Basel III Pillar 3

Qualitative and Quantitative Disclosures

31 December 2017

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Qualitative and Quantitative Disclosures

B.1 – Table OVA
Bank Risk Management Approach

Scope

Bank Albilad risk management objectives and policies are disclosed in relation to various key risks as highlighted by the Board of Directors.

a) Business model determination and risk profile

Bank Albilad manages several types of risk at different levels of the organization. Key types of risk are as follows:

- **Credit risk:**

Credit and counterparty risk is defined as the risk arising from an obligor's failure to meet all or part of its obligations. Credit and counterparty risk arises when funds are extended, committed or otherwise exposed through contractual agreements, whether reflected on/off-balance sheet.

- **Market risk:**

Market risk is defined as the risk arising from losses because of the market value of the Bank's assets and liabilities variation based on market conditions.

- **Liquidity risk:**

Liquidity risk is defined as the risk arising from losses when the bank's normal liquidity reserves remain insufficient to meet its obligations.

- **Operational risk:**

Operational risk the risk of is defined as the risk arising from losses owing to deficient or erroneous internal procedures, human or system errors, or external events.

b) The risk governance structure

- **Credit risk:**

To manage, measure, monitor and mitigate credit risk, independent credit committees exists within Bank Albilad. The committees operate under board-approved delegated limits, policies and procedures. There is a high level of executive involvement and non-executive review and oversight in the credit decision-making.

- **Market and Liquidity risk:**

To manage, measure and mitigate market risk, independent asset and liability committee exists within Bank Albilad. The committee operates under Board-approved delegated limits, policies and procedures. Limits have been set to keep potential losses and market variation within acceptable risk tolerance levels.

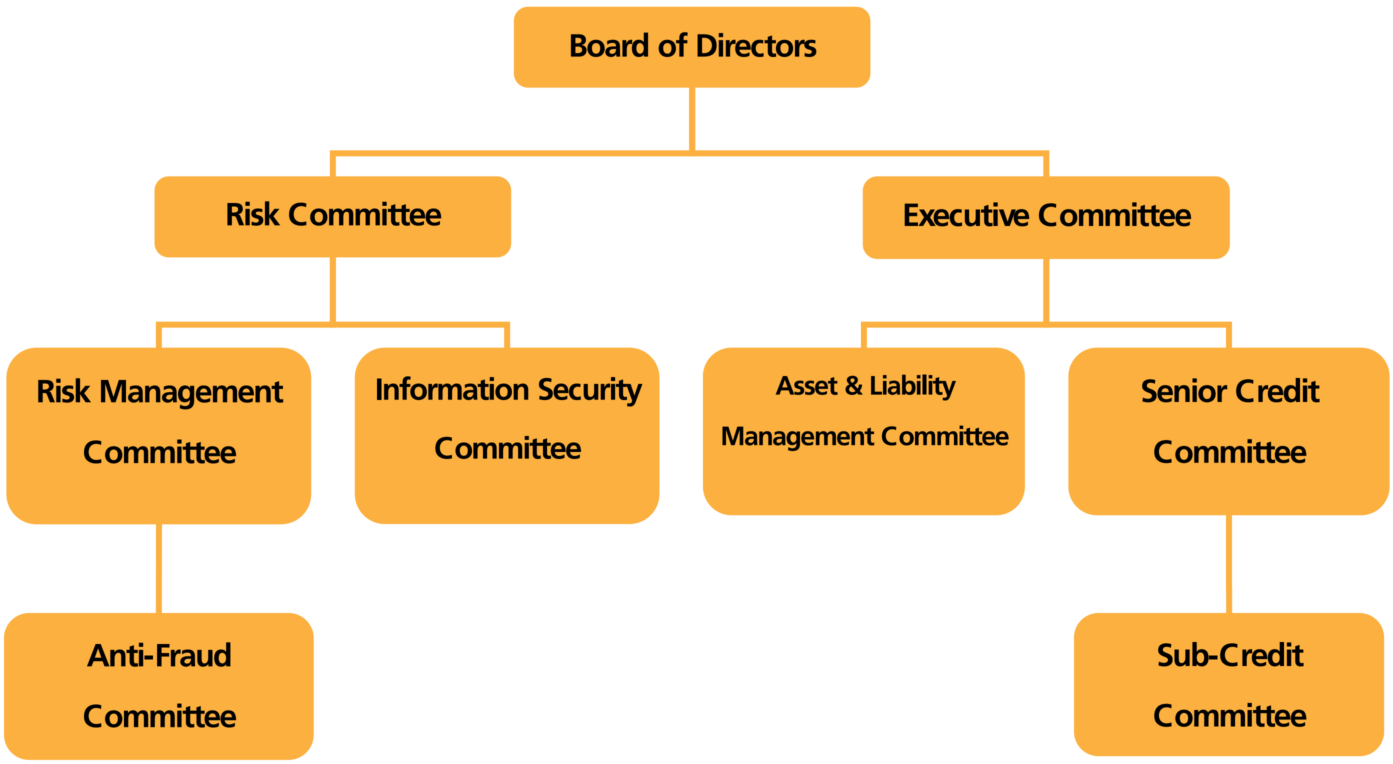
- **Operational risk:**

To manage, measure, monitor and mitigate operation risk, independent risk committees exists within Bank Albilad. The committees operate under Board-approved delegated limits, policies and procedures. Also, the governance structure relating to operational risk forms an integral part of the operational risk management framework.

