ALINMA BANK
(A Saudi Joint Stock Company)

BASEL III Pillar 3 Disclosures
For the Financial Year ended December 31, 2016

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B.1 Table OVA: Risk Management Approach

Business Model

Alinma Bank, a Saudi Joint Stock Company, with over SAR 19 billion in equity as of December 31, 2016, is a Sharia' Compliant Bank providing banking services through 76 branches in the Kingdom of Saudi Arabia. The Bank's activities are organized along four lines of business: Retail, Corporate (includes Commercial segment and SME), Treasury and Investment/Brokerage. The Bank also offers investment, asset management, insurance related products/services and retail remittance business through the following subsidiaries and associates:

- Alinma Investment Company, a fully owned subsidiary, is capitalized at SAR 250 million;
- Al-Tanweer Real Estate Company, a fully owned subsidiary, is capitalized at SAR 100,000. Its main purpose is to facilitate Alinma's mortgage financing and commercial financing backed by real estate collateral;
- Alinma Cooperative Insurance Agency, a fully owned subsidiary, is capitalized at SAR 3 Million. It acts as an agent for Alinma Tokio Marine Company;
- Alinma Tokio Marine Company is an associated company with a share capital of 450 Million in which the Bank holds a 28.75% ownership (i.e. an investment SAR 129 Million). It operates as an insurance company;
- ERSAL is a Joint Venture between Alinma Bank and the Saudi Post and is capitalized at SAR 50 Million. It is owned 50% by Alinma Bank and 50% by Saudi Post.

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

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

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

Risk Profile

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

Risk Appetite

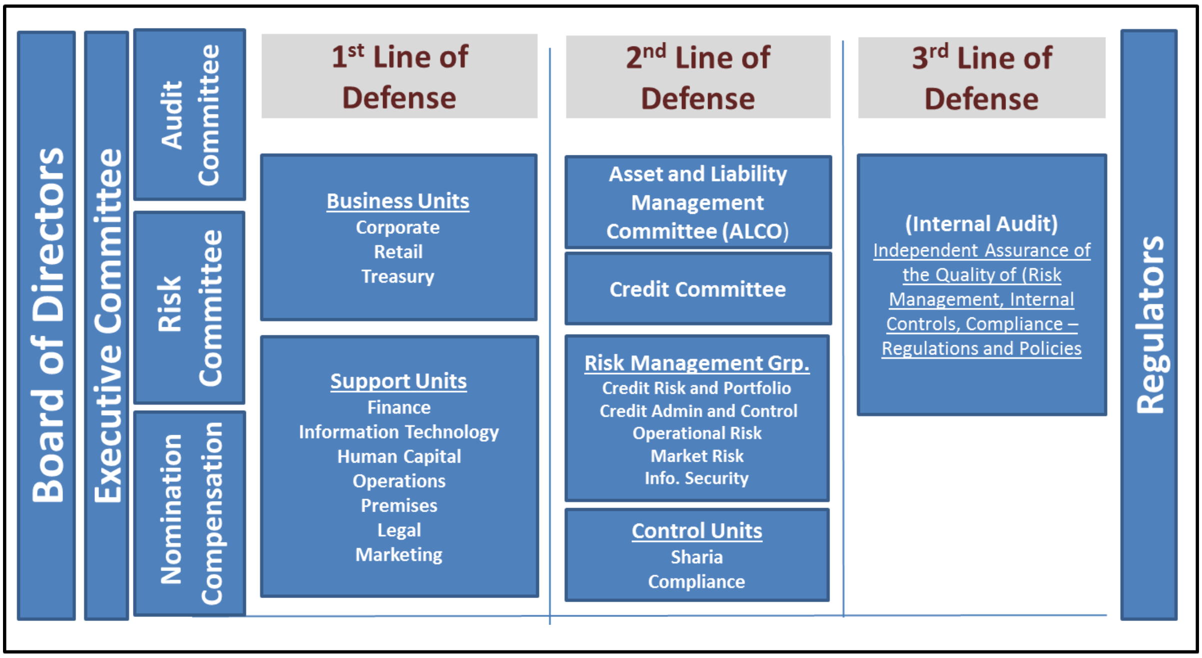
The risk appetite of the Bank is governed by the following parameters:

- The Capital Adequacy Ratio (CAR Pillar 1 and Pillar 2) must meet the minimum set by SAMA;
- The Bank shall maintain a credit rating no lower than BBB+;
- The Bank shall not extend credit facility or give a guarantee or other financial facility with respect to any natural or juristic entities outside of its established Target Market and Risk Acceptance Criteria (TM/RAC) and exposure limits for corporate and individual exposures, will not exceed SAMA Guidelines on Large Exposures;
- The deposit liabilities of the Bank shall not exceed fifteen times (15x) its reserves and paid-up or invested capital;

- The Regulatory Liquidity Ratio must meet the minimum set by SAMA. Alinma must comply with whatever level of LCR and NSFR will be required by SAMA as these ratios maybe adjusted by the regulator from time to time;
- The Bank will have to pace its asset growth according to its ability at attracting customer deposits so that the Financing to Deposit Ratio set by SAMA is met;
- All risk limits should always be within the overall risk profile, local regulatory and BoD approved boundaries and governance based on its Risk Appetite Framework and Policy.

Exceptions, if any, is presented to ALCO and the corrective actions are taken in due course.

