

Basel III - Pillar 3 Disclosures

31 December 2022

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Overview of Risk Management and RWA

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.

- **Profit Rate Risk:**

Profit Rate Risk in the banking book is defined as the impact of the bank's asset and liability exposures to changes in profit margin rates.

- **Operational risk:**

Operational risk 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 exist within Bank Albilad. The committees operate under board-approved delegated limits, policies and procedures. There are high-level executive involvement and non-executive review and oversight in the credit decision-making.

- **Market and Liquidity Risk:**

An asset and liability committee exist within Bank Albilad in order to manage, measure and mitigate market and liquidity risk. The committee operates under Board-approved delegated limits, policies and procedures.

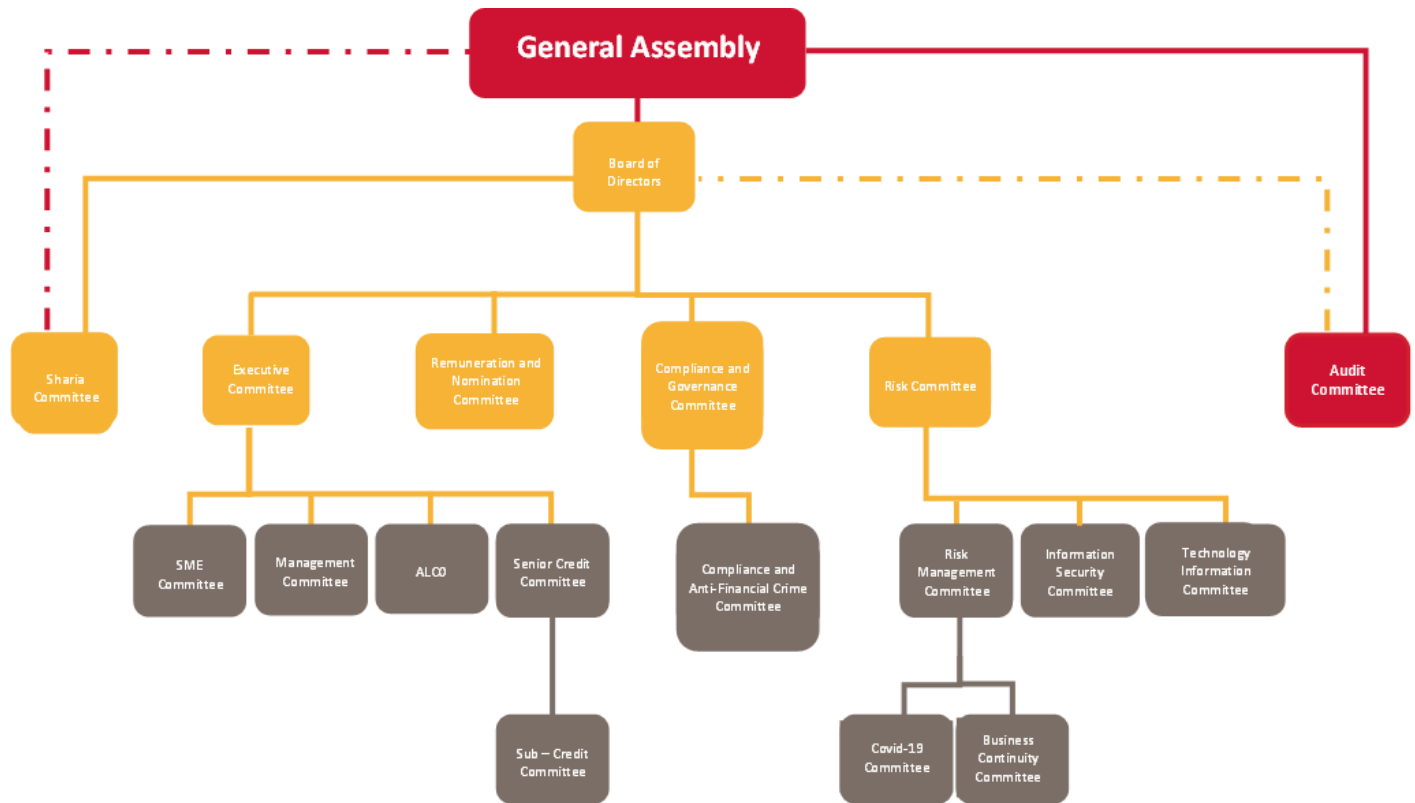
- **Operational Risk:**

Risk committees exist within Bank Albilad that oversight and manage operational risk. The committees operate under Board-approved delegated limits, policies and procedures. In addition, the governance structure related 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 credit, market, liquidity and operational functions.

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



d) The scope and main features of risk measurement systems

Risk management function 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 risks. Furthermore, risk management function set, approve and monitor adherence to risk parameters and limits across the Bank and ensures they are implemented and adhered to consistently to give the Board reasonable assurance that 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 function receives 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 function 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 respective committee 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
- Cyber Security risk

f) Qualitative information on stress testing

Bank Albilad conducts stress tests and scenario analyses to measure its risk of loss under unusual market conditions. Calculations are made for several scenarios which are typically defined based on historic events that caused crises in the financial markets. However, current or future events expected to have an effect on the financial markets may also be used as input when defining the stress test scenarios. These scenarios are revised and changed regularly to reflect changes in Bank Albilad's risk profile and economic events. The analyses are made based on the stress testing recommended by the Basel Committee / SAMA.

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

g) The strategies and processes to manage and mitigate risks

The Bank continuously aims to adopt best international standards and practices in risk management. Bank Albilad uses substantial resources to develop procedures and tools that support this aim. Accordingly, the Bank has built up substantial expertise in risk 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 regulator, 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, both application and behavioral scoring systems are being devolved and currently Credit Bureau (SIMAH) Scoring is being used for some segments for financing scores.
- The approval of credit limits for counterparties and the management of its individual credit exposures are determined by 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.

The Bank 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 as per the credit authority matrix.

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. The Bank adheres to the list of acceptable collateral and credit protection provided by SAMA to all banks in the Kingdom.

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. 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

- Governmental program 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 collaterals before acceptance and at defined frequencies depending on the nature of collateral. The valuation is conducted by a team of independent valuation experts.

The risk management function 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.

To some extent, the Bank receives guarantees for credit exposures. A large part of these guarantees are provided by enterprises or persons where a 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, yield curve, foreign exchange and commodity. The Bank exposure for market risk is limited to the overall exposure in foreign exchange.

- **Foreign Exchange Risk**

Foreign Exchange Risk is the risk of losses on the 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.

- 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.

Strategies of Market Risk

The Board of Directors has approved the limits for the market risk and liquidity risk for Bank Albilad to be in line with risk appetite targets/limits as per the 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 various risk measures for market and liquidity risk such as Liquidity Mismatches, Major Depositors Concentration Limits, Loan to Deposit Ratio, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), Profit rate risk, Periodic and Cumulative Gaps and Economic Value at Risk. These measures are reported to:

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

Bank Albilad's Value-at-Risk model is currently used for the internal capital purposes. 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 and stressed market conditions.