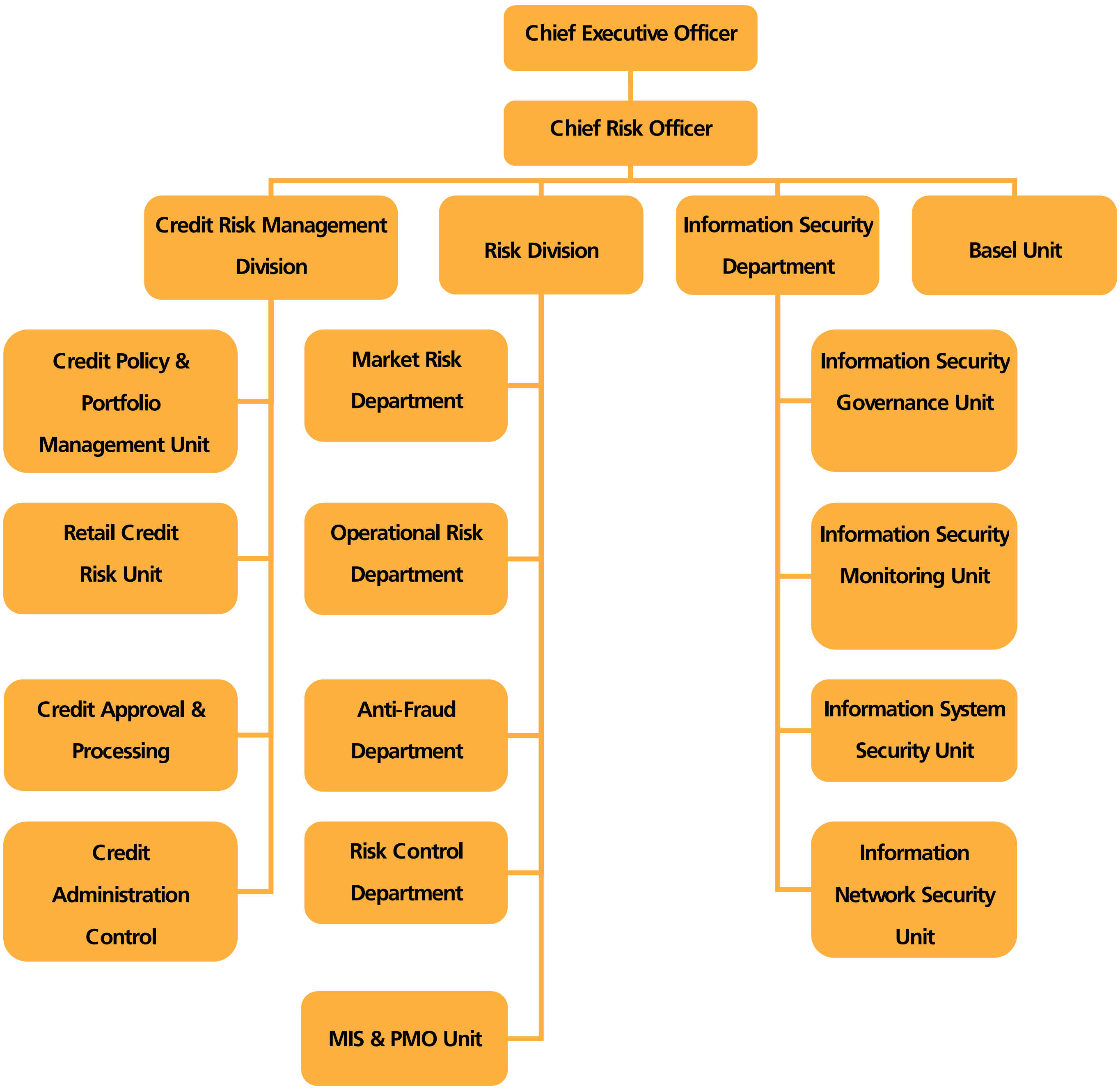
c) Channels to communicate and enforce the risk culture

Bank Albilad comprehensive risk management process involves identifying, quantifying, managing and mitigating the risks associated with all business units, as well as, monitoring and controlling risk exposure through independent credit, market, liquidity and operational functions.

A number of committees identify and manage risk at the bank level. These committees operate and are mandated by the Board and organized in the structure as shown below:



The Risk Management Divisions are organized in the structure as shown below:



d) The scope and main features of risk measurement systems

Risk Management Divisions objectives are to be the custodian of adherence to the Bank risk management culture and support the long-term sustainability by providing an established, independent framework for identifying, evaluating, monitoring and mitigating risk. Furthermore, Risk Management Divisions set, approve and monitor adherence to risk parameters and limits across the Bank and ensures they are implemented and adhered to consistently, hence, to give the Board reasonable assurance that the risks the Bank is exposed to are identified and appropriately managed and controlled.

e) Process of risk information reporting provided to the Board and senior management

The Risk Management Divisions receive regular reports on developments in the Bank's balance sheet structure and balance sheet movements, including its capital deployment and risk appetite. Assessment of the materiality of risks is directly linked to the Board's approved risk management policies covering all key risks. Key identified risks are monitored by Risk Management Divisions to ensure that each risk is managed to an acceptable level. Moreover, key risks are reviewed and debated by senior management on a continuous basis.

Detailed performance and control metrics of these risks are reported to each independent committee meeting including, where appropriate, the results of scenario testing. Key risk types that are considered fall within the following:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

f) Qualitative information on stress testing

Bank Albilad conducts comprehensive stress tests of the risk models at regular intervals and the results are presented to the senior management and the Board of Dirctors. In addition, there are a number of other qualitative requirements to ensure that the model is completely up to date with respect to documentation, calculation methods and control measures.

g) The strategies and processes to manage and mitigate risks

A key component of Bank Albilad's business strategy is for risk management to support the objective of being a strong financial partner with insight and transparency in risk-taking.

The Bank's vision is to adopt best international standards and practices in risk management. Bank Albilad uses substantial resources to develop procedures and tools that support this vision. Accordingly, the Bank has built up substantial expertise in risk and capital management.

Managing risk is a process operated independently of the business units of Bank Albilad. It aims to promote a strong risk management culture through a comprehensive set of processes that are designed to effectively identify, measure, monitor and control risk exposures. The Board of Directors and senior management are involved in the establishment of all risk processes and the periodic oversight and guidance of the risk management function. The processes are subject to additional scrutiny by independent Shariah Board as well as internal and external auditors, and the Bank's regulators, which help further strengthen the risk management practices.

- **Credit risk:**

Management of Credit Risk

The Bank measures and manages its credit risk by adhering to the following principles:

- Consistent standards are applied across the Bank in the respective credit decision processes through the use of internal rating models for corporate lending customers. In retail, for Behavioral scoring it has been devolved, but for Application scoring is still in the developing stages with support of consultants and currently Credit Bureau (SIMAH) Scoring is being used for few segments for financing scores.

- The approval of credit limits for counterparties and the management of its individual credit exposures must fit within the Bank's portfolio guidelines and its credit strategies, and each decision also involves a risk-versus-return analysis.

- Every extension of credit or material change to a credit facility (such as its tenor, collateral structure or major covenants) to any counterparty requires credit approval at the appropriate authority level.

Bank currently assigns credit approval authorities based on dual sign-off system by business and risk up to a certain level, beyond which the proposals are referred to Credit Committee's, Executive Committee and finally Board for approval.

Strategies of Credit Risk

The aims of credit risk management are:

- To maintain a strong culture of responsible lending, supported by a robust risk policy and control framework
- Implementing risk appetite; and
- To ensure independent, expert scrutiny and approval of credit risks and their mitigation.

Mitigation of Credit Risk

Bank Albilad uses a variety of financial and non-financial collateral and guarantees to mitigate the underlying credit risk in its regular lending and treasury operations. Usage of purchased protection in the form of credit derivatives is negligible at this point of time .The bank adheres to the list of acceptable collateral and credit protection provided by SAMA to all banks in the Kingdom (except gold and silver).

Broad collateral types currently used by Bank Albilad include:

- **Financial Collateral**
    - Cash margins
    - 'Customer Share' in LC Musharaka transactions
    - Cash collateral for extending credit or to protect counterparty default.

- Equities of local listed shares approved by the Shariah Board of the bank for corporate lending and share trading. The list of acceptable equities is periodically reviewed by Credit Committee.
- Local and foreign, Mutual Fund units, comprising of listed companies acceptable under Shariah law.

