bank's PRRBB measures and a description of the specific measures that the bank uses to gauge its sensitivity to PRRBB.**

The bank calculates the PRRBB reports on a daily basis through the OFSA ALM system which has been implemented at the Bank. Listed below are the measures computed and their description

Profit Rate Gap Report

Profit rate gap report captures the term structure of all rate-sensitive assets, liabilities and off-balance sheet items on the Bank's balance sheet. Instruments are slotted into predefined re-pricing buckets based on their re-pricing cash flows. For items which are not amenable for slotting, behavioral models are developed to assess the reprising profile. The re-pricing gap over a given time period is the difference between the value of its assets that mature or re-price during that period and the value of liabilities that mature or re-price during that same period. If this difference is large (in either a positive or negative direction), then changes in profit rate shall have a larger impact on gross margin. The gap size acceptable to the Bank can be arrived at by looking at the time it would need to take action to reduce or unwind unfavorable PRRBB exposures, and its capability and willingness to withstand accounting losses in order to reposition its risk profile. The re-pricing buckets used, are more granular than

the new SAMA defined 19 buckets of short, medium and long term time bands, for better accuracy. The buckets used are: Overnight bucket, 0-1Y: Monthly reprising cash flow bucketing, 1-2Y: Quarterly bucketing, 2-3Y: Semi- annual bucketing and 3-10Y: Yearly bucketing and above 10Y five year bucketing.

Earnings Approach (Earnings at risk)

The "Earnings Approach" is defined by the impact of changes in profit rates on the bank's earnings. This is measured by the changes in the Net Income before Investments and Financing (NIIF) which is the difference between the total revenues & the costs of funding. In the case of a positive or asset-sensitive gap, a decline in profit rates shall lower or eliminate the net profit rate spread in the short term, as assets are rolled over at lower rates before the corresponding liabilities. An increase in profit rates shall increase the net profit spread. In the case of a negative or liability-sensitive gap, an increase in profit rates lowers earnings by narrowing or eliminating the profit spread.

The following assumptions shall be used in computation of earnings sensitivity measure:

- **i.** Include profit cash flows (including commercial margins and other spread components) arising from all profit rate-sensitive assets, liabilities and off-balance sheet items in the banking book.
- **ii.** Earnings shall be computed assuming a constant balance sheet, where maturing or re-pricing cash flows are replaced by new cash flows with identical features with regard to the amount, re-pricing period and spread components.
- **iii.** The measure shall be disclosed as the difference in future profit income over a rolling 12-month period between the shock scenario and the base scenario

Economic Value Approach (Market Value at risk)

The "Economic Value Approach" facilitates the analysis of the effects of profit rates on the bank's economic value or market value, which can be viewed as the present value of future asset and liability cash flows. The following assumptions shall be used in computation of EVE sensitivity measure:

- **i.** Exclude own equity from the computation of the exposure level as EVE is a measure of change in economic value of the balance sheet items as compared to its current equity.
- **ii.** Include all cash flows from all profit rate-sensitive assets, liabilities and off-balance sheet items in the banking book in the computation of their exposure. Bank shall disclose whether it has excluded or included commercial margins and other spread components in the cash flows.
- **iii.** Cash flows shall be discounted using the bank's current internal transfer pricing rate as the cash flows used are also computed based on the internal transfer pricing rates. Using the internal transfer pricing rates reflects the Treasury view of the risk in the EVE measure as the transfer price does not include customer spreads.
- **iv.** EVE sensitivity shall be computed with the assumption of a run-off balance sheet, where existing banking book positions amortize and are not replaced by any new business.

Re-pricing duration gap

This measure captures the duration gap calculated using the re-pricing cash flows of the bank including rate sensitive assets, liabilities and off-balance sheet items. The duration measure gives an indication as to how quick the net banking book position re-prices. The lower the number the faster the re-pricing and higher the sensitivity. It also enables to identify the specific assets or liability product that is contributing to the profit rate sensitivity of the bank.

Credit spread risk in the banking book (CSRBB) is not applicable for the bank as it does not have quoted securities as part of its investment book.

d	**A description of the Profit rate shock and stress scenarios that the bank uses to estimate changes in the economic value and in earnings.**