- **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. The Bank complies with SAMA and Basel liquidity framework in assessing the potential termed liquidity risk.

Bank Albilad's liquidity risk 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.

The Risk Management has set limits for liquidity risk. ERM and Market Risk is responsible for ensuring that the Bank complies with liquidity risk limits. Any breaches are escalated to senior management timely.

The key business and risk managements stakeholders receive reports on the Bank's liquidity risks regularly. Moreover, the Asset and 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 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 liquidity ratios are higher than regulatory requirements.

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 maturity date for each contract.

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 Net Stable Funding Ratio (NSFR) as one of the indicators 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.

- **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 framework of policies and procedures.

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 supervision by the Board of Directors and Senior Management.

KM1 – Key metrics

(SAR '000)

		a	b	c	d	e
		Dec-22	Sep-22	Jun-22	Mar-22	Dec-21
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	13,446,502	13,082,231	12,646,955	12,372,965	12,051,419
1a	Fully loaded ECL accounting model	13,398,948	13,034,678	12,599,402	12,325,412	11,980,090
2	Tier 1	13,446,502	13,082,231	12,646,955	12,372,965	12,051,419
2a	Fully loaded ECL accounting model Tier 1	13,398,948	13,034,678	12,599,402	12,325,412	11,980,090
3	Total capital	17,548,528	17,172,671	16,714,883	16,390,064	16,016,676
3a	Fully loaded ECL accounting model total capital	17,500,975	17,125,119	16,667,330	16,342,511	15,945,347
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	99,117,264	96,057,630	94,666,619	90,145,127	85,483,995
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	13.57%	13.62%	13.36%	13.73%	14.10%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	13.52%	13.57%	13.31%	13.67%	14.01%
6	Tier 1 ratio (%)	13.57%	13.62%	13.36%	13.73%	14.10%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	13.52%	13.57%	13.31%	13.67%	14.01%
7	Total capital ratio (%)	17.70%	17.88%	17.66%	18.18%	18.74%
7a	Fully loaded ECL accounting model total capital ratio (%)	17.66%	17.83%	17.61%	18.13%	18.65%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0%	0%	0%	0%	0%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0%	0%	0%	0%	0%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	11.07%	11.12%	10.86%	11.23%	11.60%
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	140,910,735	136,531,613	131,277,077	125,715,581	119,274,970
14	Basel III leverage ratio (%) (row 2 / row 13)	9.54%	9.58%	9.63%	9.84%	10.10%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row13)	9.51%	9.55%	9.60%	9.80%	10.04%
	Liquidity Coverage Ratio					
15	Total HQLA	22,160,891	20,313,734	19,622,007	19,269,362	19,417,882
16	Total net cash outflow	14,227,852	13,713,320	14,389,317	13,938,613	13,490,996
17	LCR ratio (%)	155.76%	148.13%	136.37%	138.24%	143.93%
	Net Stable Funding Ratio					
18	Total available stable funding	89,487,560	88,807,248	86,560,407	82,589,288	81,314,843
19	Total required stable funding	80,653,774	81,560,302	79,460,589	75,384,886	71,498,307
20	NSFR ratio	110.95%	108.89%	108.94%	109.56%	113.73%

OV1 – Overview of RWA

(SAR '000)

		a	b	c
		RWA		Minimum Capital Requirements
		Dec-22	Sep-22	Dec-22
1	Credit risk (excluding counterparty credit risk) (CCR)	88,162,110	87,235,216	7,052,969
2	Of which standardised approach (SA)	88,162,110	87,235,216	7,052,969
3	Of which: foundation internal ratings-based (F-IRB) approach	-	-	-
4	Of which: supervisory slotting approach	-	-	-
5	Of which: advanced internal ratings-based (A-IRB) approach	-	-	-
6	Counterparty credit risk	-	-	-
7	Of which standardised approach for counterparty credit risk (SA-CCR)	-	-	-
8	Of which internal model method (IMM)	-	-	-
9	Of which: other CCR	-	-	-
10	Credit valuation adjustment (CVA)	-	-	-
11	Equity positions in banking book under market-based approach	-	-	-
12	Equity investments in funds – look-through approach	-	-	-
13	Equity investments in funds – mandate-based approach	1,223,653	1,090,046	97,892
14	Equity investments in funds – fall-back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in banking book	-	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-	-
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	2,242,872	235,821	179,430
21	Of which standardised approach (SA)	2,242,872	235,821	179,430
22	Of which internal model approaches (IMM)	-	-	-
23	Capital charge for switch between trading book and banking book	-	-	-
24	Operational risk	8,712,282	8,586,593	696,983
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
26	Floor adjustment	-	-	-
27	Total (1+4+7+8+9+10+11+12+16+20+23+24)	99,117,264	96,057,630	7,929,381

Linkages Between Financial Statements And Regulatory Exposures

L11 – 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	8,710,916	8,710,916	8,710,916	-	-	128,680	-
Due from banks and other financial institutions, net	6,067,193	6,067,193	6,067,193	-	-	2,040,309	-
Investments, net	20,600,125	20,600,125	20,600,125	-	-	4,185,243	-
Financing, net	91,179,205	91,179,205	91,179,205	-	-	2,141,853	-
Property and equipment, net	2,104,561	2,104,561	2,104,561	-	-	-	-
Other assets	880,856	880,856	880,856	-	-	544,328	-
Total assets	129,542,856	129,542,856	129,542,856	-	-	9,040,413	-
Liabilities							
Due to banks and other financial institutions	10,621,441	-	-	-	-	1,295,320	-
Customer deposits	94,842,747	-	-	-	-	4,049,239	-
Subordinated Sukuk	3,040,452	-	-	-	-	-	-
Other liabilities	7,639,268	-	-	-	-	1,497,318	-
Total liabilities	116,143,908	-	-	-	-	6,841,877	-

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

(SAR '000)

		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	129,542,856	129,542,856	-	-	9,040,413
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	6,841,877
3	Total net amount under regulatory scope of consolidation	129,542,856	129,542,856	-	-	2,198,536
4	Off-balance sheet amounts	14,491,110	8,698,002	-	-	-
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	2,669,877	2,669,877	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
10	Exposure amounts considered for regulatory purposes	146,703,843	140,910,735	-	-	2,198,536

LIA – Explanations of differences between accounting and regulatory exposures amounts

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 credit 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).

Please refer to note no. 4 & 33 of Annual Published Financial Statements.