- **Real Estate collateral**
  - Commercial Real Estate, used for securing the bank's exposure to corporate and commercial borrowers.
  - Residential Real Estate, used for securing a mortgage provided to a retail customer

- **Guarantees**
  - Formal and legally enforceable guarantees received from Banks.
  - Legally enforceable Personal guarantees

- **Others**
  - Assignment of proceeds for revenue generated by projects financed by Bank Albilad. Each project financed has a separately defined limit which is part of the credit limit provided to the counterparty.
  - Assignment of salary account in case of individual borrowers, and each instalment to be deducted from this account at each due date

Valuation of Collaterals

The Credit Committee accepts an independent valuation of the assets being pledged before acceptance and at defined frequencies depending on the nature of collateral. The valuation is conducted by a team of independent valuation experts.

Valuation of collaterals is based on the current market value of the same. Independence of the valuation expert and shall be ensured so that the valuation is not biased to:

- Grant a higher credit limit to the borrower or
- Make a smaller quantum of provisions or

- Continue interest accrual for a problem credit.

The Risk Management Divisions ensure that the valuation method used, whether internal or external, is based on assumptions that are both reasonable and prudent and all assumptions have been clearly documented.

Collateral is valued, wherever possible, at net realizable value, defined as the current market value less any potential realization costs including but not limited to carrying costs of the repossessed collateral, legal fees or other charges associated with disposing of the collateral.

Bank Albilad aims to maintain a level of information about pledges and guarantees that is sufficient for it to regularly estimate the value thereof. The value is calculated as the amount received from a forced sale less the costs of realization, including costs for days on the market.

To some extent, the Bank receives guarantees for credit exposures. A large part of these guarantees are provided by enterprises or persons where a Divisions relationship between the borrower and the guarantor exists. Bank must evaluate the guarantor before accepting the guarantee.

- **Market risk:**

Management of Market risk

Market risk concerns with profit margin rate, yield curves and prices. The market risk arises from the changes in market prices in Murabaha, yield curve, foreign exchange, commodity and equity. The bank exposure for market risk in trading book is limited to the overall exposure in foreign exchange.

- **Profit Margin Risk**

Profit Margin Risk in the banking book is defined as the impact of the bank’s asset and liability exposures to changes in profit margin rates. It arises principally from mismatches between the future re-investment rate and their funding costs, as a result of changes in profit rates.

For the purpose of profit margin risk management, the market risk at Bank Albilad measures yield curve risk, which expresses the losses if profit margin rates changed for various terms and different currencies.

- **Foreign Exchange Risk**

Foreign Exchange Risk is the risk of losses on the trading and banking book positions in foreign currency because of adverse changes in exchange rates against banks exposures.

The overall potential loss is generally calculated using bank net open position as the maximum sum of long and short position currencies.

Strategies of Market Risk

The Board of Directors has approved the limits for the market risk and liquidity risk for the Bank Albilad to be in line with the strategic risk exposure and risk appetite targets as per bank's market risk and liquidity risk policies. In addition, the Asset and Liability Committee regularly monitors and discusses issues within scope of market and liquidity risk.

Bank Albilad uses both conventional risk measures and advance risk models for measuring risk market and liquidity risk, such as, Liquidity Mis-matches, Major Depositors Concentration Limits, Loan to Deposit Ratio, Net Non-Core funding dependency ratio, Basel 3 – Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), Profit rate risk, Periodic and Cumulative Gaps and Economic Value at Risk to measure its market risk and liquidity risk exposures and they are reported to:

- Board of Directors and senior management on quarterly/monthly basis;
- SAMA on quarterly basis; and
- Business units on daily basis.

Bank Albilad's Value-at-Risk model is currently used for the Pillar II calculation.

Value-at-Risk is a statistical measure of the maximum loss that the Bank may incur on its portfolios over a certain period of time at a certain confidence level. Value-at-Risk is a risk measure that quantifies potential losses under normal market conditions.

A major advantage of using the Value at Risk is that it provides a combined figure for all risk types, which facilitate the monitoring, and control of market risks. In addition it takes into account the market factors volatilities and correlations.

Certain Bank Abilad's financial instruments cannot be valued by means of prices in the market; instead they are valued on the basis of pricing models developed internally by the Bank. The Risk Management conducts independent model validation that assesses the ability of the model to price and manage the risk of a given product.

Model validation is made regularly for the new and current models. This is done to ensure that no changes have been made to the product or have taken place in the market which may have an impact on the model accuracy. In addition, continuous procedures have been established to control and validate the market prices used to value and calculate risk.

The measuring, monitoring and management reporting of market risk are reported on daily basis to the senior management and stakeholders. Current market risks are calculated and reported using in-house database.

The limits are established for the trading and banking book of the business unit and these are monitored regularly and sufficient procedures have been established to ensure any breaches of the limit is addressed by the business unit on timely basis.

The Board of Directors, the Asset and Liability Committee, the Business and risk management stakeholders are updated regularly about the bank's market risks and material events in this area. This reporting includes follow-up on both risks within the individual categories of market risks and the overall risk measures in the form of Value-at-Risk. Similarly, risk reporting has been established for the business units authorized to take market risks.

- **Liquidity risk:**

The risk that the Bank may not be able to meet its obligations when due, at an acceptable market cost, is termed liquidity risk. Liquidity risk is measured by matching assets and liabilities based predefined maturity buckets.

Liquidity risk is defined as the risk of losses result from:

- Bank's funding costs increase disproportionately;
- Lack of funding prevents the Bank from establishing new business; or
- Lack of funding will ultimately prevent the Bank from meeting its obligations.

Liquidity management at Bank Albilad is based on monitoring and managing operational and structural liquidity risks in various scenarios.

The management of operational liquidity risk aims primarily at ensuring that the Bank always has sufficient liquidity in the short term to absorb such net effects of transactions made and expected. In addition to SAMA's liquidity ratio, the bank is also monitoring the Basel 3- Liquidity Coverage Ratio (LCR) as one of the indicator in assessing the potential termed liquidity risk for the bank.

Bank Albilad's liquidity risks policies are approved by the Board In addition the liquidity contingency plan has been implemented aiming to ensure that Bank Albilad is sufficiently prepared to take remedial action if an unfavorable liquidity situation is occurred.

Bank Albilad's policies have been defined with respect to how much negative funding the Bank wishes to accept. In liquidity management, the Bank distinguishes between liquidity in local, and foreign currencies.

The Risk Management has set limits for liquidity risks, which are calculated separately for local and foreign currencies. The Market Risk Department is responsible for ensuring that the Bank complies with the operational liquidity risk limits and any breaches is escalated to senior management timely.

The Key Business & Risk Units stakeholders receive reports on the Bank's liquidity risks regularly. Moreover, the Asset/Liability Committee continuously assesses developments in the Bank's liquidity and plans long-term funding.

