البنك السعودي للاستثمار
The Saudi Investment Bank

Basel III Pillar III

Qualitative & Quantitative Disclosures

December 31, 2017

OVA: Bank risk management approach

a) **Business model determination and risk profile**:

The name of the top corporate entity in the Group to which this disclosure applies is The Saudi Investment Bank (hereinafter called the Bank / SAIB)

The Bank has the following three 100% owned subsidiaries:

• Alistithmar Capital for Financial Securities and Brokerage Company, a limited liability company;

• Saudi Investment Real Estate Company, a limited liability company, yet to commence any significant operations; and

• Saudi Investment First Company, a limited liability company, registered in the Kingdom of Saudi Arabia on November 9, 2014. The company has not commenced any significant operations.

The Bank has investments in the following four associates (where investment is above 20% but not exceeding 50%):

• American Express (Saudi Arabia) (Amex)-(ASAL). ASAL is a limited liability company with Amex (Middle East), Bahrain. The principal activities of ASAL include the issuance of credit cards and the offer of other American Express products in Saudi Arabia. The Bank holds a 50% interest.

• Saudi Orix Leasing Company (Orix). Orix is a Saudi Arabian closed joint stock company in Saudi Arabia. The principal activities of Orix include lease-financing services in Saudi Arabia. The Bank holds a 38% interest.

• Amlak International for Finance and Real Estate Development Co. (Amlak). Amlak is a Saudi Arabian closed joint stock company in Saudi Arabia and the Bank holds a 32% interest. The principal activities of Amlak include real estate finance products and services. The Bank has no other subsidiaries nor operates any other business activities outside of Saudi Arabia. The Bank is subject to all laws and regulations of Saudi Arabia and is regulated by SAMA.

The Bank also follows relevant regulations pertaining to the financial services industry issued by the Ministry of Commerce and Investment and the Capital Market Authority (CMA).

b) **The risk governance structure**:

At the top level, the Board of Directors is responsible for establishing the Bank's Corporate Governance processes and for approving the Bank's Risk Appetite and related risk management framework. It is also responsible for approving and implementing policies to ensure compliance with SAMA guidelines, reporting standards such as IFRS 9 and best industry practices including Basel guidelines. The Board of Directors has approved the Bank's Risk Management Guide Policy as an overarching Risk Policy Guide under which the Bank has a suite of policies such as the Risk Appetite Framework, Credit Policy Guide, Treasury Policy Guide, Stress Test Policy, ICAAP Policy, Operational Risk and Fraud Risk and other related policies.

The Board of Directors is supported by the Board Risk Committee (BRC), a sub-committee of the Board, responsible for recommending policies for Board approval and for monitoring risks within the Bank. At the management level, the Bank has various committees including the Enterprise Risk Management Committee (ERMC), Credit Committee (CC) and Asset Liability Committee (ALCO) which are responsible for various areas of risk management. Other committees include the Operational Risk Management Committee (ORMC), Stress Testing Committee (STC), Financial

Fraud Control Committee, Business Continuity Management Committee, Information Security Steering Committee and the Structured Solution Approval Committee (SSAC).
At the departmental level, the Bank has a Risk Management Group headed by the Chief Risk Officer (CRO) who is assisted by Assistant General Managers in charge of Risk Management, Credit Risk Review, Credit Administration and Collections Department. The Heads of Corporate Credit Risk, Retail Credit Risk, Market Risk, Operational Risk Management department report to the Assistant General Manager (Risk Management). Heads of Business Continuity Management and Fraud Prevention & Detection Departments report to Head of Operational Risk Management Department.

In addition to the above, the Bank's internal audit function reports to the Board's Audit Committee and provides an independent validation of the business and support unit's compliance with risk policies and procedures and the adequacy and effectiveness of the Bank's risk management function.

c) **Channels to communicate, decline and enforce the risk culture**:

The Bank's Risk Culture encompasses the accepted norms of behavior for individuals and groups within the Bank that determine the collective ability to identify and understand, openly discuss, and act on the Bank's current and future risks. The Bank's Risk Appetite Framework (RAF) underlines the importance of the Bank's risk culture, which is grounded in shared values and common understanding, clear communication, and controls how each employee's activities contribute to the Bank's risk profile. The Bank's risk culture affects its risk taking behavior and is an important element of the Risk RAF and Risk Appetite Statement (RAS) by ensuring the Bank's risk taking behavior is translated into measurable metrics. The Bank's RAF specifically includes zero tolerance relating to regulatory non-compliance risk, willful acts of violation of local laws, frauds/money laundering, and other actions which can adversely impact the reputation and business of the Bank.

d) **The scope and main features of risk measurement systems**:

The Bank uses various industry-standard IT systems to manage and measure its credit, market, operational, liquidity and other risks. It also uses an industry standard tool for credit assessment and rating.

In addition, it has several Bank specific models for measurement of risks. In addition, the Bank has adopted the BCBS Principles of Effective Risk Aggregation and Risk Reporting and initiated major IT systems projects for data aggregation and reporting, including creation of a risk data mart for consistent and accurate risk reporting.

e) **Process of risk information reporting provided to the board and senior management**:

The Bank generates MIS and other regulatory reports covering various types of risks on daily, weekly, fortnightly, monthly, quarterly, six-monthly and annual frequencies as required under various policies and procedures. The relevant reports are reviewed by senior management and by relevant management level Committees which are further reviewed and approved by the Board Risk Committee and Board of Directors, according to the Bank's well defined policies.

f) **Qualitative information on stress testing**:

The Bank has a comprehensive stress testing framework which follows effective stress testing practices and methodologies to make stress testing an integral part of the Bank’s risk management function, as well as to meet SAMA regulatory requirements.

The Bank has also appointed a Stress Testing Committee (STC) headed by the Chief Risk Officer and has implemented a Bank-wide Stress Testing Policy (STP) which has been approved by the Board of Directors. In addition, the STC, in accordance with the STP, has appointed a cross-functional Stress Testing Team (STT) to conduct detailed stress testing with the results submitted to the STC for its review and feedback.

The Bank’s Stress Testing framework specifies the frequency and schedule of stress tests and reporting of the stress test results in accordance with SAMA’s requirements. Semi-annual stress tests reports are submitted to SAMA after review and approval by the Board of Directors. Top-down and bottom-up risk analyses and various stress tests are also performed to measure the impact of extreme, yet plausible events which enables holistic assessment of vulnerabilities of the Bank’s strategy. At the request of SAMA, specific ad-hoc stress tests are also performed in order to measure capital adequacy under severe economic downturn scenarios.