Composition of Capital and TLAC

CC1 – Composition of regulatory capital

		(SAR '000)	
		a	b
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	10,000,000	(h)
2	Retained earnings	28,662	
3	Accumulated other comprehensive income (and other reserves)	3,417,840	
4	<i>Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)</i>		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)		
6	Common Equity Tier 1 capital before regulatory adjustments	13,446,502	
	Common Equity Tier 1 capital: regulatory adjustments		
7	Prudent valuation adjustments		
8	Goodwill (net of related tax liability)		(a) minus (d)
9	Other intangibles other than mortgage servicing rights (net of related tax liability)		(b) minus (e)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)		
11	Cash flow hedge reserve		
12	Shortfall of provisions to expected losses		
13	Securitisation gain on sale (as set out in paragraph 36 of Basel III securitisation framework [1])		
14	Gains and losses due to changes in own credit risk on fair valued liabilities		
15	Defined benefit pension fund net assets		
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)		
17	Reciprocal cross-holdings in common equity		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		
20	Mortgage servicing rights (amount above 10% threshold)		(c) minus (f) minus 10% threshold
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
22	Amount exceeding the 15% threshold		
23	Of which: significant investments in the common stock of financials		
24	Of which: mortgage servicing rights		
25	Of which: deferred tax assets arising from temporary differences		

		a	b
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
26	National specific regulatory adjustments		
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions		
28	Total regulatory adjustments to Common Equity Tier 1	-	
29	Common Equity Tier 1 capital (CET1)	13,446,502	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying additional Tier 1 instruments plus related stock surplus		(i)
31	Of which: classified as equity under applicable accounting standards		
32	Of which: classified as liabilities under applicable accounting standards		
33	<i>Directly issued capital instruments subject to phase-out from additional Tier 1</i>		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)		
35	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>		
36	Additional Tier 1 capital before regulatory adjustments	-	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own additional Tier 1 instruments		
38	Reciprocal cross-holdings in additional Tier 1 instruments		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation		
41	National specific regulatory adjustments		
42	Regulatory adjustments applied to additional Tier 1 due to insufficient Tier 2 to cover deductions		
43	Total regulatory adjustments to additional Tier 1 capital		
44	Additional Tier 1 capital (AT1)	-	
45	Tier 1 capital (T1 = CET1 + AT1)	13,446,502	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	3,000,000	
47	<i>Directly issued capital instruments subject to phase-out from Tier 2</i>		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)		
49	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>		
50	Provisions	1,102,026	
51	Tier 2 capital before regulatory adjustments	4,102,026	
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments		
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities		
54	Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)		

		a	b
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
56	National specific regulatory adjustments		
57	Total regulatory adjustments to Tier 2 capital		
58	Tier 2 capital (T2)	4,102,026	
59	Total regulatory capital (TC = T1 + T2)	17,548,528	
60	Total risk-weighted assets	99,117,264	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	13.57%	
62	Tier 1 (as a percentage of risk-weighted assets)	13.57%	
63	Total capital (as a percentage of risk-weighted assets)	17.70%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	2.50%	
65	Of which: capital conservation buffer requirement	2.50%	
66	Of which: bank-specific countercyclical buffer requirement	0.00%	
67	Of which: higher loss absorbency requirement	0.00%	
68	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements	11.07%	
	National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)		
70	National Tier 1 minimum ratio (if different from Basel III minimum)		
71	National total capital minimum ratio (if different from Basel III minimum)		
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities		
73	Significant investments in the common stock of financial entities		
74	Mortgage servicing rights (net of related tax liability)		
75	Deferred tax assets arising from temporary differences (net of related tax liability)		
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	1,102,026	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	1,102,026	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase-out arrangements		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		
82	Current cap on AT1 instruments subject to phase-out arrangements		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		
84	Current cap on T2 instruments subject to phase-out arrangements		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		

CC2 – Reconciliation of regulatory capital to balance sheet

(SAR '000)

	a	b
	Balance sheet as in published financial statements	Under regulatory scope of consolidation
Assets	As at period-end	As at period-end
Cash and Balances with SAMA	8,710,916	8,710,916
Due from banks and other financial institutions, net	6,067,193	6,067,193
Investments, net	20,600,125	20,600,125
Financing, Net	91,179,205	91,179,205
Property and equipment, net	2,104,561	2,104,561
Other assets	880,856	880,856
Total assets	129,542,856	129,542,856
Liabilities		
Due to banks and other financial institutions	10,621,441	10,621,441
Customer deposits	94,842,747	94,842,747
Subordinated Sukuk	3,040,452	3,040,452
Other liabilities	7,639,268	7,639,268
Total liabilities	116,143,908	116,143,908
Shareholders' equity		
Paid-in share capital	10,000,000	10,000,000
Of which: amount eligible for CET1	10,000,000	10,000,000
Of which: amount eligible for AT1	-	-
Retained earnings	1,589,930	28,662
Accumulated other comprehensive income	1,809,018	3,417,840
Total shareholders' equity	13,398,948	13,446,502

CCA – Main features of regulatory capital instruments and of other TLAC-eligible instruments

		a
		Quantitative / qualitative information
1	Issuer	Bank Albilad
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	SA15AFK0HS36 - BP0668155
3	Governing law(s) of the instrument	The instrument is governed by the laws of the Kingdom of Saudi Arabia
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for other TLAC-eligible instruments governed by foreign law)	Not applicable
4	Transitional Basel III rules	Tier 2
5	Post-transitional Basel III rules	Eligible
6	Eligible at solo/group/group and solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated Tier 2 Sukuk
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	SAR 3,000 millions
9	Par value of instrument	SAR 3,000 millions
10	Accounting classification	Liability at amortized cost
11	Original date of issuance	15-Apr-21
12	Perpetual or dated	Dated
13	Original maturity date	15-Apr-31
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date, contingent call dates and redemption amount	The Sukuk may be redeemed prior to the Expiry Date at the option of the Issuer (subject to prior written approval from the Banking Regulator, if then required) on the Periodic Distribution Date that falls on the [fifth] anniversary of the Closing Date in whole, but not in part, on giving not less than thirty (30) days' nor more than sixty (60) days' notice to the Sukukholders' Agent in accordance with the Declaration of Agency and to the Sukukholders in accordance with Condition 18 (Notices) (which notice shall be irrevocable), and, subject to Condition 5(b) (Subordination) and Condition 12 (Write-down at the Point of Non-viability), each Sukukholder shall receive its pro rata share of the Sukuk Capital on the date specified in such notice (the Optional Dissolution Date).
16	Subsequent call dates, if applicable	Not Applicable
	Coupons / dividends	

		a
		Quantitative / qualitative information
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3M SAIBOR + 165 Basis points
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Mandatory
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Writedown feature	Yes
31	If writedown, writedown trigger(s)	Terms of issuance provide the legal basis for the regulator to trigger write down
32	If writedown, full or partial	Full or partial
33	If writedown, permanent or temporary	Permanent
34	If temporary write-own, description of writeup mechanism	Not applicable
34a	Type of subordination	Contractual
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Subordinated debt and senior debt instruments are senior to this instrument
36	Non-compliant transitioned features	Not applicable
37	If yes, specify non-compliant features	Not applicable

On April 15, 2021, the Bank issued 3,000 Sukuk Certificates (Sukuk) of SR 1 million each, and payable quarterly each year until April 15, 2031. The Bank has a call option which can be exercised on or after April 15, 2026 as per the terms mentioned in the related offering circular.