Managing Short-Term Liquidity Risk

The management of Bank Albilad's short-term, or operational, liquidity risk aims primarily at ensuring that the Bank has an adequate liquidity buffer that is able, in the short term, to absorb the net effects of transactions already made and expected changes.

Liquidity is determined on the basis of cash flows of outstanding transactions. The calculation is made taking into account the Bank's holdings of liquid assets. In managing the short-term liquidity risk, the Bank will ensure that the liquidity reserve ratio is higher than minimum threshold established by SAMA.

Managing Long-Term Liquidity Risk

Structural liquidity risk is managed based on considerations of the Bank's long-term liquidity mismatch. The management of this risk aims to ensure that the Bank does not build up an inexpediently large future funding requirement. Determining the structural liquidity is important when the Bank plans its funding activities and pricing.

The Bank manages the structural liquidity risk on the basis of a gap report. The gap report is based on a breakdown of the Bank's assets, liabilities and off-balance sheet items by maturity. For that purpose, the Bank uses the contractually fixed maturity dates for each product.

As part of the management of the Bank's structural liquidity risk, the liquidity position in the gap report is divided into a number of variables such as foreign exchange, product, business area and organizational units. These reports reflect, among other things, that the Bank has a structural liquidity surplus dominated in local currency.

Liquidity Scenario Analysis

Bank Albilad conducts stress tests to measure the Bank's immediate liquidity risk and to ensure that the Bank has a certain response time if a crisis occurs. The stress tests estimate the structural liquidity risk in various scenarios. The scenario analyses involve bank specific crises and general market crises. In addition, the bank is monitoring the Basel 3 – Net Stable Funding Ratio (NSFR) as one of the indicator in assessing the potential structural liquidity risk for the bank.

The Bank monitors the diversification of products, currencies, maturities, concentration of major depositors and the dependency of the volatile funding from interbank market to ensure that the Bank has a funding base that will protect the Bank to the greatest possible extent if markets come under pressure.

B.2 - Template OV1

Overview of RWA *(SAR '000)*

		a	b	c
		RWA		Minimum Capital Requirements
		T Dec 16	T-1 Sep 16	T
1	Credit risk (excluding counterparty credit risk) (CCR)	49,050,813	48,490,666	3,924,065
2	Of which standardized approach (SA)	49,050,813	48,490,666	3,924,065
3	Of which internal rating-based (IRB) approach	-	-	-
4	Counterparty credit risk	-	-	-
5	Of which standardized approach for counterparty credit risk (SA-CCR)	-	-	-
6	Of which internal model method (IMM)	-	-	-
7	Equity positions in banking book under market-based approach	-	-	-
8	Equity investments in funds – look-through approach	-	-	-
9	Equity investments in funds – mandate-based approach	-	-	-
10	Equity investments in funds – fall-back approach	-	-	-
11	Settlement risk	-	-	-
12	Securitization 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	1,512,788	551,025	121,023
17	Of which standardized approach (SA)	1,512,788	551,025	121,023
18	Of which internal model approaches (IMM)	-		-
19	Operational risk	4,899,270	4,746,995	391,942
20	Of which Basic Indicator Approach	4,899,270	4,746,995	391,942
21	Of which Standardized 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)	55,462,872	53,788,686	4,437,030

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 statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with SAMA	5,688,931	5,688,931	5,688,931	-	-	-	-
Due from banks and other financial institutions, net	7,706,382	7,706,382	7,706,382	-	-	-	-
Investments, net	5,140,017	5,140,017	5,140,017	-	-	-	-
Financing, net	43,447,429	43,447,429	43,447,429	-	-	-	-
Property and equipment, net	875,424	875,424	875,424	-	-	-	-
Investment property	- -	-	-	-	-	-	-
Other assets	349,493	349,493	349,493	-	-	-	-
Total assets	**63,207,676**	**63,207,676**	**63,207,676**	-	-	-	-
Liabilities							
Due to SAMA	2,012,518	-	-	-	-	-	2,012,518
Due to banks and other financial institutions	1,748,937	-	-	-	-	-	1,748,937
Customers' deposits	47,782,959	-	-	-	-	-	47,782,959
Sukuk	2,006,575	-	-	-	-	-	2,006,575

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitization framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Other liabilities	2,067,894	-	-	-	-	-	2,067,894
Total liabilities	**55,618,883**	**-**	**-**	**-**	**-**	**-**	**55,618,883**

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
			Items subject to:			
		Total	Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	63,207,676	63,207,676	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	63,207,676	63,207,676	-	-	-
4	Off-balance sheet amounts	6,244,585	3,286,003	-	-	-
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	-	-	-	-	-
10	**Exposure amounts considered for regulatory purposes**	**69,452,261**	**66,493,679**	**-**	**-**	**-**

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

a) Explanation of significant differences between the amounts in columns (a) and (b) in LI1.

There are no differences between Carrying values as reported in published financial statements and Carrying values under the scope of regulatory consolidation

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

Off-Balance sheet notional values are populated as total carrying/accounting value whereas credit equivalent amounts (applying conversion factors) are populated under respective regulatory framework.

c)
- **Valuation methodologies, including an explanation of how far mark-to-market and mark-to-model methodologies are used.**
- **Description of the independent price verification process.**
- **Procedures for valuation adjustments or reserves (including a description of the process and the methodology for valuing trading positions by type of instrument).**

Refer to note no. 2d & 32 of Annual Published Financial Statements

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

Bank Albilad provides Shariah based commercial banking services such as commercial finance, trade finance, consumer finance, charge cards and treasury products to all customer segments including corporates, individuals, business entities, financial institutions and government and semi-government institutions.

In a competitive pursuit of growth opportunities, Bank has adopted a retail as well as wholesale focused commercial banking business model to leverage the strengths of its large branch net-work and a team of highly skilled professionals by exploiting both Retail and Corporate sectors. Bank's business model is characterised by anchoring on stable funding sources through well diversified deposit base, and high quality financing assets both on and off balance sheet.

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

Credit Risk is the risk of loss resulting from inability of any counterparty to fulfill its obligations to the Bank as per the agreed terms. The bank follows guidelines given in the Basel Regime in letter and spirit, and follow industry best practice in managing this risk. A Risk Appetite statement is approved by the BOD annually which forms basis for defining all risk control parameters. Risk assets portfolio is monitored closely to comply with the defined parameters. The Bank's credit policy lays emphasis on using all modern decision making tools. Accordingly the Bank has adopted a robust system of Financial Analysis and Obligor Risk Rating. This is augmented by use of a model to assess Risk Adjusted Return on (economic) Capital - RAROC. The Credit Policy defines all concentrations to manage credit risk at portfolio level, and limits are accordingly set to keep concentration levels well within the Risk Appetite approved by the BOD. All counter party limits are approved by competent levels duly authorized by the BoD to approve credit underwritings while remaining strictly in compliance with regulatory guidelines.