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

Various risk policies of the Bank lay down a detailed structure for managing, hedging and mitigating various types of risk such as credit risk, market risk, operational risk, Interest rate risk in banking book, counterparty credit risk, liquidity risk etc. The control over such activities is exercised from the Level of Board of Directors to the various committees at the management level.

SAR (000)

OV1: Overview of RWA

	Description	a	b	c
		RWA		Minimum capital requirements
		31-Dec-17	30-Sep-17	31-Dec-17
1	Credit risk (excluding counterparty credit risk) (CCR)	74,778,437	76,893,747	**5,982,275**
2	Of which standardised approach (SA)	74,778,437	76,893,747	**5,982,275**
3	Of which internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	1,104,453	1,076,729	**88,356**
5	Of which standardised approach for counterparty credit risk (SA-CCR)	1,104,453	1,076,729	**88,356**
6	Of which internal model method (IMM)	-	-	-
7	Equity positions in banking book under market-based approach	-	-	-
8	Equity investments in funds – look-through approach	-	-	-
9	Equity investments in funds – mandate-based approach	-	-	-
10	Equity investments in funds – fall-back approach	-	-	-
11	Settlement risk	-	-	-
12	Securitisation exposures in banking book	-	-	-
13	Of which IRB ratings-based approach (RBA)	-	-	-
14	Of which IRB Supervisory Formula Approach (SFA)	-	-	-
15	Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	1,897,923	909,100	**151,834**
17	Of which standardised approach (SA)	1,897,923	909,100	**151,834**
18	Of which internal model approaches (IMM)	-	-	-
19	Operational risk	4,605,141	4,294,667	**368,411**
20	Of which Basic Indicator Approach	4,605,141	4,294,667	**368,411**
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)**	**82,385,954**	**83,174,243**	**6,590,876**

SAR (000)

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

Description	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 SAMA	5,263,438	5,263,438	5,263,438	-	-	-	-
Due from banks and other financial institutions	3,513,073	3,513,073	3,513,073	-	-	-	-
Investments, net	21,713,976	21,713,976	21,713,976	-	-	-	-
Loans and advances, net	59,588,284	59,588,284	60,196,863	-	-	-	-
Investments in associates	1,019,961	1,019,961	1,019,961	-	-	-	-
Property, equipment, and intangibles, net	1,002,910	1,002,910	1,002,910	-	-	-	-
Positive fair values of derivatives	669,170	669,170	-	1,903,410	-	-	-
Other real estate	718,724	718,724	718,724	-	-	-	-
Other assets	306,683	306,683	306,683	-	-	-	-
Total assets	**93,796,219**	**93,796,219**	**93,735,628**	**1,903,410**	**-**	**-**	**-**
Liabilities							
Due to banks and other financial institutions	7,609,686	-	-	-	-	-	7,609,686
Customer deposits	66,942,620	-	-	-	-	-	66,942,620
Term loans	2,014,823	-	-	-	-	-	2,014,823
Subordinated debt	2,003,068	-	-	-	-	-	2,003,068
Negative fair values of derivatives	116,655	-	-	-	-	-	116,655
Other liabilities	830,300	-	-	-	-	-	830,300
Total liabilities	**79,517,152**	**-**	**-**	**-**	**-**	**-**	**79,517,152**
Shareholders' equity	**13,494,067**	**-**	**-**	**-**	**-**	**-**	13,494,067
Tier 1 Sukuk	785,000	-	-	-	-	-	785,000
Total liabilities and equity	**93,796,219**						**93,796,219**

SAR (000)

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

	Description	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)	93,796,219	93,735,628	-	1,903,410	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	93,796,219	93,735,628	-	1,903,410	-
4	Off-balance sheet amounts	11,354,467	6,478,872	-	-	-
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	526,993	526,993	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
9	Market Risk of Fx Exposure	-	-		-	1,747,923
10	Derivatives	2,147,021	-	-	243,611	150,000
11	**Exposure amounts considered for regulatory purposes**	**107,824,700**	**100,741,493**	**-**	**2,147,021**	**1,897,923**

LIA: Explanations of differences between accounting and regulatory exposure amounts

Explanation of the origins of differences between carrying values and amounts considered for regulatory purposes shown in LI2:

Differences is due to consideration of provision amount.

• Valuation methodologies, including an explanation of how far mark-to-market and mark-to-model methodologies are used:

The Bank uses following hierarchy in determining and disclosing the fair value of its financial instruments:

Level 1. The Bank uses mark to market for its investment positions where prices quoted on daily basis.
Level 2. The fair value is estimated using a mark to model for which all significant inputs are observable from market data.
Level 3: A very small amount of instruments are valued based on counterparty quotes.

The valuation process is governed by separate policies and procedures approved by relevant Board and management committees.

• Description of the independent price verification process:

The Bank performs independent price verification for its investment portfolio using third party based price quotes and is performed by independent team under CRO.

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

The Bank doesn't have any positions on its trading book as of Dec 2017.

LR1: Summary Comparison of accounting assets versus leverage ratio exposure measure

Row#	Items	(SAR 000)
1	Total consolidated assets as per publisshed financial statements.	93,796,219
2	Adjustment for investments in banking, financial, insurance or commercial entities that are outside the scope for accounting purposes but outside the scope of regulatory consolidation.	-
3	Adjustments for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but exclusded from the leverage ratio exposure mrasure.	-
4	Adjustments for derivatives financial instruments.	243,611
5	Adjustments for securities financing transactions (i.e. repos and similar secured lending).	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equvivalent amounts of off-balance sheet exposures).	6,478,872
7	Other adjustments.	(18,295)
8	**Leverage ratio exposure**	**100,500,407**

SAR (000)

LR2: Leverage Ratio Common Disclosure Template

Row#	Items	31-Dec-17	30-Sep-17
	On-balance sheet exposure		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	91,892,809	96,436,123
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(18,295)	(18,295)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**91,874,514**	**96,417,828**
	Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	1,903,410	1,847,647
5	Add-on amounts for PFE associated with *all* derivatives transactions	243,611	267,487
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 off-sets and add-on deductions for written credit derivatives)	-	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**2,147,021**	**2,115,133**
	Securities financing transaction exposures		
12	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**-**	**-**
17	Off-balance sheet exposure at gross notional amount	102,458,685	100,681,421
18	(Adjustments for conversion to credit equivalent amounts)	(95,979,813)	(94,494,115)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**6,478,872**	**6,187,306**
	Capital and total exposures		
20	**Tier 1 capital**	14,260,772	14,007,605
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	100,500,407	104,720,268
	Leverage ratio		
22	**Basel III leverage ratio**	**14.19%**	**13.38%**

CRA: General qualitative information about credit risk

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

The Bank manages exposures to credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally when booking loans and advances, and investment activities. There is also credit risk embedded in off-balance sheet accounts, such as loan commitments.