Leverage Ratio

LR1 – Summary comparison of accounting assets vs leverage ratio exposure measure

(SAR '000)

Items		a
1	Total consolidated assets as per published financial statements	129,542,856
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	8,698,002
7	Other adjustments	2,669,877
8	Leverage ratio exposure measure	140,910,735

LR2 – Leverage ratio common disclosure template

		(SAR '000)	
		a	b
On-balance sheet exposures		Dec-22	Sep-22
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	132,212,733	129,838,352
2	(Asset amounts deducted in determining Basel III Tier 1 capital)		
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 and 2)	132,212,733	129,838,352
Derivative exposures			
4	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	-
5	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	Total derivative exposures (sum of rows 4 to 10)	-	-
Securities financing transaction exposures			
12	Gross SFT <i>assets</i> (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 rows 12 to 15)	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	14,491,110	12,282,413
18	(Adjustments for conversion to credit equivalent amounts)	(5,793,108)	(5,589,152)
19	Off-balance sheet items (sum of rows 17 and 18)	8,698,002	6,693,261
Capital and total exposures			
20	Tier 1 capital	13,446,502	13,082,231
21	Total exposures (sum of rows 3, 11, 16 and 19)	140,910,735	136,531,613
Leverage ratio			
21	Basel III leverage ratio	9.54%	9.58%

Liquidity

LIQA – Liquidity risk management

Qualitative disclosures

Governance of liquidity risk management

Effective oversight by the Board of Directors and Senior Management is a critical element of the Bank's liquidity risk management process. The Board of Directors delegates the responsibility for managing The Bank's overall liquidity to Asset and Liability Committee (ALCO). On the day-to-day operations, Treasury performs the liquidity management on centralized basis for the whole Bank, within limits imposed by the Board and monitored by risk management function. The key liquidity ratios are monitored on daily basis. Detailed Liquidity Risk report is presented to ALCO and Board Risk Committee on monthly and quarterly basis, respectively.

Funding strategy

The Bank has prepared a detailed Funding Strategy document. The funding strategy assess the funding requirements based on the projected balance sheet growth and the main sources of funding to support that growth. Major portion of the funding requirements of the Bank is targeted to be met through customers' deposits. The Bank has taken a strategic decision to focus on retail deposits due to their stickiness and diversity. The Bank ensures that the funding strategy is in line with compliance with the liquidity ratios such as Financing to Deposit ratio, SAMA LRR ratio, LCR and NSFR ratios as approved by the Board and regulatory requirements.

Liquidity risk mitigation techniques.

- Robust infrastructure for identification and measurement of the complete range of liquidity risks
- Maintenance of an adequate level of liquidity buffer, including through a cushion of liquid assets to meet potential funding needs over the short and long-term periods and for dealing with potential liquidity disruptions
- Diversification of sources and utilization of funds across banks, customers, and geographic location within Saudi, GCC and other financial markets
- Active presence in interbank (financial) markets and in corporate deposit market. Establishing and Monitoring of domestic and foreign bank credit lines.

Stress Testing

The Bank uses a combination of Bank specific and market wide stress scenarios to test robustness of Bank's liquidity position. In Bank's specific scenarios, the adverse movements in Bank's specific factors are assumed to impact the cash-flows for the Bank. In the market wide scenarios, it is assumed that the adverse movements in the market macro-variables will impact the Banking Industry as a whole, which in turn will proportionately impact Bank Albilad cash-flows.

The Bank's contingency funding plans

Bank has identified key liquidity early warning signals which are tracked on regular basis. The escalation of liquidity crisis management is based on their degree of impact and severity. It varies from a very minimal disruption to a sever level.

Quantitative disclosures

Customized measurement tools

Bank regularly monitors the cash flows and liquidity positions.

	< 3M	3M - 12M	1Y - 5 Y	> 5 Y	No Fixed Maturity
Total Assets	17,497,652	13,911,603	44,669,030	44,432,221	6,739,610
Total Liabilities	22,585,601	13,156,792	2,652,148	3,040,452	74,520,748
Liquidity Gap	(5,087,949)	754,811	42,016,882	41,391,769	(67,781,138)
Off Balance	3,043,967	4,918,440	4,356,721	2,171,982	-

Concentration limits

Demand deposits make the significant part of Bank Albilad's funding and constant focus is ensured for stability in such deposits. Bank regularly analyses and monitors the depositors funding concentration to avoid dependence on large individual depositors and ensure diversification in Bank's overall funding mix. Additionally, Bank Albilad holds a buffer of HQLA mainly comprising of Cash, Balance with Saudi Central Bank, and Unencumbered Sovereign Sukuks, that are available for liquidation under stressed liquid circumstances.

Liquidity Transferability between Legal Entities

All cash and marketable assets positions are monitored by the Treasury of the Bank centrally. All of the marketable assets can be readily liquidated or repoed and generate cash. The Bank consolidates the record of all unencumbered / pledged assets and ensures that it maintains sufficient liquidity buffer at all times to overcome any liquidity crisis at group and subsidiaries level. All subsidiary positions are consolidated at parent (Bank Albilad) level and liquidity is allocated to each subsidiary in order to allow them to pursue their business goals.

LIQ1 – Liquidity Coverage Ratio (LCR)

(SAR '000)

		a	b
		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	Total HQLA		22,160,891
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	43,717,019	4,397,580
3	Stable deposits		
4	Less stable deposits	43,717,019	4,397,580
5	Unsecured wholesale funding, of which:	34,769,035	15,433,359
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	34,769,035	15,433,359
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which:	325,679	40,085
11	Outflows related to derivative exposures and other collateral requirements		
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	325,679	40,085
14	Other contractual funding obligations	29,613,657	888,410
15	Other contingent funding obligations	19,552,620	391,052
16	TOTAL CASH OUTFLOWS		21,150,486
Cash inflows			
17	Secured lending (eg reverse repos)		
18	Inflows from fully performing exposures	9,480,139	6,922,634
19	Other cash inflows		
20	TOTAL CASH INFLOWS	9,480,139	6,922,634
Total adjusted value			
21	Total HQLA		22,160,891
22	Total net cash outflows		14,227,852
23	Liquidity Coverage Ratio (%)		155.76%

LIQ2 – Net Stable Funding Ratio (NSFR)

(SAR '000)

(In currency amount)		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
		No maturity*	< 6 months	6 months to < 1 year	≥ 1 year	
Available stable funding (ASF) item						
1 Capital:						20,204,084
2	Regulatory capital	17,548,528				17,548,528
3	Other capital instruments	2,655,556				2,655,556
4 Retail deposits and deposits from small business customers:						42,911,635
5	Stable deposits					
6	Less stable deposits	41,500,176	5,130,265	1,049,154		42,911,635
7 Wholesale funding:						26,371,842
8	Operational deposits	118,885				59,443
9	Other wholesale funding	25,032,120	23,651,794	3,940,884		26,312,399
10 Liabilities with matching interdependent assets						
11 Other liabilities:						
12	NSFR derivative liabilities					
13	All other liabilities and equity not included in the above categories					
14 Total ASF						89,487,560
Required stable funding (RSF) item						
15 Total NSFR high-quality liquid assets (HQLA)						718,007
16 Deposits held at other financial institutions for operational purposes						
17 Performing loans and securities:						76,104,684
18 Performing loans to financial institutions secured by Level 1 HQLA						
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	595,572	4,630,016		670,000	1,662,288
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:		14,471,835	7,434,346	70,058,687	70,502,975
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk					
22 Performing residential mortgages, of which:						
23	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk					
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	855,484			3,779,129	3,939,421
25 Assets with matching interdependent liabilities						
26 Other assets:						3,813,162
27 Physical traded commodities, including gold						
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29 NSFR derivative assets						
30 NSFR derivative liabilities before deduction of variation margin posted						
31 All other assets not included in the above categories		3,813,162				3,813,162
32 Off-balance sheet items						17,920
33 Total RSF						80,653,774
34 Net Stable Funding Ratio (%)						110.95%