1. Measurement of PRRBB is based on the outcomes arising from a wide and appropriate range of profit rate shock and stress scenarios which are commensurate with the level of complexity of the Bank's operations. The impact of the shocks is ascertained on both the economic value and earnings-based measures.
2. At a minimum, the following six (6) profit rate shock scenarios shall be applied:
    - **a.** Parallel Up: The market rate term structure is shifted up by 200bps across the tenors
    - **b.** Parallel Down: The market rate term structure is shifted down by 200bps across the tenors
    - **c.** Short Rate Up: The shortest end of the term structure is shocked up by 300bps while the shock gradually dissipates exponentially towards the long tenors reaching 0 at the longest tenor
    - **d.** Short Rate Down: The shortest end of the term structure is shocked down by 300bps while the shock gradually dissipates exponentially towards the long tenors reaching 0 at the longest tenor
    - **e.** Flattener: A weighted combination of opposite shocks applied on the short (Up 300) and long tenors (Down 150) which gradually dissipate as they move to the other end of the term structure. The effect of the shock is to flatten the term structure so all the tenors have comparable rates.
    - **f.** Steepened: A weighted combination of opposite shocks applied on the short (Down 300) and long tenors (Up 150) which gradually dissipate as they move to the other end of the term structure. The effect of the shock is to steepen the term structure so that the short rates are lower than usual and long rates are

	higher than usual. 3. While all these scenarios are applied for ΔEVE computations, only the first two scenarios are utilized to compute the ΔNIIF using Income approach. A rate floor of 0% is applied when shocking the rates downwards.
e	**Significant modeling assumptions used in the bank's IMS Vs ICAAP**
The modeling assumptions used in the bank's internal models and used for assessment of capital adequacy is identical to the one reported as part of the disclosures. The assumptions are built in line with the recommendations provided as part of the SAMA regulations.	
f	**A high-level description of how the bank hedges its PRRBB, as well as the associated accounting treatment.**
The bank maintains its risk position at the desired level through strategic planning of the balance sheet composition rather than entering into tactical and artificial profit rate hedges or other such market instruments.	
g	**A high-level description of key modeling and parametric assumptions used in calculating ΔEVE and ΔNII in Table B.**

For NMDs, first a set of homogenous cohorts have been identified using various customer and account level attributes like Line of business, Customer segment, Sector, Nationality, Residence, Product type, Profit rate paid, Currency etc. Within the retail cohorts, the transaction and non-transactions accounts were further segregated. The identification of transactional accounts was based on the previous twelve-month transactional history of each accounts considering utility bill payments, point-of-sale transactions, standing orders and salary credits. If the account was found to have at least one transaction of any of the above types of the transactions during all the months of the previous year, it was considered transactional. For each of the cohorts, the accounts were further segregated based on the account opening month (vintage/length of relationship) and a balance decay profile was built for various time horizons using the historical monthly average balances. A five-year monthly data history was available with the bank for the analysis as the Bank itself began operations in 2009 with data systems being gradually developed. The NMD portfolio of the bank consisted largely of the non-profit bearing accounts and hence a rate pass through analysis was not performed. Instead, the decay profile time series was then regressed with market rates. The balances that were found to be correlated with the market rates were designated as the non-core portion and slotted in the overnight bucket while the non-correlated component was slotted as per their decay profile over various time buckets. The decay profile was further adjusted to fit within the regulatory caps of maximum portion to be considered as core and the maximum effective maturity of the core portion. The NMDs of the bank are largely non-profit bearing accounts but have been slotted in time buckets and have been included in the discounting calculations for computing EVE.

For the fixed rate retail financing portfolios, major product types of Murabaha

Financing, Fixed rate Ijarah financing were used as the homogenous cohorts. The floating rate Ijarah home financing portfolio was also considered but has insignificant prepayment rates. The fixed rate Ijarah portfolio was also found to have insignificant prepayment rate while also being immaterial as it only comprises 1.1% of the total assets. While the bank has a policy of imposing a three-month profit as penalty for prepayments as capped by SAMA, it may not be sufficient to recoup the economic cost of prepayment and hence a prepayment analysis was performed. Based on the historical five-year facility wise repayment history, excess repayments over and above the scheduled payment were computed. The portfolio wise aggregate of monthly excess repayments was used to compute the Single Monthly Mortality (SMM) measure for the historical period. A weighted average base line prepayment rate was computed and scenario wise scalars were applied for slotting cash flows per scenario.

For retail term deposits, a full list of historical term deposits that were on the books of the bank during the previous five (5) years were gathered and deposits which were redeemed earlier than their maturity were identified. A base line term deposit redemption ratio was computed using the weighted number of deals that were redeemed early compared to number of total deals. Further, scenario wise scalars were applied on the redemption ratio for adjusting the term deposit cash flows while slotting in the time buckets. The portion of term deposits that are expected to redeem early based on the scenario specific redemption ratio are slotted in the overnight bucket while the rest of the balances are slotted as per their maturity. Due to limited number of early redemptions observed, entire retail term deposit portfolio has been considered as a single cohort.

The corporate financing portfolio of the bank consists largely of floating rate Ijarah, fixed rate short tenor trade financing and Bai-Ajel products. More than 83% of the corporate balances reprise or mature within one year and of the remaining portion the bank has observed insignificant if any prepayments. For corporate term deposits,

the bank ensures that any early redemption is penalized to recoup the full economic loss and hence no further analysis was conducted. The bank does not have any automatic rate options embedded in its products as it does not offer rate floors or caps and does not deal directly in any explicit rate options. Other non-amenable portfolios like Credit cards were slotted using a judgment approach as these products were prices as per the policy of the bank rather than being driven by changes in market rates.