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

The Credit Risk Management structure comprises of independent control functions reporting to the Chief Risk Officer. Credit Risk Division is managed under a well-defined framework of principles, organizational structure, and measurement and monitoring processes that are closely aligned with the Banks Credit Policy and Risk Appetite as articulated from time to time. While all credit proposals are initiated by relevant Businesses, these are independently processed by Credit Risk function to bring objectivity to decision making. Further, within Credit Risk function, Credit Policy, Credit Approvals, and Credit Administration are managed by independent departments to strengthen the controls. In view of the nature of the business, Retail and Consumer Credit is looked after by an independent Manager under the Credit Risk Management Division.

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

Bank Albilad operates three lines of defense credit risk management model. The first line of defense is the business divisions (i.e Retail, Wholesale and Treasury) who are the "owners" of the credit risks. The second line of defense is an independent risk and control infrastructure in the form of Credit Risk Division which is part of Risk Management Group. The third line of defense is Internal Audit and Compliance Departments, which assure the effectiveness of our controls. All three lines of defense are independent of one another and accountable for maintaining structures that ensure adherence to the design principles at all levels.

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

Risk management function periodically reports all important risk indicators to both the Executive Management and the Board which include different concentrations in financing portfolio, non performing financing and loan loss coverage, portfolio changes under stressed scenarios, and compliance with Risk Appetite approved by the Board.

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	532,176	44,164,204	1,248,951	43,447,429
2	Debt Securities	-	2,266,480	-	2,266,480
3	Off-balance sheet exposures	-	6,244,585	-	6,244,585
4	***Total***	***532,176***	***52,675,269***	***1,248,951***	***51,958,494***

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**	**378,746**
2	Loans and debt securities that have defaulted since the last reporting period	195,008
3	Returned to non-defaulted status	-
4	Amounts written off	11,020
5	Other changes	(30,558)
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**532,176**

Defaulted finances at the end of reporting period increased as compared to previous reporting date due to additional defaults in Corporate and Consumer financing. However, during the period there were also recoveries from non performing clients as well as some old defaulted finances were written off.

B.9 - Table 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.

Financing is considered to be past due if contractually agreed payments of principal and/or profit remain unpaid by the borrower on the due date. For calculating regulatory capital under Standardized Approach of Basel asset class "Past Dues" is considered if any counterparty has past due for more than 90 days, or had been in "past due" but their finances were rescheduled and these rescheduled finances are under observation for cure period. Finance, or a group of finances, is impaired, and impairment losses are incurred as per IAS 39, if there is objective evidence of impairment as a result of a loss-event that occurred after the initial recognition of the asset up to the balance sheet date. To allow management to determine whether a loss-event has occurred on an individual basis, all counterparty relationships are reviewed periodically. This evaluation considers current information and events related to the counterparty, such as the counterparty experiencing significant financial difficulty or a breach of contract, for example, default or delinquency in payment of principal or profit. There is no difference in accounting and regulatory definition of "past due" and "impaired".

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

In the normal course of business all the counterparties having full or partial exposure as past due for more than 90 days are treated as "impaired" as per guidelines contained in International Accounting Standard 39. As on reporting date of this disclosure under Pillar III one corporate client with exposure of SAR 68M was having past dues more than 90 days and was not treated as "impaired" as client promised and adjusted the past dues in January, 2018.

c) Description of methods used for determining impairments.

Credit Risk Management in collaboration with business units regularly assess whether or not there is objective evidence that a finance, or group of finances, is impaired. While we assess the impairment for our corporate credit exposures individually, we assess the impairment of our consumer financing exposures based on delinquencies in terms of loans that are 90 days or more past due. In some finances of our consumer credit portfolio we also subjectively impair finances where delinquencies are less than 90 days past due but we consider chances of recovery as minimal.

d) The bank's own definition of a restructured exposure.

At times due to economic or legal reasons the Bank enters into a restructuring agreement with a borrower who faces, or will face, financial difficulties. This is done in order to ease the contractual obligation of the borrower for a limited period of time. A case by case approach is applied for our corporate clients considering each transaction and client specific facts and circumstances. For consumer finances we offer rescheduling for a limited period of time, in which case the total or partial outstanding or future instalments are deferred to a later point of time. However, the amount not paid, including accrued profit during this period, is re-compensated at a later point of time. Repayment options include distribution over residual tenor, a one-off payment, or a tenor extension. Restructuring / Rescheduling are restricted and depend on the economic situation of the client, our risk management strategy, and legal considerations. In case a restructuring agreement is entered into, an impairment measurement exercise is conducted, and an impairment charge is taken, if necessary.

Quantitative disclosures

Breakdown of exposures by geographical areas *(SAR '000)*

Portfolios	Geographic Area				
	Saudi Arabia	Other GCC & Middle East	Europe	Others countries	Total
Sovereigns and their central banks	5,097,834	259,790	-	-	**5,357,624**
Non-central government public sector entities	-			-	**-**
Multilateral development banks	-			-	**-**
Banks	5,757,590	1,808,903	79,857	60,035	**7,706,385**
Securities firms	-			-	**-**
Corporates	20,770,779	37,896		-	**20,808,674**
Regulatory retail portfolios	13,075,720	-		-	**13,075,720**
Secured by residential property	2,569,869			-	**2,569,869**
Secured by commercial real estate	8,592,917			-	**8,592,917**
Equity	2,764,295	125,212	-		**2,889,506**
Past-due loans	613,586			-	**613,586**
Higher-risk categories	-			-	**-**
Other assets	2,933,273	-		-	**2,933,273**
Total	**62,175,862**	**2,231,800**	**79,857**	**60,035**	**64,547,554**
Contingencies & Commitments stated at credit equivalents	3,494,217	463,266	8,719	60,665	4,026,866
Total Credit exposure stated at credit equivalents	**65,670,079**	**2,695,065**	**88,576**	**120,700**	**68,574,420**

Breakdown of exposures by industry sector *(SAR '000)*

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 and construction	Commercial	Transportation and communication	Services	Consumer loans and credit cards	Others	Total
Sovereigns and their central banks	5,357,624												**5,357,624**
Non-central government public sector entities	-												**-**
Multilateral development banks													**-**
Banks		7,706,385											**7,706,385**
Securities firms													**-**
Corporates	-	-	475,978	6,118,401	109,425	1,196,037	1,382,037	4,601,476	740,189	2,141,924	-	4,043,207	**20,808,674**
Regulatory retail portfolios			-	18,496	-	3,966	6,637	17,825	4,576	13,927	12,965,638	44,655	**13,075,720**
Secured by residential property											2,569,869		**2,569,869**
Secured by commercial real estate	-	-	-				8,592,917						**8,592,917**
Equity	1,892,801			2,014			359,856	-	5,798	-		629,037	**2,889,506**
Past-due loans		90,923		95,418	-	3,000	50,361	166,309	574	4,945	140,018	62,038	**613,586**
Higher-risk categories													**-**
Other assets	-	-	-	-	-	-	-	-	-	-	-	2,933,273	**2,933,273**
Total	**7,250,425**	**7,797,308**	**475,978**	**6,234,329**	**109,425**	**1,203,004**	**10,391,808**	**4,785,610**	**751,137**	**2,160,796**	**15,675,525**	**7,712,210**	**64,547,553**