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

The approach to credit risk management is based on a foundation, which preserves the independence and integrity of credit risk assessment. The Bank has a comprehensive framework of managing credit risk which includes an independent credit risk review function and credit risk monitoring process. Management and reporting processes are therefore combined with clear policies, limits, and approval structures which guide the day-to-day initiation and management of the Bank's credit risk exposure. This approach includes credit limits that are established for all customers after a careful assessment of their creditworthiness.

Standing procedures, outlined in the Bank's Credit Policy Guide approved by the Board of Directors, require that all credit proposals must be approved by either the Credit Committee or the Board's Executive Committee, based primarily on the level of the exposure.

Whenever necessary, credit facilities are secured by acceptable forms of collateral to mitigate the related credit risks. The Bank seeks additional collateral from counterparties as soon as impairment indicators are noticed for relevant individual loans or advances. The Bank also monitors the market value of collateral, requests additional collateral in accordance with underlying agreements, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Board defines the Bank's credit risk management strategy and approves significant credit risk policies to ensure alignment of the Bank's exposure with its overall risk policies.

The Bank controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and by continually assessing the creditworthiness of counterparties. The Bank also uses external ratings of the major rating agencies, where available.

The Bank's credit risk management policies are also designed to identify and set appropriate risk limits and to monitor the risks and adherence to those limits. Actual exposures against limits are routinely monitored.

The Bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation, and to control the level of credit risk taken. The Bank assesses counterparties using the same techniques as for its lending activities.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Loan Portfolio Concentration risk is well managed and monitored under the Bank's RAF. Loan Portfolio Concentration risk is managed and monitored under the Bank's Risk Appetite Framework.

Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or business or geographical location. Hence, the Bank seeks to manage its credit risk exposure through diversification of lending activities to ensure that there is no undue concentration of risks with individuals or groups of customers in specific locations, businesses or industries.

The Bank regularly reviews its credit risk management policies and systems to reflect changes in market products and emerging best practices.

The Bank ensures that its credit exposures are always in conformity with SAMA Rules on Large exposures. Credit facilities are granted based on detailed credit risk assessments which consider the purpose of the facility and source of repayment, prevailing and potential macro-economic factors, industry trends, and the customer's positioning within its industry peer-group.

In compliance with SAMA regulations, lending to individual board members and related parties is fully secured and monitored by the Credit Committee. Such transactions are made on substantially the same terms, including special commission rates as those prevailing at the time for comparable transactions with unrelated parties.

All new proposals and/or material changes to existing credit facilities are reviewed and approved by the Credit Committee and / or by the Executive Committee within the provisions of the Credit Policy Guide approved by the Board.

The credit facility administration process is undertaken by a segregated function to ensure proper execution of all credit approvals and maintenance of documentation, and proactive control over maturities, expiry of limits, collateral valuation, and legal covenants.

c) Structure and organization of the credit risk management and control function: The Bank's Executive Committee (a committee of the Board of Directors) and the Credit Committee at the management level implement the Board's credit risk strategy by identifying, assessing, monitoring, and controlling credit risk. It is supported by various departments such as Credit Risk Review, Corporate Credit Risk Management, Retail Credit Risk Management, Credit Administration and Collections.

The Executive Committee meets regularly to review loan portfolio quality and standards and to approve credits above predetermined levels.

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

The Board Risk Committee reviews compliance with various risk measures including compliance related to relevant regulatory guidelines.

The Bank's Audit Committee appointed by the Board reviews the audit reports submitted by the Bank's Internal Auditor throughout the year.

Departments within the Risk Management Group are audited by the Internal Audit Department and the reports are submitted to the Audit Committee.

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 Bank's exposures are continuously monitored through a system of triggers and early-warning signals aimed at detecting adverse symptoms that could result in deterioration of credit risk quality. The triggers and early-warning systems are supplemented by facility utilization and collateral valuation monitoring together with a review of upcoming credit facility expiration and market intelligence to enable timely corrective action by management. The results of the monitoring process are reflected in the Bank’s internal rating process. Credit risk is monitored on an ongoing basis with formal monthly and quarterly reporting to the Credit Committee, senior management, and the Board to ensure awareness of shifts in credit quality and portfolio performance along with changing external factors such as economic and business cycles.

Consumer credit risk reporting also includes a daily dashboard for consumer and small business lending, classification, and delinquency monitoring. Specialized and focused Remedial Management Unit and Special Credit Unit teams handle the management and collection of problem credit facilities and take any legal action if required.

SAR (000)

CR1: Credit quality of assets

Description		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	2,551,749	58,111,316	1,074,781	**59,588,284**
2	Debt Securities	-	20,992,733	-	**20,992,733**
3	Off-balance sheet exposures	-	11,354,467	-	**11,354,467**
4	***Total***	**2,551,749**	**90,458,516**	**1,074,781**	**91,935,484**

Defaulted exposures comprise of non-performing loans and past due over 90 days but not impaired.

SAR (000)

CR2: Changes in stock of defaulted loans and debt securities

1	**Defaulted loans and debt securities at end of the previous reporting period, June 30, 2017**	**2,376,552**
2	Loans and debt securities that have defaulted since the last reporting period	1,227,553
3	Returned to non-defaulted status	(619,786)
4	Amounts written off-Net	(106,037)
5	Other changes-movements in Non performing loans	(326,533)
6	**Defaulted loans and debt securities at end of the reporting period**	**2,551,749**

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.

The increase from the last published period to December 31, 2017 defaulted exposure is mostly due to implementation of IFRS 9 framework in

CRB: Additional disclosure related to the credit quality of assets

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.

Definition of "**Past due**": When a payment obligation on a credit account is not fulfilled in a timely fashion, the account is considered as ‘past due’.

In case of loan accounts where there is a clear date of payment, each day the account is past due it is counted until the obligation is met. The number of days that the obligor is past due at a given point in time is referred to as ‘days past due’.

