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**ALINMA BANK**  
**(A Saudi Joint Stock Company)**

**BASEL III Pillar 3 Disclosures**  
**For the Financial Year ended December 31, 2019**

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## B.1 Table OVA: Risk Management Approach

### Business Model

Alinma Bank (the Bank), a Saudi Joint Stock Company, with around SAR 22,445 million in paid-up capital and equity for FYE 2019, is a fully Sharia-compliant bank providing banking services through 98 branches in the Kingdom of Saudi Arabia. The Bank has four lines of business: Retail, Corporate (includes Commercial and SME segments), Treasury and Investment/Brokerage. The Bank also offers investment, asset management, insurance related products/services, retail remittance business, financial technology and outsourcing services through the following subsidiaries and associates mentioned below:

- Alinma Investment Company (AIC) is a fully owned subsidiary and capitalized at SAR 250 million.
- Al-Tanweer Real Estate Company is a fully owned subsidiary and capitalized at SAR 100,000. Al-Tanweer does not do business for its own account. Its main purpose is to facilitate Alinma's mortgage financing and commercial financing backed by real estate collateral.
- Alinma Cooperative Insurance Agency is a fully owned subsidiary and capitalized at SAR 3 million. It acts as an agent for Alinma Tokio Marine Company.
- Alinma Tokio Marine Company is an associated company owned with a share capital of SAR 300 million in which the Bank holds 28.75% ownership (i.e. an investment of SAR 86.25 million. It operates as an insurance agency company.
- ERSAL Financial Remittance Company is a Joint Venture between Alinma Bank and the Saudi Post and capitalized at SAR 50 million. It is owned 50% by Alinma Bank and 50% by Saudi Post.
- Saudi FinTech Company and ESNAD Company, 100% owned subsidiaries, started in 2019 capitalized at SAR 100 million and SAR 0.5 million respectively.
- The Bank's financial statements consolidate all subsidiaries, whereas the associate and joint venture are companies reported under the equity method.

Alinma's business has grown at a rapid pace since its operations in 2009. The Bank's business operates within tolerable risks, with adequate return parameters while adhering to its strategic guidelines. The continuing Strategic Goals of the Bank are as follows:

- i. Grow the Balance Sheet while generating sustainable and quality earnings;
- ii. Maintain the Quality of Assets;
- iii. Manage Liquidity;

- iv. Manage Stable Human Resources;
- v. Control Operational Risks.

### **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) and 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 - 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 that 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 difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets.
8. Profit Rate Risk in Banking Book –the risk arises from changes in profit rates that 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 associated with the cyclical nature of the economy that drives other risk variables such as credit, market or liquidity due to changes in economic factors.
10. Strategic and Reputational Risk - a risk to the Bank's earnings and profitability arising from strategic decisions, changes in business conditions, the improper implementation of decisions and/or the improper management of issues important to the public at large.

