Table 1
Scope of Application

a) Scope

These qualitative disclosures sets out Bank AlBilad approach to Capital assessment.

b) Basis of Consolidation

For accounting purposes all entities where control exists, are consolidated in the Group financial statements.

Entities (within the Group) fully consolidated:

1) AlBilad Investment Company:

AlBilad Investment Company is incorporated in Kingdom of Saudi Arabia as Saudi Limited Liability Company since 2007 and is involved in dealing, managing, arranging, advising and custody of securities. Currently, the Bank owns 100% of the ordinary share capital of the company.

2) AlBilad Real Estate Company:

AlBilad Real Estate Company is incorporated in Kingdom of Saudi Arabia since 2006 and is involved in registering the real estate collaterals that the Bank obtains from its customers. Currently, the Bank owns 100% of the ordinary share capital of the company.

c) There are no restrictions, or other major impediments, on transfer of funds or regulatory capital within the Group.

Table 2
Capital Structure

Capital of the bank consists of the following instruments:

1. Eligible Paid-up Share Capital

Ordinary share capital of the Bank consists of 400,000,000 shares of SAR 10 each. All these shares carry equal voting rights and are not redeemable. These shares rank junior to all other capital instruments as other claims on the Bank.

2. Eligible Reserves

Eligible reserves are created by accumulated appropriations of profit and are maintained for future growth.

Table 3
Capital Adequacy

Basel II uses a three-pillar structure: calculation of minimum capital requirement (Pillar I), supervisory review process (Pillar II) and market discipline/disclosure (Pillar III):

As a general rule, the Basel Committee intends to maintain the current capital level in the banking sector, but some banks will undoubtedly enjoy a capital relief under these requirements. There are a number of different factors that may be beneficial for Bank AlBilad under the capital adequacy rules:

- Good diversification of credit risk between countries, customer segments and industries
- High and stable internal capital generation
- Sound risk, capital and performance management

The risk-weighted assets in Pillar I (according to Basel II guidelines) are calculated using the prescribed Standardized Approach for credit and market risks and the Basic Indicators Approach for operational risk. The Bank conducts a number of stress tests on semi-annual basis and during ICAAP to ensure that its capital is adequate also in unfavorable economic climate. During the tests, the Bank's risk portfolio is exposed to severe stress conditions.

Bank AlBilad's ICAAP, which aims to ensure that the Group's capital supports business growth, stipulates that the Bank should maintain an excess cover relative to the statutory requirement.

Bank AlBilad's capital management aims to ensure efficient use of capital to meet the Bank's overall capital targets.

During 2007, the Bank started working under the Basel II capital adequacy rules. Bank AlBilad has chosen to adopt the standardized approach (for credit and market risks) and the basic indicator approach (for operational risk) to calculate the regulatory requirements of capital adequacy. In 2013, the Bank has adopted SAMA`s guidelines in regard to the Framework of Basel III.

Bank Albilad's strategy is to complete implementation of the Basel II Advanced Approach. In addition, the evaluation exercise will help the bank determine the work that must be undertaken, the action plan and the deliverables required during the implementation of Basel II guidelines under **Advanced Approach for Credit, Market and Operational Risks.**

This includes moving to Internal Rating Approach for credit risk and standardized approach for market risk and operational risk.

The Bank's risk profile complies with the capital targets and implies, among other things, that the Bank must have sufficient capital to cover both organic growth and current fluctuations in the Bank's exposure. The Board of Directors defines risk and capital targets, while the Asset & Liability Management Committee (ALCO) is responsible for ensuring that these targets are met.

The Risk Management Group set up in the Bank receives regular reports on developments in the Bank's balance sheet structure and balance sheet movements, including its capital deployment and risk appetite.

ICAAP

Bank AlBilad's Internal Capital Adequacy Assessment Process (ICAAP) integrates the Group's risk profile, risk management framework with available and required capital. ICAAP has been formally established in Year 2008 with relevant roles and responsibilities to be assigned under Risk and Compliance Committee (RCC) and ALCO.