Impaired: A loan is considered impaired when management determines that it is more probable that the Bank will not be able to collect all amounts due according to the original contractual terms or the equivalent value.

b) **The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.**

The 90 days past due rule is strictly applied unless Bank has strong documentary and legal evidence to support a different classification.

c) Description of methods used for determining impairments.

1. Either if the exposure is past due for more than 90 days on any credit obligations to the Bank.
2. Or if the Bank considers that obligor is unlikely to honor its credit obligation to the bank, without recourse by bank to actions such as legal intervention or realizing any associated collateral.

d) The Bank’s own definition of a restructured exposure:

A facility is restructured based on the approval of the appropriate credit authority if consistent undesirable developments in the conduct of the account are observed or where the borrower's rating is downgraded to Marginal or Special Mention category. Such a restructuring may result in rescheduling of the repayments and/or other concessions including forbearance.

SAR (000)

CREDIT RISK: GENERAL DISCLOSURES

Geographic Breakdown of On-Blalnce Sheet, Off Balance Sheet, and Derivatives Exposures							
Portfolios	**Geographic area**						
	Saudi Arabia	**Other GCC & Middle East**	**Europe**	**North America**	**South East Asia**	**Others Countries**	**Total**
Sovereigns and central banks:							
SAMA and Saudi Government	12,819,197						**12,819,197**
Others		4,754,710					**4,754,710**
Multilateral Development Banks (MDBs)							-
Public Sector Entities (PSEs)							-
Banks and securities firms	3,739,403	1,915,341	2,085,344	1,736,425	-	466,686	**9,943,199**
Corporates	43,923,665	1,110,987	359,878	628,069	-		**46,022,599**
Retail non-mortgages	16,032,522						**16,032,522**
Small Business Facilities Enterprises (SBFE's)	39,954						**39,954**
Mortgages							-
Residential	978,909						**978,909**
Commercial	3,980,982						**3,980,982**
Securitized assets							-
Equity	507,820						**507,820**
Others	7,495,346		-			-	**7,495,346**
Total	**89,517,798**	**7,781,038**	**2,445,222**	**2,364,494**	-	**466,686**	**102,575,238**

SAR (000)

CREDIT RISK: GENERAL DISCLOSURES

Industry Sector Breakdown of On-Blalnce Sheet, Off Balance Sheet, and Derivatives Exposures

Portfolios	**Industry Sectors**												
	Government and quasi government	Banks and other financial institutions	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building and construction	Commerce	Transportation and communication	Services	Consumer loans and credit cards	Others	**Total**
Sovereigns and central banks:													-
SAMA and Saudi Government	12,819,197												12,819,197
Others	4,754,710												4,754,710
Multilateral Development Banks (MDBs)													-
Public Sector Entities (PSEs)													-
Banks and securities firms	157,306	9,785,893											9,943,199
Corporates	2,570,518	11,446,618	54,081	6,373,139	1,129,160	888,144	5,092,097	13,794,215	2,284,074	2,390,553		-	46,022,599
Retail non-mortgages				1,318	545	126	1,552	15,417			16,013,564		16,032,522
Small Business Facilities Enterprises (SBFE's)			221	8,725			1,974	11,890	1,975	14,944		225	39,954
Mortgages													-
Residential												978,909	978,909
Commercial		-		15,478			13,242	2,444,411		55,841		1,452,010	3,980,982
Securitized assets													-
Equity		507,820											507,820
Others								1,317,581			70,499	6,107,266	7,495,346
Total	**20,301,731**	**21,740,331**	**54,302**	**6,398,660**	**1,129,705**	**888,270**	**5,108,865**	**17,583,514**	**2,286,049**	**2,461,338**	**16,084,063**	**8,538,409**	**102,575,238**

SAR (000)

CREDIT RISK: GENERAL DISCLOSURES

Residual Contractual Maturity Breakdown of On-Blalnce Sheet, Off Balance Sheet, and Derivatives Exposures										
Portfolios	Maturity breakdown									
	Less than 8 days	8-30 days	31-90 days	91-180 days	181-360 days	1-3 years	3-5 years	Over 5 years	No Fixed Maturity	Total
Sovereigns and central banks:										
SAMA and Saudi Government	1,282,000					1,191,144	3,814,309	2,550,306	3,981,438	12,819,197
Others					75,582	827,568	1,156,369	2,695,191		4,754,710
Multilateral Development Banks (MDBs)										-
Public Sector Entities (PSEs)										-
Banks and securities firms	1,565,999	1,018,338	416,650	471,447	86,856	2,326,214	1,808,896	315,657	1,933,142	9,943,199
Corporates	1,600,459	4,482,388	8,990,279	8,116,055	3,901,538	7,731,029	6,650,344	3,833,264	717,243	46,022,599
Retail non-mortgages	1,140	2,572	12,730	25,986	345,393	2,398,072	12,830,248	416,381	-	16,032,522
Small Business Facilities Enterprises (SBFE's)	623	3,164	8,183	5,998	5,235	9,033	7,493	225		39,954
Mortgages:										-
Residential		13	35		113	6,641	27,383	944,724		978,909
Commercial		14,864	42,086	102,227	711,059	1,147,251	1,382,421	581,074		3,980,982
Securitized assets										-
Equity									507,820	507,820
Others	1,052,135	38,151	1,285,788	1,590,536	992,574	558,802	763,546	-	1,213,814	7,495,346
Total	**5,502,356**	**5,559,490**	**10,755,751**	**10,312,249**	**6,118,350**	**16,195,754**	**28,441,009**	**11,336,822**	**8,353,457**	**102,575,238**

SAR (000)

CREDIT RISK: GENERAL DISCLOSURES

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 / (transfers) during the period**	**Charge-offs during the period, net**	**Balance at the end of the period**	
Government and quasi government	-	-	-	-	-	-				900
Banks and other financial institutions	27,065	52,966	-	-	52,966	-			27,100	40,771
Agriculture and fishing	-	98,754	12,460	80,760	17,994					189
Manufacturing	143,395	-	-	-	-	-	11,000		11,500	132,777
Mining and quarrying	-	4,213	-	-	4,213	-				6,193
Electricity, water, gas and health services	-	-	-	-	-	-				
Building and Construction	148,304	67,729	95,125	20,979	42,017	4,733	45,000		45,700	16,426
Commerce	159,720	793,800	362,932	51,371	550,142	192,287	72,000	43,126	180,894	56,272
Transportation and communication	45,112	-	-	-	-	-			30,800	15,783
Services	236	66,043	6,941	-	64,870	1,173			3,300	15,266
Consumer loans and credit cards	242,195	-	403,153	-	-	-	105,055	77,497	242,195	165,904
Others / (General)	7,121	695,096	516,286	26,171	1,043	667,882	(9,974)		6,300	76,511
Total	**773,148**	**1,778,601**	**1,396,897**	**179,281**	**733,245**	**866,075**	**223,081**	**120,623**	**547,789**	**526,992**