(a) The risk governance structure



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

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

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

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

Assets and Liabilities Committee- evaluates, establishes, promulgates and enforces policies on the market and liquidity risk management and strategies, to optimize shareholders' value through effective management of the Bank's balance sheet and assumes Management level oversight on the review, approval, implementation and monitoring of the Bank's Risk Appetite Framework and Policy;

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

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

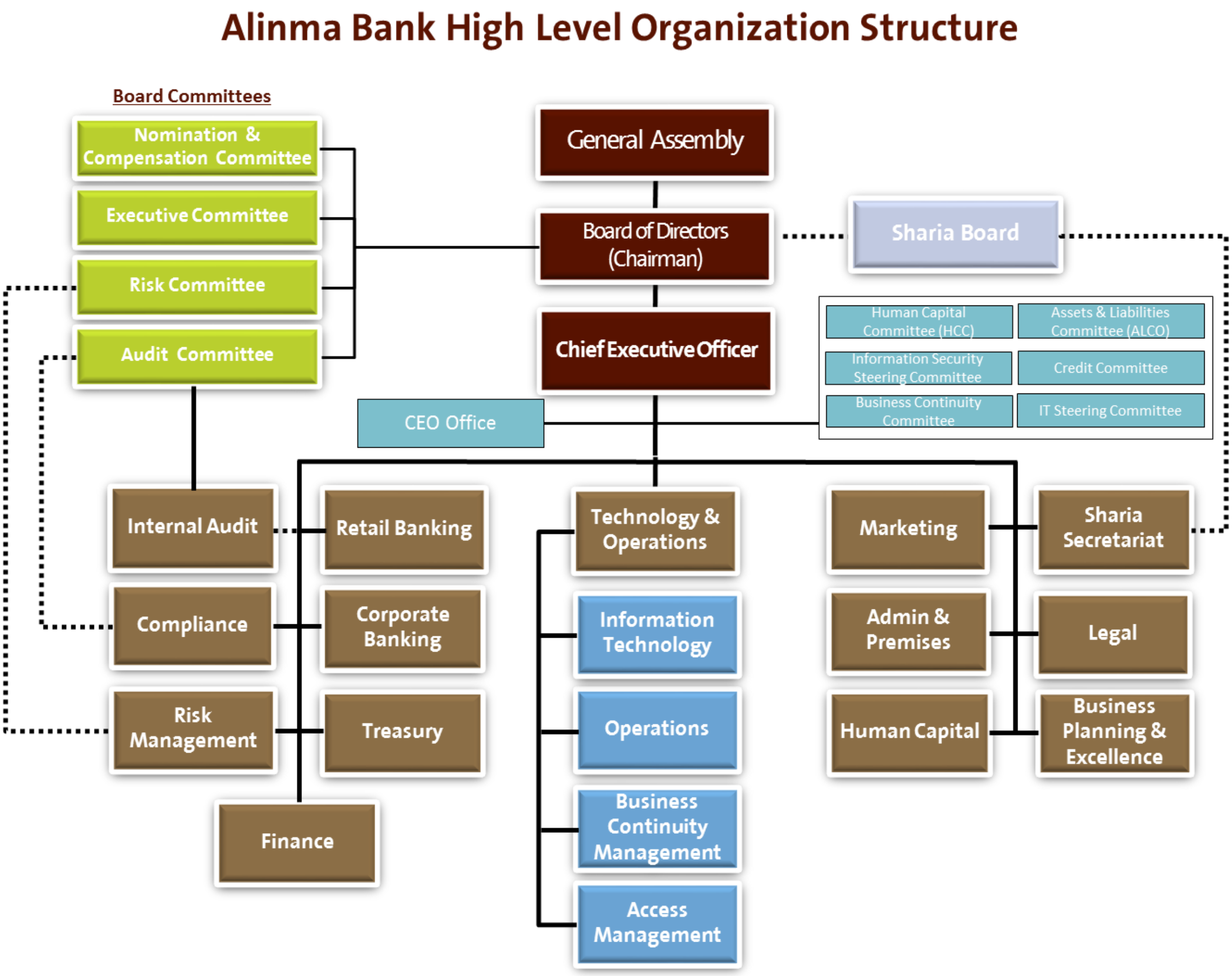
Business Units - the Corporate, Retail and Treasury Groups are the key business units charged with originating, recommending, and managing the largest portion of the Bank's overall risk asset exposure. These key business units have the primary responsibility to implement the risk policies in their respective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

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

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

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

Shown below is the Alinma Bank High Level Organizational Structure:



(b) Channels to communicate, decline and enforce the risk culture

The primary documents that govern, define and guide the implementation of the risk culture of the Bank are the Policies of the Bank covering various disciplines, such as the Enterprise Risk Policy, the Risk Appetite Framework and Policy, the Credit (Corporate and Retail) Policies, the Treasury and Investment Policy, the Operational Risk Policy, the Market Risk Policy, the Liquidity Risk Management Policy, Internal Audit Policy, Information Security Policy, Anti-Fraud Policy and other Policies that govern the implementation, control and monitoring of the Bank's business. To oversee these policies, management has created a number of Committees, the most important of which are: the Assets and Liabilities Committee (ALCO), the Credit Committee, the IT Steering Committee, the Information Security Steering Committee, the

Business Continuity Steering Committee, the Human Capital Committee, the Procurement Committee.

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

(c) The scope and main features of risk measurement systems

Credit Risk

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

Market Risk

The Bank uses The Standardized Approach (TSA) for calculation of the "Market Risk" capital charge. Under Pillar 1, the capital charge for "Market Risk" arising from the Profit Rate Risk, "Equity Price Risk" and "Foreign Exchange Risk," is considered high, given the limited exposure of the Bank to Equity and FX risks. In addition, the Bank is very focused in managing and tracking its liquidity position through the daily automated reports on cash flow gaps, intra-day liquidity, the SAMA Liquidity Ratio, the Basel III dictated ratios such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). These reports are system generated through the Asset Liability Management (ALM) and Fund Transfer Pricing (FTP) automated tools.