One of the aims of the ICAAP is to ensure that management adequately identifies and measures the Bank's risks. The process also checks that management takes steps to ensure that the Bank maintains sufficient internal capital relative to its risk profile and that it applies and develops proper risk management systems. Pursuant to regulatory requirements, SAMA will review and assess the Group's application of ICAAP and the quality of the in-house management procedures of which ICAAP forms part.

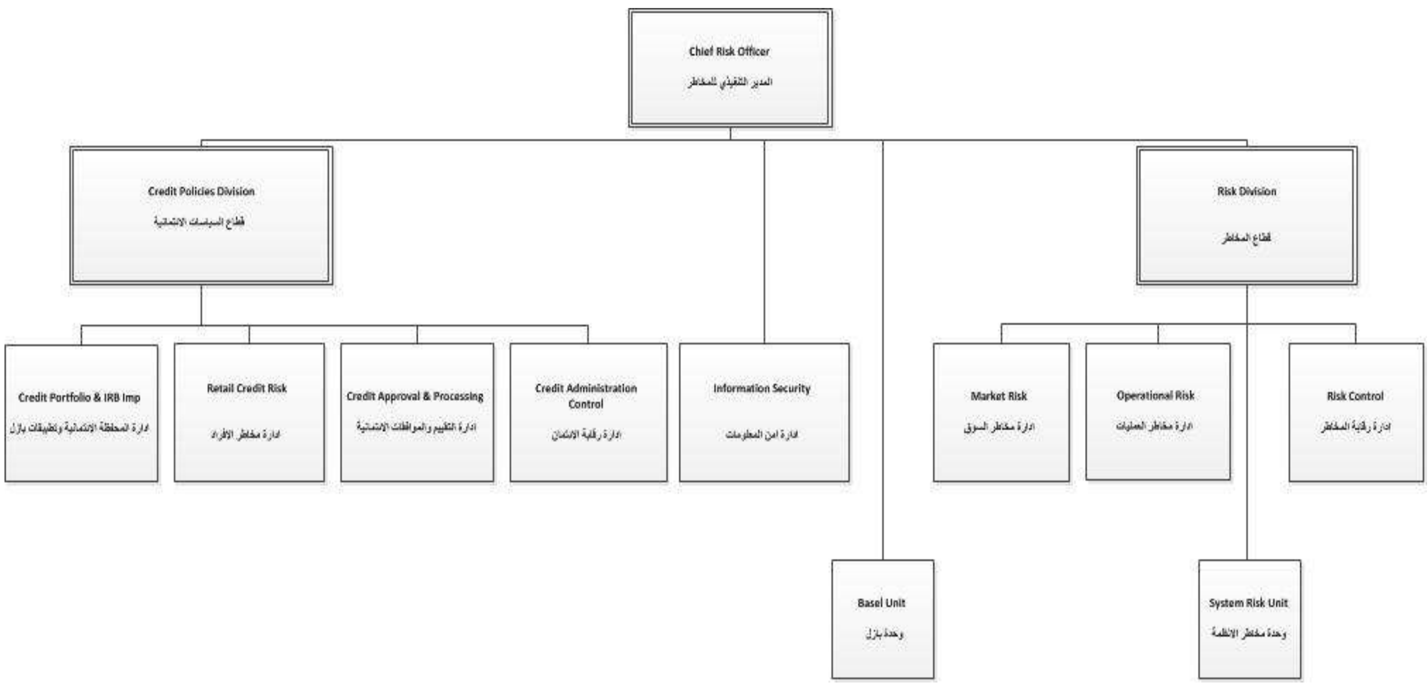
Risk Exposure and Assessment - General Disclosures

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

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

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

The Risk Management Group is organized in the structure as shown below.



Bank AlBilad is exposed to various types of risk that are managed at different levels of the organization. The most important types of risk are as follows:

- Credit risk: The risk of losses because counterparties fail to meet all or part of their obligations.
- Market risk: The risk of losses because the market value of Bank AlBilad 's assets and liabilities will vary with changes in market conditions.
- Liquidity risk: The risk of losses which arises when a bank's normal liquidity reserves remain insufficient to meet its obligations.
- Operational risk: The risk of losses owing to deficient or erroneous internal procedures, human or system errors, or external events.

Each individual risk type is defined in accordance with legislative and regulatory requirements.