Contingencies & Commitments stated at credit equivalents	-	789,125	8,160	618,269	-	190,957	963,622	693,848	125,614	624,761	-	12,510	**4,026,866**
Total Credit exposure stated at credit equivalents	**7,250,425**	**8,586,432**	**484,138**	**6,852,598**	**109,425**	**1,393,960**	**11,355,430**	**5,479,459**	**876,752**	**2,785,557**	**15,675,525**	**7,724,720**	**68,574,419**

Amounts of impaired exposures and related allowances broken down by industry *(SAR '000)*

Industry sector	Impaired Financing	Allowances
Government and quasi government	-	-
Banks and other financial institutions	-	-
Agriculture and fishing	-	-
Manufacturing	98,185	97,404
Mining and quarrying	-	-
Electricity, water, gas and health services	3,000	3,000
Building and construction	50,361	50,362
Commercial	166,309	165,826
Transportation and communication	574	574
Services	4,945	4,905
Consumer loans and credit cards	140,018	127,137
Others	68,784	68,333
Total	**532,176**	**517,541**
Collective impairment allowances		731,410
Total Impairment Allowances		**1,248,951**

Amounts of exposures break down by residual maturity *(SAR '000)*

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	No Maturity	Over 5 years	Total
Sovereigns and their central banks	1,229,349				10,295	249,495		2,735,257	1,133,228	**5,357,624**
Non-central government public sector entities										**-**
Multilateral development banks										**-**
Banks	2,061,289	3,651,764	677,954	210,017	150,561	954,799	-	-	-	**7,706,384**
Securities firms										
Corporates	834,311	1,238,549	1,835,217	3,998,795	3,265,002	4,480,591	2,631,087	-	2,525,123	**20,808,674**
Regulatory retail portfolios	156,946	190,567	655,688	960,884	1,863,445	6,205,569	2,845,170	-	197,450	**13,075,720**
Secured by residential property	6,238	7,052	37,374	55,684	137,908	244,212	399,119	-	1,682,282	**2,569,869**
Secured by commercial real estate	206,987	30,488	698,394	746,634	996,392	2,883,117	2,035,420	-	995,484	**8,592,917**
Equity	-	550,680	1,040,421	-	-	-	-	996,706	301,700	**2,889,506**
Past-due loans	558,272	3,528	18,441	19,652	6,431	6,838	425	-	-	**613,586**
Higher-risk categories										**-**
Other assets	1,708,355	-	-	-	-	-	-	1,224,918	-	**2,933,273**

Total	**6,761,747**	**5,672,627**	**4,963,489**	**5,991,666**	**6,430,035**	**15,024,620**	**7,911,221**	**4,956,881**	**6,835,267**	**64,547,553**
Contingencies & Commitments stated at credit equivalents	23,599	173,650	618,770	833,215	1,227,415	710,539	335,913	-	103,766	4,026,866
Total Credit exposure stated at credit equivalents	**6,785,345**	**5,846,277**	**5,582,260**	**6,824,882**	**7,657,450**	**15,735,159**	**8,247,134**	**4,956,881**	**6,939,033**	**68,574,420**

Amounts of impaired exposures and related allowances broken down by geographical areas *(SAR '000)*

Portfolios	Impaired Financing	Allowances
Saudi Arabia	532,176	517,541
Other GCC & Middle East	-	-
Europe	-	-
North America	-	-
South East Asia	-	-
Others countries	-	-
Total	**532,176**	**517,541**
Collective impairment allowances		731,410
Total Impairment Allowances		**1,248,951**

Ageing analysis of accounting past-due exposures *(SAR '000)*

Ageing	Exposure of clients with past dues
1 to 30 days	2,943,088
31 to 90 days	205,574
91 to 180 days	-
Above 180 days	-
Total	**3,148,662**

Breakdown of restructured exposures between impaired and not impaired exposures *(SAR '000)*

	Corporate	Consumer	Total
Performing (non-impaired)	3,562,595	214,026	3,776,621
Impaired	66,055	484	66,539
Total	**3,628,650**	**214,510**	**3,843,160**

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.

Financial assets and liabilities are offset, with the net amount presented in the Consolidated Balance Sheet, only if the Bank holds a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis or to realize an asset and settle the liability simultaneously. The legal right to set off the recognized amounts must be enforceable in both the normal course of business, in the event of default, insolvency or bankruptcy of both the Bank and its counterparty. In all other situations they are presented gross. When financial assets and financial liabilities are offset in the Consolidated Balance Sheet, the associated income and expense items will also be offset in the Consolidated Statement of Income, unless specifically prohibited by an applicable accounting standard. The majority of the offsetting relates to derivatives which is not the target market for Bank Albilad.

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

We regularly agree on collateral to be received from customers in contracts that are subject to credit risk. Collateral is security in the form of an asset or third-party obligation that serves to mitigate the inherent risk of credit loss in an exposure, by either substituting the borrower default risk or improving recoveries in the event of a default. While collateral can be an alternative source of repayment, it generally does not replace the necessity of high quality underwriting standards and a thorough assessment of the debt service ability of the borrower.

Broadly collateral received can be segregate into the following two types:

- Financial and other tangible collateral, which enables us to recover all or part of the outstanding exposure by liquidating the collateral asset provided, in cases where the borrower is unable or unwilling to fulfil its primary obligations. Cash collateral, securities (shares, mutual funds), collateral assignments of other claims, pledge of assets (i.e., plant, machinery etc.) and real estate typically fall into this category.

- Guarantee collateral, which complements the borrower's ability to fulfil its obligation under the legal contract and as such is provided by third parties. Guarantees from individuals, corporates and semi govt. and from govt. institutions a typically fall into this category.

Our processes seek to ensure that the collateral we accept for risk mitigation purposes is of high quality. This includes seeking to have in place legally effective and enforceable documentation for realizable and measureable collateral assets which are evaluated regularly by dedicated teams. The assessment of the suitability of collateral for a specific transaction is part of the credit decision and is undertaken in a conservative way, including collateral coverage. In this regard, we strive to avoid "wrong-way" risk characteristics where the borrower's counterparty risk is positively correlated with the risk of deterioration in the collateral value. For guarantee collateral, the process for the analysis of the guarantor's creditworthiness is aligned to the credit assessment process for borrowers.

c) Information about market or credit risk concentrations under the credit risk mitigation instruments used (ie by guarantor type, collateral and credit derivative providers).

We use risk mitigation to optimize our corporate credit exposure and reduce potential credit losses. Concentrations within credit risk mitigations taken may occur if a number of securities or guarantors with similar economic characteristics are engaged in comparable activities with changes in economic or industry conditions affecting their ability to meet contractual obligations. We use a range of control including collateral concentration caps to monitor our credit risk mitigating activities. These also include monitoring of potential concentrations within collateral types while undertaking / approving the exposures in order to keep concentrations within acceptable levels. Bank Albilad neither participates in derivative market nor accepts credit derivatives as credit risk mitigation.