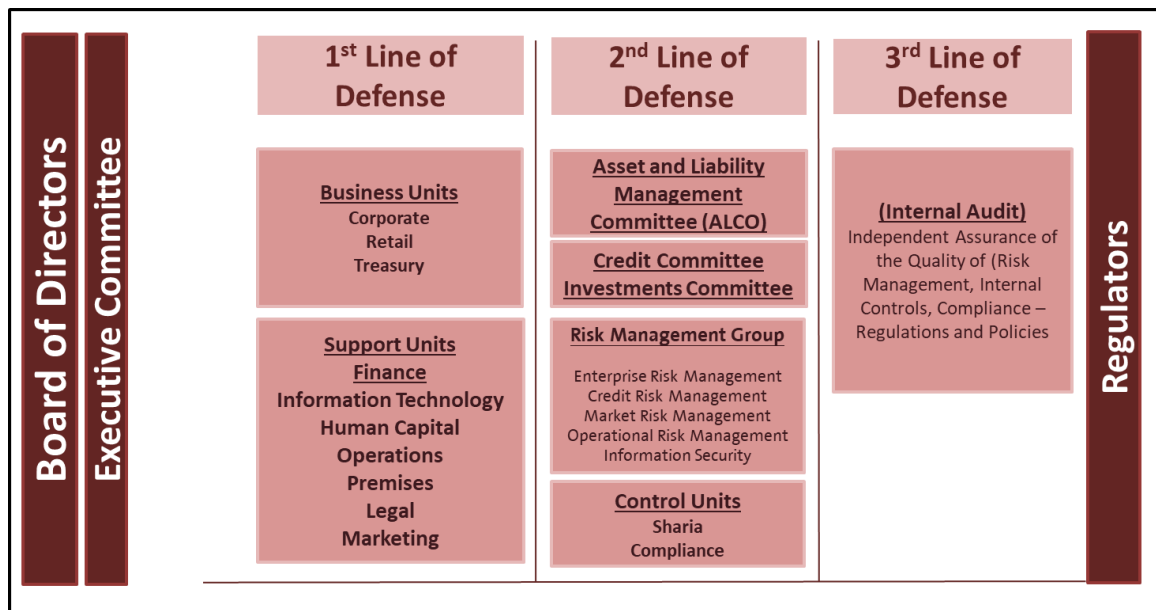
## Risk Appetite

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 that is no lower than BBB+;
- The Bank shall not extend any credit facilities with respect to any natural or juristic entities outside of its established Target Market and Risk Acceptance Criteria (TM/RAC). Exposure limits for corporate and individual exposures, will be guided by 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 will comply with whatever level of LCR and NSFR required by SAMA as these ratios are adjusted by the regulator from time to time;
- The Financing to Deposit Ratio shall not exceed the SAMA limit currently at 90%.
- The Bank will 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 Board of Directors approved boundaries and governance based on the Risk Appetite Framework and Policy.

Note: Exceptions, if any, are presented to ALCO and the corrective actions are taken as required.

(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 BoD has ultimate responsibility for the Bank’s enterprise risk management. The BoD establishes Board committees for risk functions, but they retain the responsibility. The BoD delegates to the management the day-to-day monitoring of risks, but it continues to be accountable for ensuring these are carried out within the ambit of statutory, regulatory and good banking practices.

**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 that are beyond the limits delegated to the Bank Management pursuant to the Credit Approval Authority Delegation Matrix. The ExCom regularly reviews, assesses the overall risk profile of the Bank and advise the senior management to take action, where necessary;

**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 in the context of market and liquidity risks;

**Credit Committee** - reviewing and approving authority for all credit exposures to counterparties, Corporate, FI, Private Banking/High Net-worth customers and individual and Self-Employed segments. 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 may be.

**Investment Committee** - tasked with the responsibility of preparing, reviewing and recommending strategic investment policies of the Bank. It has also assumed the responsibility of reviewing and approving specific investments of the Bank as well as the regular monitoring of the performance of the various new and existing investment assets of the Bank.

**Risk management Group (RMG)** - In partnership with the business groups and the support units of the Bank, the RMG formulates and implements procedures and processes to help the Staff and Management of the Bank assess and mitigate the occurrence of all Risks (i.e., Credit, Operational, Market and other Risks); it escalates 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 of conducting independent reviews and assessments of Credit Risks and (as part of the Credit Committee) and approving, modifying the terms, or completely rejecting 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** - Corporate, Retail and Treasury Groups are the key business groups 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;