Credit Risk

CRA – General qualitative information about credit risk

(a)	How the business model translates into the components of the bank's credit risk profile:
	<p>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.</p> <p>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.</p>
(b)	Criteria and approach used for defining credit risk management policy and for setting credit risk limits
	<p>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 authorised by the BOD to approve credit underwritings while remaining strictly in compliance with regulatory guidelines.</p>
(c)	Structure and organization of the credit risk management and control function
	<p>The Credit Risk Management structure comprises of independent control functions reporting to the Executive Vice President - Risk Management Group. 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, Consumer Credit is looked after by an independent Manager under the Credit Risk Management Division.</p>
(d)	Relationships between the credit risk management, risk control, compliance and internal audit functions
	<p>We operate a three lines of defense credit risk management model. The first line of defense is the business (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.</p>
(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.
	<p>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.</p>

CR1 – Credit quality of assets

(SAR '000)

		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	1,246,435	92,974,989	2,845,631	91,375,793
2	Debt Securities	-	19,094,221	21,160	19,073,061
3	Off-balance sheet exposures	-	14,491,110	153,560	14,337,550
4	Total	1,246,435	126,560,320	3,020,351	124,786,404

An event of default is considered to have occurred if any one or both of the following events happen:

- The obligor fails to honor any material credit obligation towards the Bank for a period in excess of 90 days. On day 91 the obligor should be classified as a non-performing obligor and its rating should be adjusted accordingly.
- The Bank considers that the obligor is unlikely to pay its credit obligations to the banking group in full, without recourse by the Bank to actions such as realizing security (if held)

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	1,183,655
2 Loans and debt securities that have defaulted since the last reporting period	202,292
3 Returned to non-defaulted status	70,364
4 Amounts written off	284,162
5 Other changes	215,014
6 Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	1,246,435

Non-performing portfolio of the bank has increased by the end of the year 2022 due to turning few corporate clients as non-performing during the second half of the year.

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.
	<p>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. A finance, or a group of finances, is impaired, and impairment losses are estimated as per IFRS 9. To allow management to determine whether a loss-event may occur on an individual basis, all counterparty relationships are reviewed periodically. This evaluation considers current information and expected 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".</p>
(b)	The extent of past-due exposures (more than 90 days) that are not considered to be impaired and the reasons for this.
	<p>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 "Stage 3" as per guidelines contained in IFRS 9. As on reporting date of this disclosure under Pillar III there was small past dues amount more than 90 days but was not treated as "impaired".</p>
(c)	Description of methods used for determining impairments.
	<p>The Bank has completed its journey for transition to IFRS 9. The impairment component of the standard is the most significant and complex change requiring a complete revamp of provisioning methodologies and disclosure frameworks. The Bank has validated models for PD, LGD, Macroeconomic and EAD for all financial assets within the scope of IFRS 9 and redeveloped aforementioned models wherever required. Bank has also implemented system through which IFRS 9 compliant expected credit losses will be automatically calculated at every reporting date. In addition, governance framework around IFRS 9 Business Model, SPPI Assessment, Expected Credit Loss (ECL) and Staging Criteria Assessment have also been established and reviewed to cater respective requirements of IFRS 9.</p>
(d)	The bank's own definition of a restructured exposure.
	<p>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 as per IFRS 9.</p>

Quantitative disclosures:

(e)	Breakdown of exposures by geographical areas, industry and residual maturity
	As per CRBe1, CRBe2 and CRBe3 sheets
(f)	Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and allowances (ECL), broken down by geographical areas and industry
	As per CRBf1 and CRBf2 sheets
(g)	Ageing analysis of accounting past-due exposures
	As per CRBg sheet past dues but not impaired.
(h)	Breakdown of restructured exposures between impaired and not impaired exposures.
	As per CRBh sheets

For disclosure requirements from 'e' to 'h', please refer to below quantitative tables:

(SAR '000)

CRBe1: Breakdown of exposures by geographical areas

Portfolios	Geographic Area				
	Saudi Arabia	Other GCC & Middle East	Europe	Other countries	Total
Sovereigns and their central banks	19,585,806	996,304	-	-	20,582,110
Non-central government public sector entities	-	-	-	-	-
Multilateral development banks	-	-	-	-	-
Banks	5,088,898	1,494,656	-	682,773	7,266,326
Securities firms	-	-	-	-	-
Corporates	33,473,332	-	-	-	33,473,332
Regulatory retail portfolios	14,381,221	1,962	-	-	14,383,183
Secured by residential property	32,999,333	-	-	-	32,999,333
Secured by commercial real estate	15,005,530	-	-	-	15,005,530
Equity	4,262,200	-	-	-	4,262,200
Higher-risk categories	-	-	-	-	-
Other assets	4,240,718	-	-	-	4,240,718
Total	129,037,039	2,492,921	-	682,773	132,212,733
Contingencies & Commitments stated at credit equivalents	7,274,830	220,369	-	1,202,803	8,698,002
Total Credit exposure stated at credit equivalents	136,311,869	2,713,291	-	1,885,575	140,910,735

CRBe2: Breakdown of exposures by industry sector

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	20,582,110	-	-	-	-	-	-	-	-	-	-	-	20,582,110
Non-central government public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
Banks	-	7,266,326	-	-	-	-	-	-	-	-	-	-	7,266,326
Securities firms	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	1,228,290	4,426,632	2,530,936	3,636,118	7,306,548	7,786,407	1,651,302	3,460,466	79,046	1,428,533	33,534,278
Regulatory retail portfolios	-	-	-	12,289	-	27,287	6,139	70,996	6,083	169,290	14,020,003	10,149	14,322,237
Secured by residential property	-	-	-	-	-	-	33,067,107	-	-	4,210	183,968	-	33,255,286
Secured by commercial real estate	-	-	-	-	-	-	14,749,578	-	-	-	-	-	14,749,578
Equity	-	1,366,953	-	-	39,315	-	-	-	15,098	-	-	2,840,835	4,262,200
Higher-risk categories	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-	-	4,240,718	4,240,718
Total	20,582,110	8,633,280	1,228,290	4,438,921	2,570,251	3,663,405	55,129,372	7,857,403	1,672,483	3,633,966	14,283,017	8,520,235	132,212,733
Contingencies & Commitments stated at credit equivalents	-	148,823	9,358	207,157	-	105,531	2,008,481	658,949	507,730	3,053,601	509,024	1,489,348	8,698,002
Total Credit exposure stated at credit equivalents	20,582,110	8,782,103	1,237,647	4,646,078	2,570,251	3,768,935	57,137,853	8,516,352	2,180,212	6,687,568	14,792,042	10,009,584	140,910,735