SAR (000)

CREDIT RISK: GENERAL DISCLOSURES

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	773,148	1,396,897	179,281	733,245	866,075	547,789	526,992
Other GCC & Middle East		-	-	-	-		
Europe		-	-	-	-		
North America		-	-	-	-		
South East Asia		-	-	-	-		
Others countries		-	-	-	-		
Total	**773,148**	**1,396,897**	**179,281**	**733,245**	**866,075**	**547,789**	**526,992**

CREDIT RISK: GENERAL DISCLOSURES

Reconciliation Of Changes In The Allowances For Loan Impairment		
Particulars	**Specific allowances**	**General allowances**
Balance, beginning of the year	445,330	549,514
Charge-offs taken against the allowances during the period	(206,315)	(12,440)
Amounts set aside (or reversed) during the period	223,081	(10,081)
Other adjustments:		
- exchange rate differences		
- business combinations		
- acquisitions and disposals of subsidiaries		
- recoveries	85,692	
Transfers between allowances		
Balance, end of the year	**547,788**	**526,993**

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: Portfolio diversification is the cornerstone of the Bank's credit risk mitigation strategy, which is implemented through customer, industry, and geographical limit structures:**

To ensure diversification at the portfolio level, interrelated companies with the same management or ownership structure are classified and treated as one entity. The Bank limits its credit concentration to various types of counterparties as per the Large Exposure Guidelines issued by SAMA in 2015.

Credit risk mitigants such as collateral and guarantees are effective mitigating factors within the Bank's portfolio and collateral quality is continuously monitored and assessed.

The Bank uses a credit classification system as a tool to assist in managing the quality of credit risk within the lending portfolio. The Bank maintains ten classification grades that differentiate between performing, past due but not impaired and impaired portfolios, and allocates portfolio provisions and specific provisions accordingly.

The Credit Committee conducts quality classification exercises over all of its existing borrowers subject to the guidelines provided in the Credit Policy Guide.

Consumer loan loss provisions are allocated on the basis of portfolio provisioning in compliance with SAMA regulatory requirements.

The adequacy of provisions are regularly reviewed and adjusted according to a portfolio risk analysis undertaken on a monthly basis.

The Bank uses external ratings (where available) from Fitch, S&P and Moody's to supplement internal ratings during the process of determining credit limits. Unrated public issue instruments are risk-weighted at 100% for capital adequacy purposes.

In respect of counter party financial institutions with derivatives exposures, the Bank signs standard ISDA Master Agreements including a Credit support Annex. The Bank also makes use of collateral exchanges on the changes relating to MTM valuations. Counterparty risk in the Bank is controlled using a combination of Board approved risk appetite limits and risk control monitoring using an integrated system of limit management at both a product and counterparty level.

For the measurement of exposure, (i.e. Exposure At Default-EAD), the Basel mandated methodology is used, where marked-to-market (MTM) (replacement cost in the case of derivatives and drawn amounts in the case of committed facilities), plus an add-on for potential future exposure (PFE) is used. The capital at risk or unexpected loss, i.e. the loss, which constitutes the economic capital is also calculated and monitored. The exposures are revalued daily at market close, PFE is adjusted and mitigation measures applied (collateral, netting, etc.) and limits compliance is monitored daily.

For collateral management, derivative transactions subject to collateral agreements are marked to market daily and the parameters agreed in the collateral agreement are applied and accordingly margin calls are managed.

b) Core features of policies and processes for collateral evaluation and management: Collateral management is handled independently by the Credit Administration Department which is responsible for safe custody of the documents and securities offered as collateral:

Based on SAMA guidelines and best practices, the Bank has laid down policies for valuation of collaterals such as shares, bonds and real estate. In respect of listed/quoted shares, the valuation is based on the daily end of day prices. In respect of real estate, an annual valuation is obtained based on the average valuation of at least two approved valuers.

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 reviews and monitors collateral concentration by various types such as maximum permissible exposure to a company's shares pledged as collateral, maximum exposure of shares pledged for an individual company, number of shares of different companies any borrower can pledge based on the level of Bank's exposures to the borrower etc.

SAR (000)

CR3: Credit risk mitigation techniques – overview

		a	b	c	d	e	f	g
Description		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	59,588,284	27,453,948	40,741,602	11,401	23,126	-	-
2	Debt securities	20,992,733	-	-	-	-	-	-
3	**Total**	**80,581,017**	**-**	**40,741,602**	**11,401**	**23,126**	**-**	**-**
4	Of which defaulted	806,434	1,745,314	1,489,468	-	-	-	-

CRD: Qualitative disclosures on the 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;

The Bank currently uses the Standardized Approach for the credit risk capital calculation charge under SAMA guidelines. The Bank uses the ratings issued by Standard & Poor's (S&P), Moody's, and Fitch, which are the External Credit Assessment Institutions (ECAIs) approved by SAMA for the Standardized Approach. There has been no change in the ECAI used by the Bank during 2017. The Bank has not yet implemented the internal ratings-based (IRB) Approach.

b) **The asset classes for which each ECAI or ECA is used:**

The Bank does not use any specific agency exclusively for any particular type of exposure. The available ratings of any of the above three approved ECAIs on the obligors classified as Sovereign, Public Sector Entities, Multilateral Development Banks, Banks and Security Firms, and Corporates are used for risk weighting the exposures on them. The Bank's exposure to the obligors therefore reflects the correct issue rating from an acceptable ECAI long-term issuer rating.

c) A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book (see paragraphs 99–101 of the Basel framework):

Distinction between long-term and short-term claims is made only in respect of claims on banks. Generally, short-term ratings are deemed to be issue specific to be used only for the rated short-term facility. Short-term ratings are not used for any other short-term claims. If there are three or more assessments with different risk weights, the assessments corresponding to the two lowest risk weights are referred to and the higher of those risk weights is applied.