The Group allocates considerable resources to ensuring the ongoing compliance with credit limits and to monitoring its credit portfolio. The Group has a fixed reporting cycle to ensure that the relevant management bodies, including the Board of Directors and the Executive Committee, are kept informed of developments in the credit portfolio, non-performing loans and the like.

Table 4
Credit Risk – General Disclosures

Credit risk reflects the risk of losses because one or more counterparties fail to meet all or part of their contractual obligations. Credit risk makes up the largest part of Bank's risk exposures.

Management of Credit Risk

The Bank measure and manage 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 Moody's rating model for all corporate lending customers. On the other hand, retail scorecards are being implemented in addition to the use of SIMAH credit information for retail finance.

- The bank deployed customized scorecard and models for both i.e. SME and Corporate in Moody's system. In addition, we have also deployed Moody's Facility Risk Rating model which is under trial run. in Moody's system.

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

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

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

Strategies

The aims of credit risk management are:

- To maintain a strong culture of responsible lending, supported by a robust risk policy and control framework
- To challenge business originators effectively in defining and implementing risk appetite; and
- To ensure independent, expert scrutiny and approval of credit risks and their mitigation.

Major types of Credit Risk

Credit risk includes concentration, settlement risk.

- Credit Concentration Risk: is a risk in any single exposure or group of exposures with the potential to produce losses large enough (relative to a bank's capital, total assets, or overall risk level) to threaten a bank's health or ability to maintain its core operations. Risk concentrations are arguably the single most important cause of major problems in banks.

- Settlement risk is the risk arising in connection with the settlement of payments for trade in securities and other instruments. The risk arises if payments are remitted before the Bank can ascertain that the corresponding payments have been transferred to one of the Bank's accounts.

Credit Policy

The Credit Policy shall be the primary means of communication through which the Board and Senior Management provide direction to guide and monitor the financing activities so that business goals are achieved without exposing the Bank beyond risk tolerance level approved by Board.

The corner stone of the Credit Policy is as under:

- The Bank shall mainly provide the Short Term Financing to meet working capital needs. However, Medium and Long Term Financing needs will be reviewed on selective basis for commercial clients having good name in the market, established rating and good track record of credit worthiness.
- The financing shall mostly relate to business meeting the risk acceptance criteria.
- The professional conduct and prudent administration of Credit Portfolio, within defined risk limitations, shall have a major contribution to Bank AlBilad's overall objectives of achieving profitable and sustainable growth.
- Bank will not extend any credit facility which violates the rules and regulations prescribed, from time to time by SAMA or any other Regulatory Authority.
- The Credit Policy is providing continuity in approach and is taking into account the cyclical aspect of the country's economy.
- All the present and future credit policies of the Bank shall be within the overall framework of Basel Accord to be adopted as per road map provided / to be provided by SAMA.
- Bank will ensure that the facilities allowed are well aligned to customer's business structure, specific needs and debt servicing capacity.
- It is against the Bank's policy to provide financing for speculative purpose and undesirable activities.
- Bank AlBilad attaches importance to establish and extend long-term customer relationships
- Bank AlBilad regularly follows up on developments in the customer's financial situation in order to assess whether the basis for the granting of credit has changed
- Bank will consider the Term Finance facilities on very selective basis, only to financially sound business entities.

- Guarantees from private individuals are avoided and accepted as incremental comfort.

- The Bank is particularly cautious in its granting of credits to businesses in troubled or cyclical industries

Credit Concentration Risk

Concentration risk denotes the risk arising from an uneven distribution of counterparties in credit or any other business relationship or from concentration in business sectors or geographical regions. Accordingly, concentration risk in credit portfolios comes into being through an uneven distribution of bank loans to individual borrowers (name concentration) or in industry / service sector and geographical regions (sectoral concentration).

Bank AlBilad's identification of risk concentrations in the credit portfolio is included as a credit risk management parameter. The following risk concentrations form a natural part of Bank AlBilad’s business strategy:

- Large exposures to a single party
- Large exposures to a particular industry / sector
- Concentration in exposures to a particular rating of customers

Credit Risk – General Disclosures

Default

The definition of default used by the Bank is consistent with the requirements of the Basel guidelines. A receivable is registered as being in default when it is considered unlikely that the customer will fully repay all his obligations to the Bank or its subsidiaries.