Operational Risk

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

Other Pillar 2 Risks

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

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

The capital charge for “Profit Rate Risk” is calculated using the combination of Earnings Approach and Economic Value of Equity (EVE) methodology. For EVE, a 2% increase/decrease of Profit Rate Risk is applied across the profit risk yield curve to measure the impact on the Bank’s equity position resulting from changes of the values of all profit rate sensitive assets and liabilities. For the Earnings Approach, a parallel shift of 4% in Profit Rates during the 12 months is applied. The higher resulting number from the two approaches is used to allocate the capital charge.

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

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

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

On a regular basis, the Risk Committee of the Board (RiskCom) and the Executive Committee of the Board (ExCom) receive Portfolio reports covering existing approved limits and outstanding exposure for all facilities granted to a particular customer in the corporate bank, their Obligor Risk Rating, summary reports on Sector Concentration, obligations past due and non-performing and the level of provisions booked for each account either for specific provisions or collective provisions. The ExCom also receives the details of the 20 largest corporate exposures and the total list of Classified Accounts, pursuant to the guidelines of the Credit Risk Policy. Concurrently, with the anticipated implementation of IFRS 9 in January 2018, the Lifetime PD models and the Provisioning Models for all exposures, corporate, retail and investments held in the banking book have been calculated and parallel runs will be conducted on a quarterly basis, the last one of which was done for the 31 December 2016 closing balances. It should be noted that all limits which govern the business of Corporate, Retail and Treasury Groups are defined and described in the Risk Appetite Framework and Policy which is the primary strategic document which requires the compliance of all business units. ALCO oversees the compliance of the Risk Appetite Framework and compliance to which is reported quarterly to the RiskCom and the ExCom. In addition to the reports which are sent to the RiskCom and to the ExCom on risks covering credit, market and operational risks, the Bank through the Risk Management Group also prepares the annual Internal Capital Adequacy Assessment Process (ICAAP) and Stress Testing reports to SAMA which are approved by the RiskCom and ExCom prior to submission to SAMA. The ICAAP is the most comprehensive risk assessment and reporting tool that the Bank's Senior Management and the Board Committees receive, review and approve; it consolidates the total assessment of the risks of the Bank and the adequacy of capital to support such risks.

(e) Qualitative information on stress testing

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

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

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

(f) The strategies and processes to manage, hedge and mitigate risks

1. Credit Risk

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

It is the responsibility of the Chief Risk Officer (CRO) and the Chief Credit Officer (CCO) to monitor and assess the counterparty's ability to meet its obligations. This is achieved by customer's visits, conducted by the Relationship Management Team and Risk Officers of the Bank regular reviews of the obligor's financial health. Also imbedded in the credit process is the necessity to spot early warning indicators on issues facing the counterparty to improve the effectiveness of remedial action through timely intervention to protect the Bank's exposure. Credit Administration and Control Unit under RMG are tasked with the responsibility of ensuring that the credit approval terms and conditions are reflected in legal agreements, that security and collateral is perfected that credit reviews are conducted on time and exceptions followed up for closure.

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

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

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

1.1. Provisions for Loans/Financing

The Bank makes provisions according to IFRS and the guidelines set by SAMA. It therefore creates specific provisions, for impaired accounts, based on an assessment of the likelihood that the specific counterparty will not meet its obligations. The Bank also makes collective provisions for remaining assets of the portfolio based on an assessment of the probability of default and the loss in case of default. Specific and collective provisioning requirements are reviewed and agreed by the CCO, the CRO, the Heads of the Business Units, the Chief Finance Officer (CFO) and by the Chief Executive Officer (CEO).

2. Market Risk

Market or price risk arises from a confluence of factors internal and external to the economy including volatility across different markets, and macroeconomic factors. Market risk is controlled by setting market risk's limits including position limits and implementing risk policies and meeting regulatory requirements that are designed to mitigate or cap potential exposure. . The Market Risk Management Team under the RMG independently monitors the market risk exposure of the Bank and prepares regular reports for the Asset and Liability Management Committee (ALCO), through the CRO.

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

3. Operational Risk

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

During the year, the operational risk management team conducts specialized data gathering through meetings with business heads and senior management endeavoring to gain a clear understanding of business directions by cascading the relevant business unit strategic objectives. The approach is designed to associate the management directions, with the allocated operational risk appetite, and the risk profile.

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

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

4. Sharia'h Non-Compliance

Sharia'h Governance

The Sharia'h Compliance Framework was formulated to enable Alinma Bank to communicate its strategies towards the effective and efficient Sharia compliance risk management throughout the organization in line with the Sharia principles. The Sharia Compliance Framework is the enterprise-wide Sharia management plan consisting of Sharia'h Governance Structure, systems processes and control to be undertaken by relevant business entities across the group. The Sharia governance is affected through the following functions:

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

Sharia Board

The operation of an Islamic Bank is governed by Sharia'h law of Islamic Banking which stipulates that any licensed Islamic bank is required to establish a Sharia'h advisory body to advise the Bank on the operations of its business to ensure that it does not involve any element which is Sharia'h non-compliant. The Sharia'h Board is responsible to:

- Advise the Board on Sharia matters in its business operations;
- Endorse Sharia Compliance Manual and Framework;
- Endorse and validate relevant documentations;
- Advise the Bank on the computation and distribution of Zakat;
- Assist related parties on Sharia matters;
- Provide written Sharia opinion.