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

		a	b	c	d	e	f
	Asset classes	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		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	17,573,907	-	17,573,907	-	-	-
2	Non-central government public sector entities	-	-	-	-	-	-
3	Multilateral development banks	-	240,000	-	-	-	-
4	Banksand Securities firms	8,201,245	55,402,175	8,201,245	274,579	3,507,215	0.41
5	Corporates	40,706,902	39,659,718	40,171,490	5,262,314	44,640,508	0.98
6	Regulatory retail portfolios	16,065,293	156,189	16,061,866	10,610	12,215,588	0.76
7	Secured by residential property	978,909	-	978,909	-	982,137	1.00
8	Secured by commercial real estate	3,980,982	-	3,980,982	-	3,980,982	1.00
9	Equity	507,820	-	507,820	-	507,820	1.00
10	Past-due loans	-	-	-	-	-	-
11	Higher-risk categories	-	-	-	-	-	-
12	Other assets	6,858,241	7,000,604	6,852,941	551,554	8,735,178	1.18
13	**Total**	**94,873,299**	**102,458,685**	**94,329,160**	**6,099,057**	**74,569,427**	**6.34**

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CR5: Standardized approach – exposures by asset classes and risk weights, On Balance Sheet and Off Balance Sheet

		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	17,573,907									17,573,907
2	Non-central government public sector entities (PSEs)										-
3	Multilateral development banks (MDBs)										-
4	Banks & Securities firms			3,429,352		3,432,261		593,562	688	1,019,961	8,475,824
5	Corporates			188,241		2,852,834		41,844,130	548,599		45,433,804
6	Regulatory retail portfolios						15,854,901	3,756	213,819		16,072,476
7	Secured by residential property							972,452	6,457		978,909
8	Secured by commercial real estate							3,980,982	-		3,980,982
9	Equity							507,820	-		507,820
10	Past-due loans							-			-
11	Higher-risk categories							-			-
12	Other assets	605,629						5,986,126	812,740	-	7,404,495
13	**Total**	**18,179,536**	**-**	**3,617,593**	**-**	**6,285,095**	**15,854,901**	**53,888,828**	**1,582,303**	**1,019,961**	**100,428,217**

*Banks subject to the simplified standardised approach should indicate risk weights determined by the supervisory authority in the columns.

** Investments in Associates

CCRA: Qualitative disclosure related to counterparty credit risk

a) Risk management objectives and policies related to counterparty credit risk, including:

The Bank manages and controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank's risk management policies are designed to identify and to set appropriate risk limits and to monitor the risks and adherence to limits. Actual exposures against limits are routinely monitored. The Bank's credit risk for derivatives represents the potential cost to replace the derivative contracts if counterparties fail to fulfill their obligation. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

b) The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures;

For the measurement of exposure, (i.e. Exposure At Default-EAD), the Basel mandated methodology is used, where marked-to-market (MTM) (replacement cost in the case of derivatives and drawn amounts in the case of committed facilities), plus an add-on for potential future exposure (PFE) is used. The capital at risk or unexpected loss, i.e. the loss, which constitutes the economic capital is also calculated and monitored. The exposures are revalued daily at market close, PFE is adjusted and mitigation measures applied (collateral, netting, etc.) and limits compliance is monitored daily. For collateral management, derivative transactions subject to collateral agreements are marked to market daily and the parameters agreed in the collateral agreement are applied and accordingly margin calls are managed.

c) Policies relating to guarantees and other risk mitigants and assessments concerning counterparty risk, including exposures towards CCPs;

Refer to (a) above.

d) Policies with respect to wrong-way risk exposures;

The Bank has laid down criteria for certain wrong way exposures such as pledges of shares of the borrowing company not being treated as acceptable collateral.

For derivative exposures, a Credit Support Annex (CSA) under the International Swap Dealers Association (ISDA) Master Agreement and exchange of margins on MTM basis with all the counterparties ensure minimal wrong way exposures.

The Bank reviews the impact of credit rating changes in respect of its counterparties from to time and takes suitable measures for any expected shortfall in collateral.

d) The impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade:

The Bank has not entered in such contracts where rating downgrade will impact the collateral provisions. The Bank's credit rating has not been downgraded during the year.

CCR1: Analysis of counterparty credit risk (CCR) exposure by approach

	Description	a	b	c	d	e	f
		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	1,903,410	243,611		1.4	2,147,021	1,104,453
2	Internal Model Method (for derivatives and SFTs)						
3	Simple Approach for credit risk mitigation (for SFTs)						
4	Comprehensive Approach for credit risk mitigation (for SFTs)						
5	VaR for SFTs						
6	**Total**						1,104,453

CCR2: Credit valuation adjustment (CVA) capital charge

Description		a EAD post-CRM	b RWA
	Total portfolios subject to the Advanced CVA capital charge		
1	(i) VaR component (including the 3×multiplier)		
2	(ii) Stressed VaR component (including the 3×multiplier)		
3	All portfolios subject to the Standardised CVA capital charge	2,147,021	209,010
4	Total subject to the CVA capital charge	2,147,021	209,010

SAR (000)

CCR3: Standardized approach – CCR exposures by regulatory portfolio and risk weights, Derivatives

Regulatory portfolio*/ Risk weight***	a	b	c	d	e	f	g	h	i
	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposures
Sovereigns and their central banks	-	-	-	-	-	-	-	-	-
Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-
Banks and Securities firms	-	-	859,624	607,751	-	-	-	-	1,467,375
	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	101,986	-	486,809	-	-	588,795
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	90,851	-	-	90,851
Total	**-**	**-**	**859,624**	**709,737**	**-**	**577,660**	**-**	**-**	**2,147,021**

*The breakdown by risk weight and regulatory portfolio included in the template is for illustrative purposes. Banks may complete the template with the breakdown of asset classes according to the local implementation of the Basel framework.

**Banks subject to the simplified standardised approach should indicate risk weights determined by the supervisory authority in the columns.