CRBe3: Amounts of exposures break down by residual maturity

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	-	-	-	-	594,682	933,835	2,925,752	7,727,224	8,400,616	20,582,110
Non-central government public sector entities	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-
Banks	1,881,537	1,058,373	750,000	-	-	474,170	1,212,638	1,042,170	847,438	7,266,326
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	1,407,792	1,862,560	3,111,182	2,857,366	2,237,980	4,500,165	5,874,946	-	11,621,341	33,473,332
Regulatory retail portfolios	530,941	70,297	129,695	162,904	358,567	4,505,679	8,480,148	-	144,952	14,383,183
Secured by residential property	14,141	303	974	2,657	5,468	126,274	409,982	-	32,439,534	32,999,333
Secured by commercial real estate	307,409	1,052,807	604,058	12,559	522,572	4,191,518	5,575,540	-	2,739,068	15,005,530
Equity	-	-	-	-	1,376,129	69,006	1,290,000	1,527,065	-	4,262,200
Higher-risk categories	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	4,240,718	-	4,240,718
Total	4,141,820	4,044,339	4,595,910	3,035,487	5,095,398	14,800,647	25,769,005	14,537,177	56,192,950	132,212,733
Contingencies & Commitments stated at credit equivalents	105,137	267,187	1,180,176	1,434,429	1,661,198	2,155,884	488,201	-	1,405,789	8,698,002
Total Credit exposure stated at credit equivalents	4,246,957	4,311,526	5,776,086	4,469,916	6,756,596	16,956,532	26,257,206	14,537,177	57,598,739	140,910,735

(SAR '000)

CRBf1: Amounts of impaired exposures and expected credit losses broken down by industry		
Industry sector	Impaired Financing	Expected Credit Loss
Government and quasi government	-	-
Banks and other financial institutions	-	-
Agriculture and fishing	-	12,557
Manufacturing	42,649	379,649
Mining and quarrying	-	4,540
Electricity, water, gas and health services	586	1,915
Building and construction	384,151	839,569
Commercial	445,787	685,999
Transportation and communication	82	59,814
Services	23,968	43,579
Consumer loans and credit cards	332,269	558,739
Others	16,943	259,270
Total	1,246,435	2,845,631

(SAR '000)

CRBf2: Amounts of impaired exposures and expected credit losses broken down by geographical areas		
Portfolios	Impaired Financing	Expected Credit Loss
Saudi Arabia	1,246,435	2,845,631
Other GCC & Middle East	-	-
Europe	-	-
North America	-	-
South East Asia	-	-
Others countries	-	-
Total	1,246,435	2,845,631

(SAR '000)

CRBg: Ageing analysis of accounting past-due exposures that are not impaired	
Ageing	Exposure of clients with past dues
1 to 30 days	142,769
31 to 90 days	232,691
91 to 180 days	-
Above 180 days	-
Total	375,460

(SAR '000)

CRBh: Breakdown of restructured exposures between impaired and not impaired exposures			
	Corporate	Consumer	Total
Performing (non-impaired)	10,995,216	300,880	11,296,096
Impaired	231,270	4,894	236,164
Total	11,226,486	305,774	11,532,260

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.
	<p>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.</p> <p>The majority of the offsetting relates to derivatives which is not the active target market for Bank Albilad.</p>
(b)	Core features of policies and processes for collateral evaluation and management.
	<p>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.</p> <p>Broadly collateral received can be segregate into the following two types:</p> <ul style="list-style-type: none"> – 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. <p>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.</p>
(c)	Information about market or credit risk concentrations under the credit risk mitigation instruments used (ie by guarantor type, collateral and credit derivative providers).
	<p>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.</p>

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	91,375,793	-	-	-	-	-
2	Debt securities	19,073,061	-	-	-	-	-
3	Total	110,448,854	-	-	-	-	-
4	Of which defaulted	1,246,435	-	-	-	-	-

Major contributor of the aforementioned increase is in the corporate financing along with Consumer financing. Moreover, exposure in the Debt securities has increased over the period due to more participation in Sukuks.

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 eligible ECAIs are used as per Internal Risk Rating Policy approved by the Board of Directors of the Bank. We use ratings available to the Bank from eligible 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 eligible ECAIs are applied to all relevant exposure classes in the standardized approach. Nonetheless, our 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 (see paragraphs 99–101 of the Basel framework);
	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 (except where the relevant supervisor publishes a standard mapping with which the bank has to comply).
	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

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

(SAR '000)

	Asset classes	a	b	c	d	e	f
		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	20,582,110	-	20,582,110	-	-	0%
2	Non-central government public sector entities	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	7,266,327	1,123,440	7,266,327	1,123,440	2,868,990	34%
5	Securities firms	-	-	-	-	-	-
6	Corporates	32,769,075	7,487,568	32,769,075	7,137,166	37,799,007	95%
7	Regulatory retail portfolios	14,248,594	1,542,735	14,248,594	437,396	11,014,493	75%
8	Secured by residential property	32,811,154	-	32,811,154	-	16,405,577	50%
9	Secured by commercial real estate	14,749,578	-	14,749,578	-	14,749,578	100%
10	Equity	4,262,200	-	4,262,200	-	2,004,412	47%
11	Past-due loans	305,202	-	305,202	-	328,199	108%
12	Higher-risk categories		-		-		
13	Other assets	4,240,718	-	4,240,718	-	2,991,855	71%
14	Total	131,234,958	10,153,743	131,234,958	8,698,002	88,162,110	63%

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-CRM)
1	Sovereigns and their central banks	20,582,110	-	-	-	-	-	-	-	-	20,582,110
2	Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
3	Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	4,742,104	-	3,457,153	-	187,542	2,967	-	8,389,766
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	2,524,753	-	31,749,104	-	5,632,385	39,906,242
7	Regulatory retail portfolios	-	-	-	-	-	14,685,990	-	-	-	14,685,990
8	Secured by residential property	-	-	-	-	32,811,154	-	-	-	-	32,811,154
9	Secured by commercial real estate	-	-	-	-	-	-	14,749,578	-	-	14,749,578
10	Equity	2,735,135	-	-	-	-	-	780,759	-	746,306	4,262,200
11	Past-due loans	-	-	-	-	-	-	259,208	45,994	-	305,202
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other assets	1,248,863	-	-	-	-	-	2,991,855	-	-	4,240,718
14	Total	24,566,108	-	4,742,104	-	38,793,060	14,685,990	50,718,046	48,961	6,378,691	139,932,960

Bank increased its exposure in 0% risk weighted assets by investing in Govt. Sukuk. Moreover, Bank increased its exposure in residential real estate financing which increased exposure in 50% risk weighted assets. Furthermore, the Bank increased in 100% risk weighted assets due to the increase in exposure with corporate and commercial real estate.