Remedial Management

For lending operations, proper care and caution is exercised and all parameter, as laid down under SAMA rules and Bank’s own policy are followed. In such cases where there is a ray of hope for its recovery, the finances are also rescheduled and nursed for safe work – out. Whenever such a situation arises the Bank cannot sit idle and watch deterioration in the quality of its assets.

Types of Provisions

1. General Provisions

   While for Accounting Financial Statement purposes the guidelines provided in IAS will be followed. The bank to builds general provision for the performing credit portfolio as per portfolio provision models.

2. Specific Provisions

   A specific provision must be made of for incurred and expected losses for individually assessed Corporate, Government, Private Banking and other large risk assets to recognize the net realizable value of the risk assets.

   Retail risk assets that fall under non performing categories should also be covered by specific provisions.

Write-off Procedures

Loans and advances are written off once the usual collection procedure has been completed and the loss on the individual loan or advance can be calculated. Amounts written off are deducted from the allowance account.

The write off proposal is processed after all possible efforts are exhausted to either recover or improve the risk rating including revival/rehabilitation of the borrower's business without exposing the Bank to unnecessary additional risk. The approving authority will give due consideration to the innovation and ingenuity of proposing officers in improving the risk rating or classification of risk assets, including restructuring of credit facilities. Such proposals should, however, clearly demonstrate improvement in bank's position preferably in both short and long terms.

Credit Risk Mitigation

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. There is no collateralisation of treasury operations, i.e. *Murabaha* deals. Usage of purchased protection in the form of credit derivatives is negligible at this point of time .The bank adheres to the list of acceptable collateral and credit protection provided by SAMA to all banks in the Kingdom (except gold and silver).

Broad collateral types currently used by Bank AlBilad include:

- **Financial Collateral**

    - Cash margins
    - 'Customer Share' in LC Musharaka transactions
    - Cash collateral for extending credit or to protect counterparty default.
    - Equities of local listed shares approved by the Shariah Board of the bank for corporate lending and share trading. The list of acceptable equities is periodically reviewed by Credit Committee.
    - Local and foreign, Mutual Fund units, comprising of listed companies acceptable under Shariah law.

- **Real Estate collateral**

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

- **Guarantees**

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

- **Others**

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

Valuation of Collaterals

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

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

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

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

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

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

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

Standardized Approach and Supervisory Risk Weights

For portfolios under the standardized approach, External Credit Assessment Institutions risk assessments are used by Bank AlBilad as part of the determination of risk weightings:

Currently the Bank's corporate portfolio is **externally** unrated. However, for Financial Institutions, three SAMA recognized External Credit Assessment Agencies were nominated for this purpose, i.e. Moody's Investors Service, Standard and Poor's Ratings Group and the Fitch Group.

Credit ratings of all exposures are individually determined from the above credit rating agencies and mapped to the exposures assigning a risk weight according to the supervisory tables.

The alignment of alphanumeric scales of each agency to risk buckets is similar to BIS and SAMA guidelines.

Claims on sovereigns and their central banks

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight	0%	20%	50%	100%	150%	100%

Claims on Banks and Securities Firms (Under Option 2 as required by SAMA)

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight under option 2	20%	50%	50%	100%	150%	50%
Risk Weight for Short – Term claims under option 2	20%	20%	20%	50%	150%	20%

Multilateral Development Banks

0% risk weight for qualifying MDB's as per SAMA and in general risk weights to be determined on the basis of individual MDB rating as for option 2 for banks.

Claims on corporate

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BB-	Below BB-	Unrated
Risk Weight	20%	50%	100%	150%	100%

Claims included in the regulatory non-mortgage retail portfolios

A 75% risk weight to be assigned to such exposures.

Claims secured by residential mortgages

A 100% retail risk weight to be applied to such claims.

Claims secured by commercial real estate

A 100% retail weight to be applied to such claims.

Past Due Loans

Risk Weight %	Level of Provisioning
150	Up to 20%
100	20% to 50%
100	50% and above

Other Assets

The standard risk weight for all other assets will be 100% except gold to be treated equivalent to cash and risk weighted at 0%.