Rectification Process of Sharia Non-Compliance Income

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

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

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

5. Liquidity Risk

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

The process of managing liquidity risk also includes:

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

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

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

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

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

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

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

6. Profit Rate Risk in the Banking Book

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

The Bank uses the Economic Value of Equity (EVE) methodology to assess the Profit-Rate-Risk in the Banking Book (PRRBB), whereby a (two percent) 2% increase/decrease of Profit Rate Risk is applied across the profit risk yield curve to measure the impact on the Bank's equity position resulting from changes of the values of all profit rate sensitive assets and liabilities. The EVE is supported by the Annual Earnings approach which measures the impact on the Bank's Profit and Loss statement for the current year, if the assumed changes in profit rate risk actually occur.

7. Macroeconomic and Business Cycle Risk

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

8. Strategic and Reputational risks

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

B.2 - Template OV1: Overview of RWA

		a	b	c
				SAR '000
		RWA		Minimum capital requirements
		Dec-16	Sep-16	Dec-16
1	Credit risk (excluding counterparty credit risk) (CCR)	93,528,844	92,447,007	7,482,307
2	Of which standardised approach (SA)	93,528,844	92,447,007	7,482,307
3	Of which internal rating-based (IRB) approach			-
4	Counterparty credit risk	-	-	-
5	Of which standardised approach for counterparty credit risk (SA-CCR)	-	-	-
6	Of which internal model method (IMM)	-	-	-
7	Equity positions in banking book under market-based approach	-	-	-
8	Equity investments in funds – look-through approach	-	-	-
9	Equity investments in funds – mandate-based approach	-	-	-
10	Equity investments in funds – fall-back approach	-	-	-
11	Settlement risk	-	-	-
12	Securitisation exposures in banking book	-	-	-
13	Of which IRB ratings-based approach (RBA)	-	-	-
14	Of which IRB Supervisory Formula Approach (SFA)	-	-	-
15	Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	663,137	280,165	53,051
17	Of which standardised approach (SA)	663,137	280,165	53,051
18	Of which internal model approaches (IMM)	-	-	-
19	Operational risk	5,631,488	5,447,064	450,519
20	Of which Basic Indicator Approach	5,631,488	5,447,064	450,519
21	Of which Standardised Approach	-	-	-
22	Of which Advanced Measurement Approach	-	-	-
23	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
24	Floor adjustment	-	-	-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	99,823,469	98,174,236	7,985,877

alinma bank

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

SAR '000

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from
Assets							
Cash and balances with Saudi Arabian Monetary Agency	7,105,665	7,105,665	7,105,665	-	-	-	-
Due from banks and other financial institutions	17,641,780	17,641,780	17,641,780	-	-	-	-
Investments, net	6,157,341	6,157,341	6,089,095	-	-	68,246	-
Financing, net	70,311,947	70,311,947	70,311,947	-	-	-	-
Property and equipment, net	1,737,818	1,737,818	1,737,818	-	-	-	-
Other assets	1,775,308	1,775,308	1,775,308	-	-	-	-
Total assets	**104,729,860**	**104,729,860**	**104,661,614**	**-**	**-**	**68,246**	**-**
Liabilities							
Due to banks and other financial institutions	2,431,804	2,431,804		-	-	-	2,431,804
Customers' deposits	80,612,226	80,612,226		-	-	-	80,612,226
Other liabilities	2,507,371	2,507,371		-	-	-	2,507,371
Total liabilities	**85,551,401**	**85,551,401**	**-**	**-**	**-**	**-**	**85,551,401**

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

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

SAR '000

		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	104,729,860	104,661,614	-	-	68,246
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	85,551,401	-	-	-	-
3	Total net amount under regulatory scope of consolidation	104,729,860	104,661,614	-	-	68,246
4	Off-balance sheet amounts	10,779,619	6,788,482			458,399
5	Differences in valuations					
6	Differences due to different netting rules, other than those already included in row 2					
7	Differences due to consideration of provisions					
8	Differences due to prudential filters					
10	Exposure amounts considered for regulatory purposes	115,509,479	111,450,096	-	-	526,645

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

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

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

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

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

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

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

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

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

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

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

All financing activities are only undertaken in accordance with documented and approved policies and procedures which are accessible to all relevant staff and are effectively implemented. These documents (manuals, programs, bulletins etc.) clearly define the applicable risk measures and controls. The Business Units (CBG, RBG and Treasury) initiate the origination of the accounts. Based on Credit Policy Guidelines, CBG then processes their due diligence of the credit based on established guidelines, conducts a Credit Round Table (CRT) which is a preliminary discussions with the authorized approvers mainly from Risk Management, on the acceptability of the credit and to generate specific conditions, if any, to enhance the credit worthiness and acceptability of the credit. After this, the formal credit recommendation is prepared which is routed within the business unit and is then escalated to the Risk Management approvers for their independent review and approval, prior to escalation to the CEO and to the ExCom (if the limit is beyond the CEO.) Once the credit is approved, the credit is then handled by Credit Administration and Control to ensure that the terms and conditions of approval are captured in the Legal Documentation, that the required signatures of the customer are procured and all the supporting documents, securities and collateral are received, accepted and are lodged in the required custodianship unit. All real estate collateral which are subject to Unconditional Sale to the Bank are controlled by a fully owned subsidiary of the Bank under which entity, the title deeds are registered. All other documentation are managed and kept by Credit Administration (Documentation Unit) to ensure that all required documents are executed and are delivered and received by the Bank. After the Documentation Unit has reviewed the documents to their satisfaction, they send internal confirmation to the Limit Control Unit of Credit Administration which will then release the approved limit, with its terms and conditions including pricing terms, in the system for the utilization of the business unit.