Finally, the items amenable to slotting are slotted into the time buckets as per their re-pricing tenors or maturity tenors, the non-amenable items slotted as per the behavioral analysis conducted. The only other major currency position observed other than SAR is the USD which comprises about 4.3% on the asset side and 3.3% on the liability side. Given the currency is pegged and does not breach the materiality threshold of 5%, the computation of the PRRBB measures was done only using the SAR.

The Net Income after Investments and Financing (NIIF) sensitivity was estimated using the customer rates assuming a flat balance sheet profile over a horizon of twelve months under the parallel 200bps up and down scenarios. For Economic Value of Equity (EVE) sensitivity the internal transfer pricing cash flows were discounted by applying the six shock scenarios on the current transfer pricing curve (base reference rate and product wise liquidity premium) to get the change in EVE under each scenario. Essentially the credit spreads have been totally removed from both the cash flows and discounting factors. The worst case change in EVE was observed in short rate up shock scenario.

h	**Any Other information**
None.	

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Quantitative disclosures	
1	**Average maturity assigned to NMDs.**
Average maturity of all NMDs: 2.23 Years	
2	**Longest reprising maturity assigned to NMDs.**
The slotting of NMDs has been done till the longest tenor of 5.5Years	

Template IRRBB1 - Quantitative Information on IRRBB

				SAR in million
In Reporting Currency	**EVE**		**NII**	
Period	**Dec-17**	**Sep-17**	**Dec-17**	**Sep-17**
Paraller Up	(511)	(182)	239	276
Paraller Down	552	187	(203)	(246)
Steepener	297	391		
Flattener	(391)	(404)		
Short Rate Up	(571)	(445)		
Short Rate Down	544	390		
Maximum	(571)	(445)		
Period	**Dec-17**		**Sep-17**	
Tier 1 Capital	20,597		20,101	

41 – REMA - Remuneration policy (Compensation & Incentives Policy).

As an integral part of the compensation governance, the Bank follows appropriate compensation practices in line with the SAMA guidelines and Financial Stability Board (FSB) Principles/Standards. The Bank has implemented a "Compensation & Allowances" policy approved by the Board of Directors (the "Board"). The Bank has also established a Nomination and Compensation Committee. It has been mandated by the Board to review and recommend sound compensation policies for adoption by the Bank. While developing and implementing such policies, the Bank has sought to align the same with the risks related to capital, liquidity and sustainability as well as timing of revenue streams. The Bank has adopted fixed as well as variable compensation schemes. The variable component is aligned not only with the aforesaid risks but also with the overall performance of the Bank and the individual, and risk involved in the relevant job function. The Bank consistently evaluates its compensation policies against the industry and makes necessary revisions as and when required.

REMA - Remuneration awarded during the financial Year

SAR '000

		Remuneration	Senior Management	Other Material risk-takers
1	**Fixed remuneration**	**Number of employees**	15	552
2		**Total fixed remuneration (3+5+7)**	31,060	191,913
3		Of which: cash based	31,060	191,913
4		of which: deferred	-	-
5		Of which: share or other share-linked instruments	-	-
6		of which: deferred	-	-
7		Of which: other forms	-	-
8		of which: deferred	-	-
9	**Variable remuneration**	**Number of employees**	15	552
10		**Total variable remuneration (11+13+15)**	15,622	38,478
11		Of which: cash based	13,960	37,607
12		of which: deferred	2,884	1,374
13		Of which: share or other share-linked instruments	1,662	871
14		of which: deferred	-	-
15		Of which: other forms	-	-
16		of which: deferred	-	-
17	**Total remuneration**		46,682	230,391

REMA 2 - Special Payments

SAR '000

Special Payments	Guaranteed bonuses		Sign-on awards		Severance payments		Total amount
	No. of employees	Total amount	No. of employees	Total amount	No. of employees	Total amount	
Senior Management	-	-	-	-	-	-	-
Other Material risk-takers	-	-	-	-	-	-	-

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REMA 2 - Deferred Remuneration

SAR '000

		a	b	c	d	e
	Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of Which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustments	Total amount of amendments during the year due to ex post explicit adjustments	Total amount of amendments during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	**Senior Management**	**7,597**	**7,597**	-	-	**4,546**
	Cash	5,402	5,402	-	-	2,884
	Shares	2,194	2,194	-	-	1,662
	Cash-Linked instruments	-	-	-	-	-
	Others	-	-	-	-	-
2	**Other Material Risk-takers**	**5,113**	-	-	-	**2,245**
	Cash	4,595	4,595	-	-	1,374
	Shares	518	518	-	-	871
	Cash-Linked instruments	-	-	-	-	
	Others	-	-	-	-	
	Total (1+2)	**12,709**	**12,709**	-	-	**6,791**