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	43,447,429	-	-	-	-	-	-
2	Debt securities	2,266,480	-	-	-	-	-	-
3	Total	45,713,909	-	-	-	-	-	-
4	Of which defaulted	532,176	-	-	-	-	-	-

Financing portfolio of the bank increased significantly over the period. Major contributor of the aforementioned increase is in the Corporate financing alongwith Consumer financing. Moreover, exposure in the Debt securities has approximately increased 50% over the period due to more participation in Sukuks.

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

In order to calculate the regulatory capital requirements under the standardized approach, external ratings from Standard & Poor's, Moody's, and Fitch Ratings are eligible to be used as per Internal Risk Rating Policy approved by the Board of Directors of the Bank. We use ratings available to the bank from aforementioned ECAIs and there has not been any change in this respect over the reporting period.

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

To calculate the regulatory capital requirements under the standardized approach, external ratings from Standard & Poor's, Moody's, Fitch Ratings are applied to all relevant exposure classes in the standardized approach. Nonetheless, Bank's corporate counterparties are mostly not rated by eligible ECAIs.

c) A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book

To determine the applicable risk weight Bank Albilad applies one assessment / rating (either issue or issuer) on the entire amount of credit risk exposure (i.e. both on principal and accrued profit) of a counterparty. Moreover, Basel guidelines for use of issue or issuer specific assessment are followed for determining the risk weight of the claim.

d) **The alignment of the alphanumerical scale of each agency used with risk buckets**

Credit rating is an essential part of the Bank's underwriting and credit process, and builds the basis for determination of risk acceptance on a counterparty and at portfolio level, credit decision and transaction pricing as well the determination of credit risk economic capital. Our rating analysis is based on a combination of qualitative and quantitative factors. Banks all over the world use a master scale as a means of classifying probabilities of default into grades for analytics and reporting purposes. Whilst free to derive their own master scales to suit their unique needs, Banks should aim to satisfy certain requirements when constructing their master scales including references for internal and external stakeholders to compare internal grades to common external benchmarks. Bank's 23-grade rating scale for portfolio is approximately mapped to external agency ratings as follows:

Moody's Rating	S&P Rating	Fitch Rating	Equivalent to BAB's Internal Rating	
			ORR	Description
Aaa	AAA	AAA	1	Excellent
Aa1	+AA	+AA	2	
Aa2	AA	AA	3	
Aa3	-AA	-AA	4	
A1	+A	+A	5	Very Strong
A2	A	A	6	
A3	-A	-A	7	
Baa1	+BBB	+BBB	8	Strong
Baa2	BBB	BBB	9	
Baa3	-BBB	-BBB	10	
Ba1	+BB	+BB	11	Adequate
Ba2	BB	BB	12	
Ba3	-BB	-BB	13	
B1	+B	+B	14	Marginal
B2	B	B	15	
B3	-B	-B	16	
Caa1	+CCC	+CCC	17	Vulnerable – Watch Listed
Caa2	CCC	CCC	18	
Caa3	-CCC	-CCC	19	
Ca-C	CC-C	CC-C	20	
Default	Default	Default	21	Substandard
Default	Default	Default	22	Doubtful
Default	Default	Default	23	Loss

B.13 - Template CR4

Standardized 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	5,357,624	-	5,357,624	-	-	0%
2	Non-central government public sector entities	-	-	-			
3	Multilateral development banks	-	-	-			
4	Banks	7,706,385	1,052,347	7,706,385	789,125	2,667,726	31%
5	Securities firms	-	-		-	-	
6	Corporates	20,802,274	4,503,195	20,802,274	2,290,613	22,955,265	99%
7	Regulatory retail portfolios	13,069,616	452,322	13,069,616	32,122	9,826,304	75%
8	Secured by residential property	2,569,869	-	2,569,537	-	1,927,153	75%
9	Secured by commercial real estate	8,592,585	123,995	8,592,917	99,259	8,592,917	99%
10	Equity	2,889,506	-	2,889,506	-	1,847,101	64%
11	Past-due loans	19,083	112,726	19,083	74,885	25,151	27%
12	Higher-risk categories	-	-			-	
13	Other assets	2,933,273	-	2,933,273		1,208,948	41%
14	**Total**	**63,940,215**	**6,244,585**	**63,940,215**	**3,286,003**	**49,050,564**	**73%**

B.14 - Template CR5

Standardized 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	5,357,624									5,357,624
2	Non-central government public sector entities (PSEs)										-
3	Multilateral development banks (MDBs)										-
4	Banks			6,186,910		2,002,286		60,537	245,776	-	8,495,509
5	Securities firms										-
6	Corporates			252,031		220,280		22,620,575	-		23,092,887
7	Regulatory retail portfolios						13,101,738				13,101,738
8	Secured by residential property						2,569,537	-			2,569,537
9	Secured by commercial real estate							8,692,176			8,692,176
10	Equity	1,892,801						290,647		706,058	2,889,506
11	Past-due loans							81,833	12,135		93,968
12	Higher-risk categories										-
13	Other assets	1,724,325						1,208,948			2,933,273
14	**Total**	**8,974,750**	**-**	**6,438,941**	**-**	**2,222,566**	**15,671,275**	**32,954,716**	**257,911**	**706,058**	**67,226,218**

Increased in 0% risk wieghted assets is due to increase on sovereign exposure. Increase in exposure after CCF & risk mitigation over the period in exposure in 75% risk weighted assets is due to increase in Consumer financing portfolio over the period. Increase in 50% risk weighted assets is due to increase of exposure on other Banks.

B.35 - Table MRA
Qualitative Disclosure Requirements Related to Market Risk

a) Strategies and processes of the bank:

The Board of Directors has approved the limits for the market risk and liquidity risk for the Bank Albilad to be in line with the strategic risk exposure and risk appetite targets as per bank's market risk and liquidity risk policies. In addition, the Asset/Liability Committee regularly monitors and discusses issues within scope of market and liquidity risk.

Market risk concerns with profit margin rate, yield curves and prices. The market risk arises from the changes in market prices in Murabaha, yield curve, foreign exchange, commodity and equity. The bank exposure for market risk in trading book is limited to the overall exposure in foreign exchange. The Bank applies the Standardized Approach in calculating market risk capital charge for Pillar I and advanced risk models for Pillar II which include Value-at-Risk and Stress Testing.

Profit Margin Risk in the banking book is defined as the impact of the bank's asset and liability exposures to changes in profit margin rates. For the purpose of profit margin risk management, the market risk at Bank Albilad measures yield curve risk, which expresses the losses if profit margin rates changed for various terms and different currencies. The limit has been established for EVE over Tier 1 Capital Charge and using repricing gap.