Market risk

MRA – General qualitative disclosure requirements related to market risk

Banks must describe their risk management objectives and policies for market risk according to the framework below (the granularity of the information should support the provision of meaningful information to users):

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

For the purpose of profit rate 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 Board of Directors has approved the limits for the Profit Rate risk for the Bank 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 for profit rate risk within scope of market risk.

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 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 Bank has established stress test scenarios-based rate shock prescribed under the PRRBB guidelines. The impact of the rate shock stress scenarios for EVE and NII will be monitored against the limit.

Bank Albilad undertakes various initiatives to manage profit rate risk and mitigate to certain extent.

- Concentration of tenor limits
- Allocation of Core and Non-Core Deposits will mitigate and provide natural hedging against profit rate risk
- The Bank has issued Tier 2 sukuk to generate long term funding

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 Board of Directors has approved the limits for the Profit Rate risk for the Bank 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 for profit rate risk within scope of market 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, Finance to Deposit Ratio, 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;
- SAMA; and
- Business units.

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

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 Profit Rate Risk. Similarly, risk reporting has been established for the business units authorized to take market risks.

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.

Bank Albilad conducts stress tests and scenario analyses to measure its risk of loss under unusual market conditions. Stress tests estimate Bank Albilad's losses if positions are exposed to six rate shocks scenarios as prescribed in Basel PRRBB guidelines.

In addition to standard stress tests, calculations are made for a number of scenarios which are typically defined based on historic events that caused crises in the financial markets. However, current or future events expected to have an effect on the financial markets may also be used as input when defining the stress test scenarios. These scenarios are revised and changed regularly to reflect changes in Bank Albilad's risk profile and economic events. The analyses are made on the basis of the stress testing recommended by the Basel Committee.

MR1 – Market risk under standardized approach

(SAR '000)

		a
		RWA
	Outright products	
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	2,242,872
4	Commodity risk	-
	Options	-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitization	-
9	Total	2,242,872

Profit Rate Risk in The Banking Book

PRRBBA – PRRBB risk management objective and policies

Qualitative disclosure

a) A description of the bank defines PRRBB for purposes of risk control and measurement.

Profit Rate 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 rate 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.

b) A description of the bank's overall PRRBB management and mitigation strategies.

The strategies and processes to manage, hedge and mitigate risks

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.

Profit Rate Risk

Profit Rate Risk in the banking book is defined as the impact of the Bank's asset and liability exposures to changes in profit 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 rate 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.

Strategies of Market Risk

The Board of Directors has approved the limits for the Profit Rate risk for the Bank 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 for profit rate risk within scope of market risk.

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. Base on the PRRBB guideline, the Bank are adapting the Basel approaches determining the prepayment and non-maturing deposits (NMD) portion of the PRRBB.

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/ 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 Profit Rate Risk. Similarly, risk reporting has been established for the business units authorized to take market risks.

The Bank has established stress test scenarios based rate shock prescribed under the PRRBB guidelines. The impact of the rate shock stress scenarios for EVE and NII will be monitored against the limit.

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

The Bank calculates PRRBB on quarterly basis and reported to senior management, stakeholders before submission to SAMA. The Bank's PRRBB measure include the impact of rate shock on EVE and Net Profit Income based on the PRRBB guideline.

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

As per the PRRBB guidelines by SAMA (in line with BCBS 368) the Bank uses 6 rate shock scenarios described in the Basel document:

- Parallel Shock Up
- Parallel Shock Down
- Steepner
- Flattenner
- Short rate Shock up
- Short rate Shock Down

e) Significant modelling assumptions used in the bank's internal measurement systems (IMS)

The Bank is using VaR based approach for the purpose of calculating its ICAAP base line and under stress test.

The methodology used is Value at Risk calculation for both assets and liabilities at 99% confidence level for the worst case return/profit margin rate and changing volatility of profit margin rate movements is measured using the following concept – EWMA (Exponentially Weighted Moving Average – a methodology used by Risk Metrics as a special case of GARCH (Generalized Auto Regressive Conditional Heteroscedasticity) approach for modelling volatility).

The Profit Margin Risk in the Banking book is quantified as a notional VaR figure or Economic Value at Risk, which represents the Economic value of the asset / liability relative to the market.

For valuation of deals, the deal rate is compared with the SAIBOR of the same maturity / residual maturity. The difference between the two identifies the premium the Bank earns over the SAIBOR and is calculated separately as the credit spread.

In case the SAIBOR for the above obtained residual maturity is not available, the rate is modeled using the USD benchmark rates. In this case, the last known SAIBOR is compared with the USD benchmark rate for the same maturity, and SAIBOR - USD benchmark spread is obtained. This spread is then subtracted from the USD benchmark rate for the residual maturity to obtain the implied SAIBOR from USD benchmark. This SAIBOR is then used for obtaining the credit spread as defined above.

For revaluation of the deal to its current value, the current rate is obtained from the current SAIBOR for the remaining maturity period. The spread obtained above is then added to this current SAIBOR to get the

current deal rate. Revaluations of deals denominated in USD are performed in the same manner. Again, as above, in the absence of a SAIBOR, the rate value is obtained from the USD benchmark implied rate.

The obtained current deal rate is then used for discounting the cash flows. The same method is applied to the profit portion of this cash flow.

These impacts are calculated across all instruments to obtain the Economic VaR figure as well as the Earnings at Risk for the profit rate component.

Under Stress scenario applied is the worse of:

- Regulatory 200 bps shock and
- Stressed SAIBOR + Stressed Margins to calculate reduced income

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.

f) A high-level description of how the bank hedges its PRRBB, as well as the associated accounting treatment.

Bank Albilad undertakes various initiatives to manage profit rate risk and mitigate to certain extent.

- i. Concentration of tenor Limits where tenor limitation is introduced to comply with internal NSFR guidelines and to restrict booking of long term assets which can result in profit rate risk.
- ii. Short Term Placement and Floating Assets where the Bank book corporate assets are either majority short term or floating if they are for long term.
- iii. Allocation of Core and Non-Core Deposits will mitigate and provide natural hedging against profit rate risk. If they are more than fixed rate assets and financing, resulting in increased profit in increasing profit rate environment. NIB deposit is further scrutinized for its stickiness by conducting scientific imperial analysis. This is considered while setting Profit Rate Risk appetite.
- iv. Albilad Account (Saving Product) which also provides natural hedge as only certain percentage of income is shared with customers and Bank's margin remain intact.
- v. Time Deposit where tenor of deposit can be increased or shortened depending upon economic cycles and liquidity situation.
- vi. The Bank has issued Tier 2 sukuk to generate long term funding and to mitigate profit rate risk.

g) A high-level description of key modelling and parametric assumptions used in calculating rEVE and rNII in table PRRBB1

The PRRBB is quantified as Economic value of the asset / liability relative to the market. Similarly, Net Interest Income is calculated as the change in the market value of the profit margin component due to changes in the profit rates.