CCR5: Composition of collateral for CCR exposure

Description	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	-	-	-	-	-	-
Cash – other currencies	1,285,843	-	1,291,540	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	3,041,412
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	1,285,843	-	1,291,540	-	-	3,041,412

MRA: Qualitative disclosure requirements related to market risk

a) Strategies and processes of the bank: this must include an explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the bank's market risks, including policies for hedging risk and strategies/processes for monitoring the continuing effectiveness of hedges:

The monitoring and control of market risk is handled by an independent market risk team which is responsible for ensuring market risk exposures are measured in accordance with defined policies and monitored daily against the prescribed control limits. The Bank has established a market risk management policy and specified market risk measurements and limits in Bank's Treasury Policy Guide approved by the Board of Directors. ALCO, the Treasury and Investment Group and the Market Risk Departments are primarily responsible for managing, monitoring and controlling this risk in accordance with approved policies.

b) Structure and organization of the market risk management function: description of the market risk governance structure established to implement the strategies and processes of the bank discussed in row (a) above, and describing the relationships and the communication mechanisms between the different parties involved in market risk management:

The Market Risk function is a part of Risk Management Group which is intendent from the Treasury and other Business Units. The Bank has intendent Back Office and Middle Office functions as well. The communication between different parties involved in the market risk management is reported for control purposes to Credit Committee/ALCO/Board Risk Committee/board of directors, as the case may be.

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

For regulatory capital purposes, the Bank calculates its market risk capital requirements according to the Standardized methodology. All activities giving rise to market risk are conducted within a structure of approved credit and market exposure limits.

The Bank performs daily revaluation of its positions exposed to market risk at market close as per the approved methodologies under TPG. The fair value principles are adopted when no market quotes are available. The Bank uses various integrated systems to perform the measurement of its exposure and applies appropriate methodology to measure market risk. It is ensured that measurement and reporting is performed outside the risk taking units with adequate internal control processes in place.

The Bank uses industry standard IT systems for its Treasury operations and recording of transactions. The Bank also has industry standard systems for market risk measuring, monitoring, reviewing and reporting. The Bank is also in the process of installing additional systems for advanced risk measurements as a part of risk data aggregation and reporting project.

MR1: Market risk under standardized approach

	Description	a RWA
	Outright products	**1,897,923**
1	Interest rate risk (general and specific)	150,000
2	Equity risk (general and specific)	-
3	Foreign exchange risk	1,747,923
4	Commodity risk	-
	Options	-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	**Total**	**1,897,923**

The Bank's market risk component comprises of Fx and Interest Rate Risk.
The Bank does not maintain trading book positions in Equity and OTC Derivatives.

Operational Risk

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

The Bank's Operational Risk Management Framework approved by the Board provides a structured approach to identify, assess, monitor, and control operational risk through:

• Conducting Risk and Control Self-Assessment (RCSA) workshops and submitting Risk Profile Reports which rate the Entity’s Risk;
• Monitoring of agreed Action Plans that have emerged as a result of RCSA workshops;
• Maintaining operational risk loss event databases for analysis and reporting
• Implementing and monitoring of Key Risk Indicators;
• Creating awareness about the Risk Management Concepts with focus on Operational Risk among the Bank employees through e-learning;
• Periodically reviewing and updating Operational Risk Policies & Procedures and functionality of the ORM System to improve Operational Risk Management in the Bank;

• Conducting Annual Qualitative and Quantitative risk analysis covering all risk entities within a Business/Support Group;
• Review of tangible and intangible assets of the Bank and Corporate Risk Financing Plan;
• Reviewing operational risks and suggesting mitigants in respect of new products.

An operational risk appetite matrix is also used for monitoring operational risk losses on an ongoing basis. The key components of this framework are comprehensively documented through policies and procedures such Operational Risk Framework Policy, RCSA Policy, Loss Data Policy, Key Risk Indicators Policy and procedures such as Business Process Mapping procedure, Training and Awareness procedure etc.

The Operational Risk Management Committee (ORMC) has the overall responsibility of supervising the implementation of the operational risk management framework across the Bank. The ORMC reports to the Enterprise Risk Management Committee of the Bank, which in turn reports to the Board Risk Committee, a committee of the Board of Directors. The Operational Risk Management Department (ORMD) functions as part of the Risk Management Group.

The Bank has adopted a structured and proactive approach for the management of operational risks. The ORMD is subject to regular audit by the Bank’s Internal Audit Department. The ORMD collects data related to operational losses from day-to-day operations and feeds the same into the Operational Risk Management System. This covers activities including:

• Feeding the results of RCSA workshops for risk and control assessment;
• Providing follow-up on actions; • Maintaining an Operational Risk Loss Event Database; and
• Generating various standard reports for monitoring and control.

Any new products of the Bank are also assessed for inherent operational risks. The Bank’s insurance contracts are also subject to ORMD review on an annual basis. The outsourcing contracts of the Bank are also reviewed by the ORMD from an operational risk perspective.

The Bank is currently using the Basic Indicator Approach of the Basel III Accord to arrive at the Operational Risk Capital Charge by taking 15% of the average gross income of the Bank for the last three years as defined under Section 650 of the Basel III included in the SAMA Basel III guidelines.

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

Interest rate risk in the banking book (IRRBB)

a) The general qualitative disclosure requirement (paragraph 824), including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency of IRRBB measurement:

Interest rate risk in the banking book (IRRBB) is the exposure of the Bank's financial position to adverse movements in interest rates. Changes in interest rates affect earnings by changing its net special commission income and also affect the underlying value of assets, liabilities and off-balance sheet financial instruments. The main sources of interest rate risk are repricing risk, yield curve risk, basis risk, and optionality risk. The Bank has internal methodology in place to estimate loan prepayments and behavior of non-maturity deposits. The Bank's interest rate risk management process includes implementation of interest rate strategies and policies, gap analysis of rate sensitive assets and liabilities in banking activities, as well as a system of internal controls. In particular, they address the need for effective interest rate risk measurement and monitoring and related control functions within the interest rate risk management process.

The IRRBB is managed through gap management in accordance with ALCO approved risk appetite and pre-defined limits. All interest rate sensitive assets and liabilities are segregated according to their appropriate interest re-pricing maturity dates, currency and gaps, and are managed accordingly.

The Bank also monitors the potential long-term effects of changes in the interest rates on the present value of all future cash flows by using economic value of equity analysis to analyze and measure the risk on capital.

To hedge and minimize interest risk due to interest rate movements, the Bank uses approved hedging products and strategies to periodically rebalance assets and liabilities to bring interest rate sensitive positions within desired tolerance levels.

The Bank monitors IRRBB exposures on a monthly basis for internal monitoring purposes and conducts stress tests at six-monthly intervals on such exposures using various interest rate shock scenarios.

b) Quantitative disclosures:

The increase (decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring IRRBB, broken down by currency (as relevant).