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

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

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

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

(e) Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors:

The Risk Committee of the Board (RiskCom) and the Executive Committee of the Board (ExCom) receive Portfolio reports covering existing approved limits and outstanding of all facilities granted to a particular customer in the corporate bank, their Obligor Risk Rating, summary reports on Sector Concentration, portions past due and non-performing and the level of provisions booked for each account either for specific provisions or collection provisions. The ExCom also receives the details of the 20 largest corporate exposures and the total list of Classified and Impaired Accounts, pursuant to the guidelines of the Credit Risk Policy. Concurrently, with the anticipated implementation of IFRS 9 in January 2018, the Lifetime PD models and the Provisioning Models for all exposures, corporate, retail and investments held in the banking book have been calculated and parallel runs are being conducted on a quarterly basis, the last one of which was done for the 31 December 2016 closing balances. It shall be noted that all limits which govern the business of Corporate, Retail and Treasury Groups are defined and described in the Risk Appetite Framework and Policy which is the primary strategic document from which all business units will comply. ALCO oversees the compliance of the Risk Appetite Framework and will report quarterly the compliance to the RiskCom and the ExCom.

B.7 - Template CR1: Credit quality of assets

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		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	563,692	102,839,013	945,565	102,457,139
2	Debt Securities	-	2,204,475		2,204,475
3	Off-balance sheet exposures	-	6,788,482		6,788,482
4	**Total**	**563,692**	**111,831,969**	**945,565**	**111,450,096**

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

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

SAR '000

		a
1	**Defaulted loans and debt securities at end of the previous reporting period**	**450,465**
2	Loans and debt securities that have defaulted since the last reporting period	113,418
3	Returned to non-defaulted status	-
4	Amounts written off	191
5	Other changes	-
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	563,692

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

Qualitative disclosures

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

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

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

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

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

One account with total outstanding of SR151 million, has past due amounts in excess of 90 days but is not considered impaired because the land and factory they own, currently appraised by 3rd Parties at about SR170 million, and which has been transferred and owned by Bank, at the inception of the relationship, has an outstanding offer to purchase from a large corporate customer of the Bank. After completion of due diligence and legal formalities, payments will be made, liquidating this exposure.

(c) Description of methods used for determining impairments.

Currently impairments are determined based on IAS 39 guidelines. By January 1, 2018, impairments will be determined based on the IFRS 9 guidelines.

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

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

Quantitative disclosures

For the quantitative disclosures (e to h), please refer to tables below:

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B 9.1 CREDIT RISK: GENERAL DISCLOSURES-December 2016							
Geographic Breakdown							
Portfolios	Geographic area						
	Saudi Arabia	Other GCC & Middle East	Europe	North America	South East Asia	Other countries	Total
Sovereigns and central banks:							
SAMA and Saudi Government	8,079,339						8,079,339
Others							-
Multilateral Development Banks (MDBs)							-
Public Sector Entities (PSEs)							-
Banks and securities firms	8,434,742	8,608,724	741,856			272,282	18,057,604
Corporates	62,650,777	163,215	73,189	-	60,623	59	62,947,863
Retail non-mortgages	7,193,159						7,193,159
Small Business Facilities Enterprises (SBFE's)							-
Mortgages							-
Residential	7,117,384						7,117,384
Commercial							-
Securitized assets							-
Equity	2,820,632	37,500	13,258	213,171			3,084,561
Others	5,543,986						5,543,986
Total	**101,840,019**	**8,809,439**	**828,303**	**213,171**	**60,623**	**272,341**	**112,023,896**

B 9.2 : CREDIT RISK: GENERAL DISCLOSURES-December 2016													
Industry Sector Breakdown													
Portfolios	Industry sector												
	Government and quasi government	Banks and other financial institutions	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building and construction	Commerce	Transportation and communication	Services	Consumer loans and credit cards	Others	Total
Sovereigns and central banks:													
SAMA and Saudi Government	8,079,339												8,079,339
Others													-
Multilateral Development Banks (MDBs)													-
Public Sector Entities (PSEs)													-
Banks and securities firms		18,057,604											18,057,604
Corporates	7,393,462	-	1,455,556	10,725,950	552,391	935,683	3,630,084	25,887,681	1,839,513	5,894,275	-	4,633,270	62,947,863
Retail non-mortgages											7,193,159		7,193,159
Small Business Facilities Enterprises (SBFE's)													-
Mortgages													-
Residential											7,117,384		7,117,384
Commercial													-
Securitized assets													-
Equity	-	439,090	-	1,765,385	-	-	108,418	-	52,405	719,264	-	-	3,084,561
Others												5,543,986	5,543,986
Total	**15,472,801**	**18,496,694**	**1,455,556**	**12,491,335**	**552,391**	**935,683**	**3,738,501**	**25,887,681**	**1,891,918**	**6,613,538**	**14,310,543**	**10,177,255**	**112,023,896**