Foreign Exchange (FX) Risk is the risk of losses on the trading and banking book positions in foreign currency because of adverse changes in exchange rates against banks exposures. FX risk controlled by having FX Net Open Position limits and market risk capital charge for FX.

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

The Board of Directors, the Asset/ Liability Committee, the Business and risk management stakeholders are updated regularly about the bank's market risks and material events in this area. This reporting includes follow-up on both risks within the individual categories of market risks and the overall risk measures in the form of Value-at-Risk. Similarly, risk reporting has been established for the business units authorized to take market risks.

The measuring, monitoring and management reporting of market risk are reported on daily basis to the senior management and stakeholders. Ay breaches of the limit to be escalated to Treasury's Division and senior management and closely follow up to ensure the breaches are rectified.

The limits are established for the trading and banking book of the business unit and these are monitored regularly and sufficient procedures have been established to ensure any breaches of the limit is addressed by the business unit on timely basis and is also reported to Asset/Liability Committee ALCO and BoD on periodic basis.

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

Bank Albilad uses both conventional risk measures and advance risk models for measuring risk market and liquidity risk, such as Liquidity Mis-matches, Major Depositors Concentration Limits, Loan to Deposit Ratio, Net Non-Core funding dependency ratio, Basel 3 – Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), Profit rate risk, Periodic and Cumulative Gaps and Economic Value at Risk to measure its market risk and liquidity risk exposures and they are reported to:

- Board of Directors and senior management on quarterly/monthly basis;

- SAMA on quarterly basis; and
- Business units on daily basis

B.37 - Template MR1

Market risk under standardized approach *(SAR '000)*

		a
		RWA
	Outright products	**1,512,788**
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	1,512,788
4	Commodity risk	-
	Options	**-**
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitization	-
9	**Total**	**1,512,788**

Bank's FX exposure increase to SAR 1,512.79 million as of Dec 31, 2017 from SAR 187.93 million as at June 30, 2017 due to increase in net open position.

B.41 - Operational risk
Operational risk

Operational risk:

As the Basel Committee defines it, operational risk is the risk of losses resulting from inefficiency, failure in implementation of procedures, personnel, systems, or external factors. To better manage operational risk, the Bank has set forth a specific strategy within a framework of policies and procedures, and aims at achieving a number of corresponding

Management of Operational risk

Objectives including:

- Supporting the Bank's objectives
- Identifying and assessing the operational risk of new products as well as current products, activities, and systems
- The total independence and continuity of assessment of procedures, monitoring controls, and performance
- Limiting operational losses and solving the causing problems at their roots

The Bank is also keen on implementing the operational risk governance mechanism through the following:

- Supervision by the Board of Directors and Senior Management.
- Forming a Risk Management Committee for supervising operational risk activities.
- Providing an accurate description of the roles and responsibilities of various operational risk management parties.
- Performing the internal auditing required for independent assessment of operational risk activities and providing reports to the Auditing Committee.

To implement the Bank's operational risk management strategy, a number of methods have been adopted to identify, assess, rectify, and monitor the Bank's various activities as follows:

Risk Self-Assessment:

Bank Albilad has applied the risk self-assessment governance policy and control elements to identify risks arising from the Bank's products, activities, and operations. Following risk identification, control elements are tested to identify the effectiveness of these elements in mitigating operational risk. The overall assessment of risk and control elements is compared to pre-defined criteria associated with the risk level and boundaries that are acceptable for achieving the targeted returns. Afterwards, the most suitable procedures are taken for enhancing the control environment. The Bank continues to provide employees with training programs that increase awareness of operational risk, thereby, increasing the effectiveness of control elements and identifying existing gaps.

Determining and Analyzing Operational Losses

The database of losses and Internal Auditing Management reports serve to supplement the risk self-assessment process and control elements and contribute to achieving better results. Albilad's system for data management of operational losses enables the Bank to collect and analyze data and incidents related to these losses – whether they're actual losses, potential losses, or near-miss losses. Risks and control gaps responsible for loss-related incidents are identified. Recommendations for enhancing the associated control elements are presented in order to manage these identified risks and raise the issue to the management-in-charge to help reduce the financial consequences as much as possible.

Key Risk Indicators

Albilad has adopted a methodology for identifying and analyzing key risk indicators. This helps in identifying the level of risk related to a certain activity or role. Assessment and control are applied throughout the duration of the risk management strategies concerning this specific activity. In addition, weakness are identified and rectified.

The Operational Risk Management methods are directly related to the periodic reporting system that aims to inform all departments and divisions with the operational risks related to their specific activities. The right feedback is sought in order to enhance the required control elements and mitigate these risks. The periodic reports also serves to support Senior Management's prospective decision-making process related to the Bank's activities.

B.42 - IRRBB
Interest Rate Risk in The Banking Book (IRRBB) ***(SAR '000)***

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.

The Profit Rate Risk in the Banking Book (PRRBB) is quantified as a notional VaR figure or Economic Value at Risk (10 day Economic VaR at 99% Confidence Interval), which represents the Economic value of the asset / liability in stressed market conditions. All future cash flows represent earnings or payments from the point of view of the Bank. These cash flows are segregated into time period buckets by constructing a residual maturity / re-pricing schedule.

The estimated volatilities for SAIBOR / USD LIBOR will then be used to scale up the returns for each day based on the current sigma value which are then used to calculate the historical VaR. This profit rate movement is then multiplied by the cash flow and duration of the cash flow to obtain the expected impact on the portfolio.

b) 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).

1. Bank Albilad conducts stress tests and scenario analyses to measure its risk of loss under unusual market conditions. Standard stress tests estimate Bank Albilad's losses if positions are exposed to profit rate shocks based on macroenomic scenarios of which based on SAIBOR rate shock in each

scenarios. In 31 December 2017, the impact of Economic Value at Risk (EVE) is SAR 134.5 million to the bank capital charge under base case.

SAR '000	Scenarios-Profit Rate Risk		
Base Case	Mild Shift 48 bps	Moderate Shift 289 bps	Extreme Shift 256 bps
134,456	280,708	341,905	318,451

2. Under the new IRRBB guidelines by SAMA (in line with BCBS 368) the bank uses 6 rate shock scenarios described in the Basel document:

Interest Rate Shock Scenarios

i. Parallel up
ii. Parallel down
iii. Steepener
iv. Flattener
v. Short rate up
vi. Short rate down

SAR '000	Δ EVE		Δ NII	
Period	T	T-1	T	T-1
Parallel Up	257,781	39,701	(19,544)	8,505
Parallel Down	(256,697)	(40,742)	21,812	(8,529)
Steepener	250,005	62,125		
Flattener	(191,363)	(52,378)		
Short Rate Up	(68,510)	(32,116)		
Short Rate Down	227,402	46,031		
Maximum	**257,781**	**62,125**	**21,812**	**8,529**
Period	**T**		**T-1**	
Tier 1 Capital	**7,588,792**		**7,580,842**	