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. For NMD, the Bank are using the prescribed method under the guideline.

The assumptions of the re-pricing of assets and liabilities are as follows:

Assets Allocation:

- Rate Sensitive Assets (RSA) comprise of all the investments made by BAB, viz. Musharaka Finance, Sukuk, Ijarah, Bei Ajel, Personal Financing, Auto and real estate, Interbank Murabaha, SAMA Structured Deals & Murabaha – CDI.

Liabilities Allocation:

- Rate Sensitive Liabilities (RSL) consist of time deposits and Non Maturing Deposits (Current and Savings Accounts) based on prescribed guidelines.

Quantitative disclosures

1) Average repricing maturity assigned to NMDs.

The average maturity assigned to NMDs is 2.6 .

2) Longest repricing maturity assigned to NMDs.

The longest re-pricing maturity assigned is 10 years

PRRBB1 – Quantitative information on PRRBB

(SAR '000)

In reporting currency	Δ EVE		Δ NII	
Period	Dec 2022	Dec 2021	Dec 2022	Dec 2021
Parallel up	1,725,299	1,340,524	29,659	58,652
Parallel down	(1,814,307)	(1,937,510)	44,488	87,978
Steepener	1,215,209	558,130		
Flattener	(711,913)	373,128		
Short rate up	183,576	1,367,071		
Short rate down	265,461	(595,363)		
Maximum	1,725,299	1,367,071	44,488	87,978
Period	Dec 2022		Dec 2021	
Tier 1 capital	13,446,502		12,051,419	

Operational Risk

Operational Risk Qualitative disclosure

Operational risk:

As the Basel Committee defines it, as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk

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, controls monitoring, and its effectiveness.
- Limiting operational losses and solving the root cause behind occurrence of incidents
- Collecting loss data, handling loss recovery in coordination with related parties and to analyze root cause behind occurrence for future mitigation.
- Developing Key Risk Indicators for all the Bank functions
- To provide the employees training programs that increase awareness of operational risk, thereby increasing their effectiveness of control elements and identifying existing gaps.

The Bank is also keen to implement the operational risk governance mechanism through the supervision done by the Board of Directors and Senior Management.

To implement the Bank's operational risk management strategy, a several 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.

- **Determining and Analyzing Operational Losses**

The database of losses collection and related reports are to enhance the risk self-assessment process and control elements enhancement for achieving better results. Albilad's system for operational loss data management enables the Bank to collect and analyze data and incidents related to these losses – whether they're actual losses, potential losses, or near-miss. Risks and control gaps responsible for loss-related incidents are identified. Recommendations for enhancing the associated control elements are presented to mitigate these identified risks and to raise loss exposure to the management-in-charge to help reducing 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 a specific activity. In addition, breaches that have been identified and rectified.

- **Operational Risk reporting**

The Operational Risk Management methods are directly related to the periodic reporting system that aims to inform all departments and divisions with their operational risk profile related to their specific activities with identifying the risky activities that should be mitigated with enhancing their enclosed controls effectiveness to be mitigated.

The periodic operational risk reporting is also supporting the Senior Management's prospective on decision-making process related to the Bank's corporate activities and objectives

Remuneration

REMA – Remuneration policy

Qualitative disclosures

Employees Compensation and Benefits:

Bank Albilad has developed a Compensation Policy based on the 'Rules on Compensation Practices' issued by SAMA as well as the guidelines provided by the Financial Stability Board and the Basel Committee on Banking Supervision in this respect.

The Compensation Policy has been approved by the Board of Directors (BOD). The BOD have also established a Nominations and Remuneration Committee, comprising of five members, the Chairman and two members of the Committee are independent to oversee the implementation of the Policy.

The mandate of the Committee is to oversee the compensation system design and operation, prepare and periodically review the Compensation Policy and evaluate its effectiveness in line with the industry practice.

Policy objectives

The policy sets guidelines for determination of both fixed and variable compensation to be paid to the employees of the Group. The scope of the Policy includes all compensation elements, approval and reporting process, stock options, bonus and its deferral, etc.

The objective of the Policy is to ensure that the compensation is governed by the financial performance evaluation and is linked to the various risks associated, at an overall level. Key staff members of the Bank are eligible to variable compensation which is derived from Risk Adjusted Net Income of the Bank which accounts for significant existing and potential risks in order to protect the Bank's Capital Adequacy and to mitigate the risk of potential future losses.

Compensation structure

The compensation structure of the Bank is based on appropriate industry benchmarking and includes both fixed and variable components. The variable component is designed to ensure key employee retention and is based on three-year vesting period.

a. Fix components:

Provide a competitive salaries or wage according to annual market alignment. Including (Basic, Housing, Transportation and Fix allowance) which is written in the employee's contract.

b. Variable components:

Considering the risk associated with the Bank's performance & individual performance appraisal, all these factors are assessed on periodical basis and the results are shared with the stakeholders based on which the incentive is announced at the close of each accounting period. Including (LTIP or the Stoke Options & STIP as Incentives scheme, Annual Bonus and Annual tickets allowance).

Risk Assessment

All employees engaged in martial risk undertaking or responsible person or Risk controller or Risk monitor employees will be subjected to bonus deferral as detailed below:

	Definition	Deferral	Deferral %	Deferral Type	Vesting Period
Tier 1	Responsible Person / High Material Risk Takers / Controller	Yes	30%	Equity	25% First Year 25% Second Year 50% Third Year
Tier 2	Significant Material Risk Takers / Controller	Yes	20%	Equity	
Tier 3	No Significant Material Risk	No	0%	N/A	N/A
Tier 4	Undertaking or Controlling	No	0%	N/A	N/A

Performance Management System

Includes all permanent employees who have been hired before fourth quarter of the year and the performance is measured by two key factors: technical objectives and behavioral competencies.

Performance of Sales employees is measured by way of a balance score card methodology taking into consideration, financial, customer, process and people factor with appropriate weightage to each factor based on the respective assignments.

REM1 – Remuneration awarded during the financial year

(SAR'000)

	Remuneration amount		a	b
			Senior management	Other material risk-takers
1	Fixed remuneration	Number of employees	24	307
2		Total fixed remuneration (3 + 5 + 7)	42,122	105,366
3		Of which: cash-based	42,122	105,366
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	24	307
10		Total variable remuneration (11 + 13 + 15)	47,804	40,751
11		Of which: cash-based	38,595	39,831
12		Of which: deferred	-	-
13		Of which: shares or other share-linked instruments	9,209	920
14		Of which: deferred	-	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	Total remuneration (2 + 10)		89,926	146,117

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	-	-	-	-	-	-
Other material risk-takers	-	-	-	-	-	-

REM3 – Deferred remuneration

(SAR'000)

	a	b	c	d	e
Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit 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					
Shares	36,836				9,209
Cash-linked instruments					
Other					
Other material risktakers					
Cash					
Shares	2,470				920
Cash-linked instruments					
Other					
Total	39,305				10,128

End of Report