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B 9.3: CREDIT RISK: GENERAL DISCLOSURES-December 2016									
Residual Contractual Maturity Breakdown									
Portfolios	Maturity breakdown								
	Less than 8 days	8-30 days	30-90 days	90-180 days	180-360 days	1-3 years	3-5 years	Over 5 years	Total
Sovereigns and central banks:									
SAMA and Saudi Government	5,172,613	1,198,394	708,332	-			1,000,000		8,079,340
Others									-
Multilateral Development Banks (MDBs)									-
Public Sector Entities (PSEs)									-
Banks and securities firms	4,774,344	9,680,776	516,751	978,051	701,272	1,030,803	375,000	608	18,057,604
Corporates	1,034,257	3,898,138	7,716,925	10,993,497	6,623,812	15,305,055	11,362,531	6,013,647	62,947,863
Retail non-mortgages	6,341	182,602	350,187	540,103	1,019,803	3,343,039	1,533,543	217,541	7,193,158
Small Business Facilities Enterprises (SBFE's)									-
Mortgages									-
Residential	17,259	9,923	50,964	79,811	181,345	981,407	1,051,522	4,745,152	7,117,384
Commercial									-
Securitized assets									-
Equity					880,086	2,204,475			3,084,561
Others	1,933,052				2,354,581	579,273		677,080	5,543,986
Total	**12,937,866**	**14,969,833**	**9,343,159**	**12,591,462**	**11,760,899**	**23,444,052**	**15,322,597**	**11,654,028**	**112,023,896**

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B 9.4: CREDIT RISK: GENERAL DISCLOSURES-December 2016

Impaired Loans, Past Due Loans and Allowances

Industry sector	Impaired loans	Defaulted	Aging of Past Due Loans (days)				Specific allowances			General allowances
			Less than 90	90-180	180-360	Over 360	Charges during the period	Charge-offs during the period	Balance at the end of the period	
Government and quasi government		-								26,480
Banks and other financial institutions		-								-
Agriculture and fishing		-								-
Manufacturing		-	16,471							188,869
Mining and quarrying		-								484
Electricity, water, gas and health services		-								4,386
Building and construction	94,698	70,730	1,243	1,067	-	69,664	22,043		94,698	147,864
Commerce		16,990	7,380	4,924	12,065			-		38,592
Transportation and communication		-	6,574							-
Services		-								72,065
Consumer loans and credit cards	450,937	278,824	22,443	18,259	10,928	249,637	31,156		277,067	46,863
Others			2							48,197
Total	545,635	366,544	54,113	24,250	22,993	319,301	53,199	-	371,765	573,800

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B 9.5: CREDIT RISK: GENERAL DISCLOSURES December 2016							
Impaired Loans, Past Due Loans And Allowances							
Geographic area	Impaired loans	Aging of Past Due Loans (days)				Specific allowances	General allowances
		Less than 90	90-180	180-360	Over 360		
Saudi Arabia	545,635	54,113	24,250	22,993	319,301	371,765	573,800
Other GCC & Middle East							
Europe							
North America							
South East Asia							
Others countries							
Total	**545,635**	**54,113**	**24,250**	**22,993**	**319,301**	**371,765**	**573,800**

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B 9.6: CREDIT RISK: GENERAL DISCLOSURES December 2016

Reconciliation Of Changes In The Allowances For Loan Impairment

Particulars	Specific allowances	General allowances
Balance, beginning of the period	318,567	469,769
Charge-offs taken against the allowances during the period	-	-
Amounts set aside (or reversed) during the period	53,199	104,031
Other adjustments:		
- exchange rate differences		
- business combinations		
- acquisitions and disposals of subsidiaries		
- etc.		
Transfers between allowances		
Balance, end of the period	371,765	573,800

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

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

Bank does not use the netting arrangements.

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

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

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

For Retail / Consumer Financing

The Real Estate properties taken as collateral, are evaluated through two evaluators from the approved panel of authorized evaluators. In case the difference between the two appraised evaluations exceeds 15%, then a third evaluation is obtained unless an exception is approved. Properties are free from any known construction default/damages. The properties are not be older than 15 years. The property title deeds are transferred to Al-Tanweer, a company formed principally to hold legal title of properties as collateral for the finance extended by the Bank.

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

To be prudent, the Bank is not using the benefits of collaterals.

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

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		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	69,841,652	32,615,487	7,302,217	-	-	-	-
2	Debt securities	2,204,475	-	-	-	-	-	-
3	Total	72,046,127	32,615,487	-	-	-	-	-
4	Of which defaulted	326,534	237,158	-	-	-	-	-

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

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

(a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the Bank, and the reasons for any changes over the reporting period;

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

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

There has been no change over the reporting period.

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

Bank uses ECAI for its exposures to other Bank and financial institutions wherever such ratings are available. However, almost all credit exposure to customer are rated internally using the Moody's Risk Analyst model.

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

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

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

(d) The alignment of the alphanumerical scale of each agency used with risk buckets (except where the relevant supervisor publishes a standard mapping with which the Bank has to comply).

The below table shows the mapping of Alinma rating vis-à-vis Credit Rating Agencies:

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ALINMA *OBLIGOR RISK RATING (ORR)* TABLE