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

200bp Interest Rate Shocks for currencies with more than 5% of Assets or Liabilities	
Rate Shocks	**Change in earnings**
Upward rate shocks:	
SAR	132,897
USD	123,795
Downward rate shocks:	
SAR	(132,897)
USD	(123,795)

Remuneration Policy

As required by SAMA, the tables in the next slides summarize the Group's employee categories defined in accordance with Basel III Pillar III 2017 rules on compensation practices. It includes the total amounts of fixed and variable compensation paid to employees, and the forms of such payments, and also includes the variable compensation accrued, and other employee benefits and related expenses incurred during the years ended December 31, 2017.

The Board of Directors of the Bank has established a Nomination and Remuneration Committee (the Committee) which consists of five board members. The Committee is primarily responsible for recommending appointments to membership of the Board of Directors and key executives of the Bank in compliance with the Bank's Corporate Governance Guidelines, completing annual reviews for the requirements of suitable skills and independence for membership of the Bank's Board of Directors, reviewing the structure of the Board of Directors, establishing policies for the compensation and remuneration of members of the Board of Director's, and overseeing the Bank's employee compensation system's design.

The Committee is also responsible to recommend to the Board of Directors the approval of the Bank's Compensation Policy and any amendments thereto, to ensure that the Bank's remuneration policies are in compliance with SAMA guidelines and the Financial Stability Board's (FSB) Principles on compensation, to periodically review the Bank's remuneration and compensation policy, to evaluate practices by which compensation is paid, and to determine the performance bonuses for the Bank's employees based on the risk adjusted profit of the Bank.

The Bank's Remuneration and Compensation Policy is designed to attract, retain and motivate high performing and high potential employees. Employees participate in various variable pay arrangements. Discretionary variable pay as well as fixed pay reviews are dependent on the achievement of objectives, which is monitored/measured via a robust performance management system. The grant of the variable component of the reward, both cash and shares, is strictly dependent on the achievement of set targets and level of achievements and the Bank's overall performance. Higher achievements will warrant a better performance rating and higher variable compensation. The Balanced Scorecard concept is used as a performance management tool and Performance objectives are typically categorized into four segments including financial, customer, process, and people.

Financial and non-financial metrics are also used to measure performance against the objectives, which include profitability, expense control, customer satisfaction, quality assurance, employee development and engagement, workforce diversity, sustainable business practices, lending guidelines, internal controls, compliance with regulations, and business systems and processes. Effective risk management is also emphasized to maintain a strong and secure operating platform. A Risk Appetite Framework Policy has been established and compliance with the annual Risk Appetite Statement is key to all remuneration decisions including variable pay arrangements.

In addition to the above, the Bank's employees are encouraged to participate in employee share savings and incentive schemes. Variable remuneration is linked to long-term value creation and risk horizons. It is also based on individual, business segment and Bank performance criteria. Accordingly, for certain variable remunerations, a portion of the incentive earned for the annual performance bonus program and the employee stock grant plan program are deferred in line with long term risk realization. The vesting is subject to claw back mechanisms.

The Bank's subsidiaries have adopted a similar approach to remuneration and compensation practices as described above, including policies within a framework of prudent risk management.

The Bank offers to its eligible employees ("Employees") equity shares in the Bank under an Employee Stock Grant Plan ("the Plan"). This Plan has been approved by SAMA. Under the terms of the Plan, employees are granted shares which vest over a four-year period. The cost of the Plan is measured by the value of the shares on the date purchased and recognized over the period in which the service condition is fulfilled using an appropriate valuation model, and ending on the vesting date. Employee share option schemes are recorded by the Bank at fair value at grant date. The shares acquired for the share option schemes are recorded at cost and are presented as a deduction from shareholders' equity as adjusted for any transaction costs, dividends, and gains or losses on sales of such shares.

The Group also offers to its employees an Employee Contributory Share Option Plan. The Plan entitles eligible employees to acquire shares in the Bank based on a pre-determined subscription price at the beginning of the Plan period. Over a two year period, employees contribute to the purchase of the shares through monthly payroll deductions. At the end of the subscription period, according to the plan, employees are granted the subscribed shares. Should the share price at the end of the subscription period fall below the subscription price, the employees are reimbursed for the difference between the share price and the subscription price.

In addition, the Group grants to its eligible employees other types of security and savings plans that are based on mutual contributions by the Group and the employees. These contributions are paid to the participating employees at the respective maturity date of each plan.

Short-term employees' benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The liability for the Group's employee's postemployment end of service benefits is determined based on an actuarial valuation conducted by an independent actuary, taking into account the provisions of the Saudi Arabian Labor and workman's law. The liability for other long-term employees' benefit plans are also based on an actuarial valuation conducted by an independent actuary taking into account the respective terms of the individual benefit plans.

SAR (000)

REM1 - Remuneration awarded during the financial year

Remuneration amount			a	b
			Senior management	**Other material risk-takers**
1	**Fixed remuneration**	**Number of employees**	**19**	**131**
2		**Total fixed remuneration (3 + 5 + 7)**	**35,130**	**54,903**
3		Of which: cash-based	35,130	54,903
4		Of which: deferred		
5		Of which: shares or other share-linked instruments		
6		Of which: deferred		
7		Of which: other forms		
8		Of which: deferred		
9	**Variable remuneration**	**Number of employees**	**19**	**131**
10		**Total variable remuneration (11 + 13 + 15)**	**15,594**	**12,883**
11		Of which: cash-based	11,272	10,437
12		Of which: deferred		
13		Of which: shares or other share-linked instruments	**4,322**	**2,446**
14		Of which: deferred	4,322	2,446
15		Of which: other forms		
16		Of which: deferred		
17	**Total remuneration (2 + 10)**		**50,724**	**67,786**

SAR (000)

REM2 - Special payments

Special payments	Guaranteed bonuses				Sign-on awards				Severance payments			
	Number of employees		Total amount		Number of employees		Total amount		Number of employees		Total amount	
Senior management	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other material risk- takers	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

SAR (000)

REM3 - Deferred remuneration

	a	b		c	d	e
Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained	exposed to ex post explicit and / or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management						
Cash	1,757		-	-	-	-
Shares	5,287		-	-	-	4,322
Cash-linked instruments	-		-	-	-	-
Other	-		-	-	-	-
Other material risk-takers						
Cash	777		-	-	-	
Shares	3,761		-	-	-	2,445
Cash-linked instruments	-		-	-	-	-
Other	-		-	-	-	-
Total	**11,582**		**-**	**-**	**-**	**6,767**