Table 10
MARKET RISK: DISCLOSURE FOR BANKS USING STANDARDIZED APPROACHES 2013

Market Risk

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

The Bank applies the Standardized Approach in calculating market risk capital charge for Pillar I and advanced risk models for Pillar II which include Value-at-Risk and Stress Testing.

Bank AlBilad's market risk capital charge for Pillar I as at the end of December 2013 is approximately SAR 49,987 thousands.

Profit Margin Risk

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

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

Foreign Exchange Risk

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

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

Policies & Responsibilities

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

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

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

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

Value-at-Risk is a statistical measure of the maximum loss that the Bank may incur on its portfolios over a certain period of time at a certain confidence level. Value-at-Risk is a risk measure that quantifies potential losses under normal market conditions.
A major advantage of using the Value at Risk is that it provides a combined figure for all risk types, which facilitate the monitoring, and control of market risks. In addition it takes into account the market factors volatilities and correlations.

The Bank uses historical simulation to calculate Value-at-risk which assumes normally distributed asset returns. As on 31st December 2013, Bank AlBilad's value at risk is approximately SAR 66,373 thousands. The amount is the maximum that Bank AlBilad would statistically lose at a confidence level of 99%, assuming that the exposure was maintained for 10 working days.

Bank AlBilad conducts stress tests and scenario analyses to measure its risk of loss under unusual market conditions. Standard stress tests estimate Bank AlBilad's losses if positions are exposed to profit margin rate shocks of +/- 200bp.
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 Al Bilad's risk profile and economic events. The analyses are made on the basis of the stress testing recommended by the Basel Committee.

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

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

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

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

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

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

Liquidity Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity Scenario Analysis

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

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

Table 12
OPERATIONAL RISK 2013

The Bank`s definition of operational risk is in line with Basel Committee guidelines. It is the risk of loss resulting from inadequate of failed internal processes, people and systems or from external events. Operational risk, includes breakdowns in control framework, human error, legal& regulatory risks and the risks arising from change initiatives.

To manage operational risk the bank has set forth a framework that define the bank approach for managing this important type of risk, policy that define stakeholders roles and responsibilities and explain the operational risk management methodologies . Besides, the bank has documented a clear procedures to put the operational risk framework and policy into action. Operational risk management discipline in the Bank aims to achieve many objectives including the following :

- Supporting the Bank’s objectives
- Identifying and assessing the operational risk of new products as well as current products, activities, and systems

- Independent evaluation of processes, controls, procedures, business performance in an ongoing basis.
- Limiting operational losses and solving the causing problems at their roots.

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

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

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

- **Risk and Control-Self Assessment :**
  The Bank has applied the risk and control self-Assessment methodology which enable the operational risk management function to participate with business and support functions in an active endeavor to define the risks inherent in business activities, and control elements in place to mitigate these risks. These risks and controls are then assessed against a predefined risk and control matrix. The assessment process helps to pinpoint the key risks and control gaps. Then an Action plan to address the gaps is followed to mitigate the key risks.

- **Loss Data Collection**:
  The Bank is collecting operational losses resulting from people, systems or processes failures or any other loss due to operational risks. Collected losses then classified according to predefined loss and business line categories. Operational risk team endeavor in coordination with related stakeholder to define the root cause responsible for realization of risks, and recommend the controls that help in mitigating the defined risks. All operational losses, relevant risks and controls are collected in a database with the proper classification to define the concentration relevant to loss event type or business line.

- **Key Risk Indicators :**
  Key risk indicators are indicators to risks which are key, by collecting the data relevant to key risks, the Bank can monitor the level of key risks identified through the risk and control self-assessment methodology. Key risks indicators are then assessed against a predefined thresholds to escalate the indicators that exceed the acceptable level of thresholds.

To validate the output of each operational risk management methodology the results of that methodology are compared with the result of the other methodology, this approach help to achieve consistency and integration. Detailed reports addressing the operational risks are prepared and distributed to the defined authority level, business lines a, support functions and top management to help address the causes of operational risks. Periodical reports are produced and submitted to risk and compliance committee and the Board to provide the oversight of operational risk management.