Alinma Rating Grades	PD %	Alinma Description	Grade	SAMA Equivalent	Standard and Poor's Long-Term	Standard and Poor's PD %	Standard and Poor's Short-Term	Moody's Long-Term	Moody's Short-Term	Fitch Long-Term	Fitch Short-Term
1	0.01%	Almost Credit Risk Free	Investment Grade	Standard Accounts	AAA	0.00%	A-1+	Aaa	P-1	AAA	F1+
2+	0.01%	Exceptionally Strong Credit Risk			AA+	0.00%		Aa1		AA+	
2	0.02%				AA	0.01%		Aa2		AA	
2-	0.05%				AA-	0.02%		Aa3		AA-	
3+	0.08%	Excellent Credit Risk			A+	0.03%	A-1	A1		A+	F1
3	0.12%				A	0.04%		A2		A	
3-	0.17%				A-	0.08%	A-2	A3	P-2	A-	F2
4+	0.25%	Very Good Credit Quality			BBB+	0.15%		Baa1		BBB+	
4	0.35%				BBB	0.27%	A-3	Baa2	P-3	BBB	F3
4-	0.50%				BBB-	0.45%		Baa3		BBB-	
5+	0.80%	Good Credit Quality	Semi-Speculative		BB+	0.72%	B	Ba1	Not prime	BB+	B
5	1.25%				BB	1.17%		Ba2		BB	
5-	2.10%				BB-	1.95%		Ba3		BB-	
6+	3.50%	Satisfactory Credit Quality	Speculative		B+	3.30%		B1		B+	
6	6.30%				B	6.10%		B2		B	
6-	13.25%				B-	13.05%		B3		B-	
7	30.00%	Watch list/Weak Credit Quality	Highly Speculative	Special Mention	CCC+		C	Caa1		CCC	C
8	100.00%	Default/Substandard/Partial Loss	Default Imminent	Substandard	CCC			Caa2			
					CCC-			Caa3			
9	100.00%	Default/Substantial Loss	Default	Doubtful	CC			Ca			
					C						
10	100.00%	Total Loss	Default	Loss	D			C		DDD	
										DD	
										D	

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

SAR '000

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	8,079,339	-	8,079,339	-	-	0%
2	Non-central government public sector entities	-	-	-	-	-	0%
3	Multilateral development banks	-	-	-	-	-	0%
4	Banks	17,641,780	1,261,815	17,641,780	415,824	4,842,119	27%
5	Securities firms	-	-	-	-	-	0%
6	Corporates	56,582,593	9,517,803	56,582,593	6,372,658	62,955,251	100%
7	Regulatory retail portfolios	7,077,724	-	7,077,724	-	5,487,200	78%
8	Secured by residential property	7,058,949	-	7,058,949	-	7,058,949	100%
9	Secured by commercial real estate	-	-	-	-	-	0%
10	Equity	659,837	-	659,837	-	1,979,512	300%
11	Past-due loans	166,481	-	166,481	-	166,481	100%
12	Higher-risk categories	2,522,532	-	2,522,532	-	7,526,205	298%
13	Other assets	5,446,178	-	5,446,178	-	3,513,126	65%
14	Total	105,235,414	10,779,619	105,235,414	6,788,482	93,528,844	83%

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

SAR '000

		a	b	c	d	e	f	g	h	i	j
	Asset classes/ Risk weight	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	8,079,339	-	-	-	-	-	-	-	-	8,079,339
2	Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
3	Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	14,648,651		2,993,129	-	415,824	-	-	18,057,604
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	-	62,955,251	-	-	62,955,251
7	Regulatory retail portfolios	-	-	-	-	-	6,362,097	715,627	-	-	7,077,724
8	Secured by residential property	-	-	-	-	-		7,058,949	-	-	7,058,949
9	Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
10	Equity	-	-	-	-	-	-	-	-	659,837	659,837
11	Past-due loans	-	-	-	-	-	-	166,481	-	-	166,481
12	Higher-risk categories	-	-	-	-	-	-		-	2,522,532	2,522,532
13	Other assets	1,933,052	-	-	-	-	-	3,513,126	-		5,446,178
14	**Total**	**10,012,391**	**-**	**14,648,651**	**-**	**2,993,129**	**6,362,097**	**74,825,259**	**-**	**3,182,369**	**112,023,896**

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

A. Market risk management framework

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

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

(a) Strategies and processes of the Bank

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

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

To ensure that all concerned are properly guided, the Bank has prepared several Policies and Procedures that would define the parameters, limits and guidelines to be followed by all concerned in running the business. Foremost among these policies is the Risk Appetite Framework and Policy that defines the qualitative and quantitative targets the Business Units must maintain in pursuit of their goals within regulatory and legal requirements. The Bank also prepared the over-arching Enterprise Risk Policy which integrates and establishes the linkages of the various Policies the various Business and Support Units of the Bank have prepared and are following, defining the process, the Risk Owners, the Controllers and the Approvers. To ensure that all of these Policies are implemented properly and are modified if needed, the Bank established several management committees to oversee and manage its Assets and Liabilities, Credit Approval of financing and investment assets, manage Information Technology, oversee Information Security and Business Continuity and implement Human Capital policies and guidelines. All of these Management Committees report to the CEO. However, based on the Governance Structure of the Bank those Committees that oversee the Business strategies and Management of Risks also provide reports to the Risk Committee of the Board and to the ExCom and those pertaining to Human Capital report to the Remunerations and Nominations Committee of the Board and Internal Audit report to the Audit Committee of the Board. All credits, budgets, strategies and major decisions of the Bank, are presented to the Executive Committee of the Board which acts as the mini-board of the Bank and is chaired by the Chairman of the Board of the Bank and is participated by Board members nominated by the strategic owners plus an independent member of the Board.

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

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

- The following are the key players in the market risk management process at the Bank:
- Risk Committee of the Board - Oversee on behalf of the Board of Directors (BoD) the market risk management practice at the Bank.
- Board Executive Committee (ExCom) - Approve overall market risk policy and setting broad market risk guidelines for the Bank.
- Asset and Liability Management (ALCO) - Approve asset allocation and investment of the balance sheet. Set tolerance levels for the Bank, covering the components of Market Risk (including Asset Price Risk and Profit Rate Risk) and investment. Oversee management of market risk. Approve frameworks for monitoring market risk. Monitor overall actual risk levels. Monitor resilience of balance sheet to future changes, through reviewing stress testing. React if risk moves outside agreed tolerance
- Treasury Front Office - Manage bank’s own investment portfolio and manage asset price risk associated with these investments. Manage risks resulting from balance sheet composition (liquidity and profit rate risks) for the entire bank.
- Treasury Support - Support decision making in Treasury, through producing rapid response Treasury MIS (e.g. dealer performance, position reports and etc.).
- Treasury Operations - Process all transactions initiated in Treasury, from confirmation through to settlement.
- Risk Management - Ensure decision makers, bank-wide, to make decisions with full understanding of the risks involved. Review investment objectives, both in terms of risk and return. Support ALCO in setting risk tolerance levels and monitoring actual risk levels. Develop frameworks to measure risk. Propose risk limits, as request by and in discussion with Business units, and present to ALCO for approval. Measure overall risk levels both under steady conditions, and under stress scenarios. If the Bank moves outside approved risk limits, analyze options for bank to react, and present to ALCO for discussion and decision. Approve those decisions within delegated authority (e.g. counterparty limits). Monitor and report to ALCO all limit excesses in accordance with the Risk Appetite.
- Finance - Act as ALCO secretary. Manage funds transfer pricing mechanism. Address tax concerns, including zakat which may be applicable on any investments. Escalate any un-reconciled trades.
- Sharia'h Control - Sharia Control shall review to ensure that the Treasury business activities are in full compliance with Sharia Board Rulings as any violation may affect the Bank’s profit.

- Audit - Conduct the review of the design and operating effectiveness of the market risk management process.

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

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

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

		SAR '000
		a
		RWA
	Outright products	**663,137**
1	Interest rate risk (general and specific)	
2	Equity risk (general and specific)	204,737
3	Foreign exchange risk	458,399
4	Commodity risk	
	Options	-
5	Simplified approach	
6	Delta-plus method	
7	Scenario approach	
8	Securitisation	
9	**Total**	**663,137**

The increase in RWA of current period compared to June 2016 was mainly due to increase in foreign exchange risk. (increased from SAR 234 million in June 2016 to SAR 475 million). On the other hand Equity risk reduced from SAR 240 million as of June 2016 to SAR 205 million as of December 2016, mainly due to disposal of some trading investment and reduction in market vlaue of trading investments.

41 – Operational Risk

Qualitative Disclosures

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

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

(b) Description of the advanced measurement approaches for operational risk (AMA), if used by the Bank, including a discussion of relevant internal and external factors considered in the Bank's measurement approach. In the case of partial use, the scope and coverage of the different approaches used.

N/A

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

N/A

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

Qualitative disclosures

(a) The general qualitative disclosure requirement (paragraph 824), including the nature of PRRBB and key assumptions

The Profit Rate Risk of the Banking Book (PRRBB) is measured using the Economic Value of Equity (EVE) and Earnings Approach. For EVE, the Bank calculates the present value of the expected cash flows of all profit rate sensitive assets, minus the present value of all profit rate sensitive liabilities assuming a shock in profit rate of 2% (an increase or decrease of profits rates of 200 basis points [2%].) The PV of rate sensitive liabilities and non-rate sensitive liabilities are deducted from the total PV of the rate sensitive assets plus the non-rate sensitive assets yielding the adjusted Equity, after the Profit Rate Shock. The Bank approved tolerance limit is up to 10% change in economic value of equity.

Similarly, for the earnings approach, the calculation is based on the impact on earnings (as a percentage of income from financing and investment) using higher stress rate of +4% parallel shift in profit rates over the horizon of one (1) year.

The Bank is slotting in time buckets based on maturity (and re-pricing) those that are rate sensitive assets and liabilities. For those that doesn't have maturity (non-rate sensitive), these are consolidated into one bucket as the currently, the Bank has not adopted yet a behavioral approach. Nevertheless, with the upcoming implementation of the revised IRRBB standards in 2018, the Bank is in the process of implementing a dynamic bucketing for all types of assets and liabilities.

The Risk Group is measuring the IRRBB at least weekly and the CRO presents the same to ALCO on a monthly basis.

Quantitative disclosures

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

As of December 31, 201 6, the following is the earnings approach calculation:

SAR '000

	Up to 3M	3M to 12M	TOTAL
Rate Sensitive Assets	32,694,515	23,446,737	56,141,252
Rate Sensitive Liabilities	37,166,072	13,418,901	50,584,973
GAP (RSA - RSL)	(4,471,557)	10,027,836	5,556,279
Impact on Earnings (+/-4)	(156,504)	150,418	(6,087)
		Total Income from Investment and Financing	**3,385,114**
		Impact of +/- 4% rate shift on Earnings	**6,087**
		Impact of +/- 4% rate shift on Earnings (%)	**0.18%**
		Threshold	**10%**

The result indicates that the Bank's change in Earnings is -0.18% at 400 bps parallel fall in profit rates. As this is within the tolerance limit of 10%, no capital charge is allocated using this approach. Furthermore, please note that +4% parallel shift in profit rates during the next 12 months is considered too high and unlikely.

Similarly, for EVE, the following is the result:

SAR '000

	Rate Insensitive Balance	Market Value	+200 bps	-200 bps
Total Assets	12,427,972	107,396,486	105,834,354	109,108,789
Total Liabilities and Shareholder's Equity	(67,088,347)	(105,068,025)	(104,824,228)	(105,314,378)
	EVE	**2,328,461**	**1,010,126**	**3,794,411**
	Change in Economic Value of Equity		**(1,318,335)**	**1,465,950**
	Change in EVE as % of Equity		**-6.11%**	**6.79%**
	Threshold		**-10%**	**10%**

Based from the table above, the result indicates that the change in EVE is within the 10% threshold and 8% MAT thresholds.