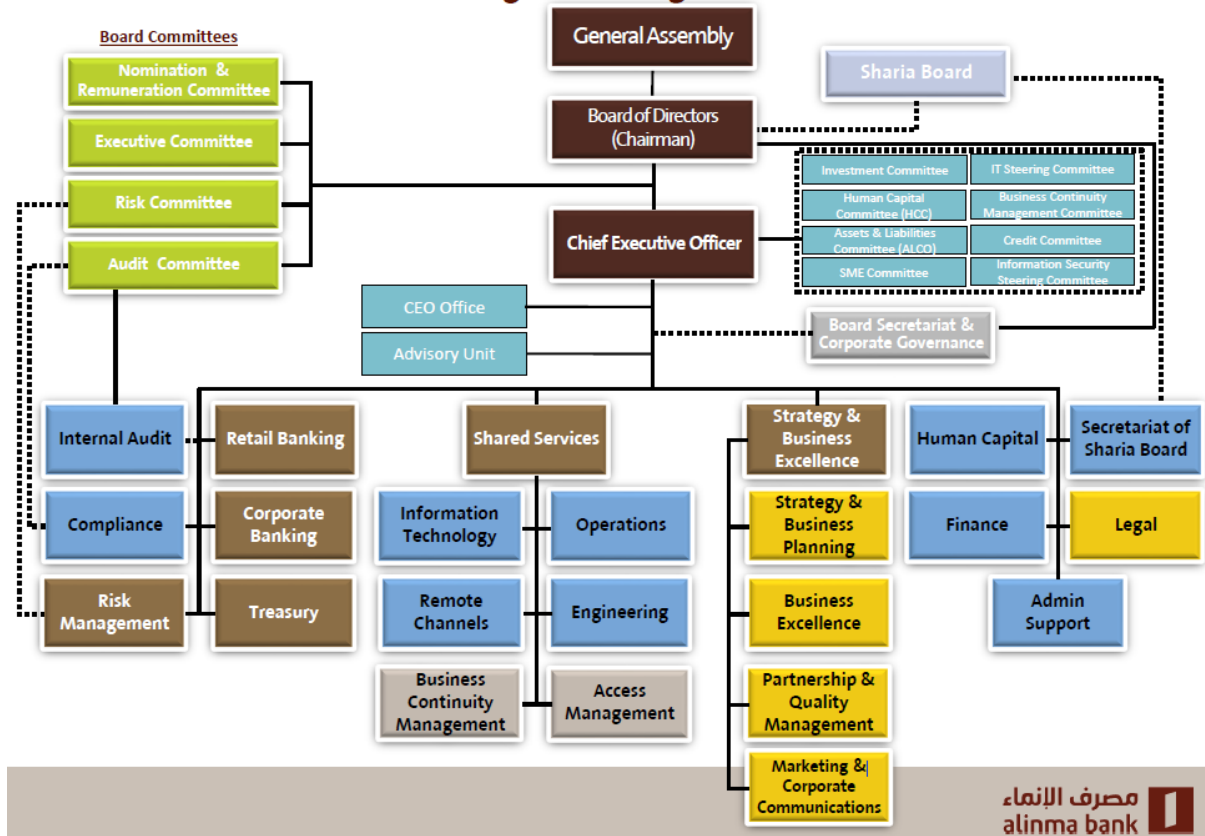


**Support Units** -perform Risk and Control Self-Assessment (RCSA) periodically to identify, analyze and evaluate operational risks in their respective business activities in support of the business units;

**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.

Alinma Bank High Level Organization Structure



(b) 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. This includes 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 details.

## (c) Risk Measurement

### 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. The regulatory capital of each Obligor under the Corporate Bank and FI are calculated using Probability of Default (PD), the SAMA dictated Loss Given Default (LGD) of 50%, 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 focused on managing and tracking its liquidity position through 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 considered high

given historical immaterial operational losses. 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 residual credit risk is calculated as the net of Foundation Internal risk-based (IRB), Revised Standardized approach for Specialized Lending and Standardized approach. Similarly, residual market risk is estimated by subtracting the result of the VAR methodology to the existing Standardized approach. For the residual operational risk, the Bank calculates additional capital for Business continuity risk using stress testing (worse-case scenario); "Legal risk" and "Technology & cyber-security related risk" all assessed by scorecard, and remuneration and subsidiaries/associates risk through RCSA.

The capital charge for "Liquidity risk" is Nil, because funding and liquidity strategies will resolve liquidity issues not additional capital allocation.

The capital charge for "Profit Rate Risk" is calculated using the Economic Value of Equity (EVE) methodology as the difference between the base case and the worst scenario.

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' Non-compliance Risk," a detailed scorecard based model has been developed and the results are calibrated to a capital charge.

For the "Data quality and model risk" and "Sharia'h product related risk," expert judgment is adopted.

### **(d) Reporting of Risk**

On a regular basis, the Risk Committee of the Board (Risk-Com) 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 Banking Group, the Obligor Risk Rating, summary reports on Sector Concentration,

obligations past due and non-performing and the level of provisions booked for each account (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.

ALCO oversees the compliance of the Risk Appetite Framework and compliance to which is reported quarterly to the Risk-Com and the ExCom. In addition to the reports which are sent to the Risk-Com 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), Internal Liquidity Adequacy Assessment Process (ILAAP) and Stress Testing reports to SAMA which are approved by the Risk-Com and Ex-Com prior to submission to SAMA. The ICAAP and ILAAP are two of the most important risk assessment documents used to report the risk attributes being measured and monitored to the Bank's Senior Management and the Board Committees. These reports are only released once approved by the Risk-Com and Ex-Com.

#### **Qualitative information on stress testing**

The Bank performs stress testing to model its resilience under extreme but potential 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. 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.

## (e) Managing and Mitigating Risk

### 1. Credit Risk

Credit risk arises when a counterparty fails to fulfill its contractual obligation to the Bank. All credit proposals are subject 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.

An internal credit-rating model 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. Target Market is a key component of this process as it provides the first filter for prospective and existing obligors to avoid initiating or maintaining relationships that do not fit the Bank's strategy and desired risk profile. Risk Acceptance Criteria (RAC) is a set of variables indicating the terms under which the Bank is willing to initiate and/or maintain a credit relationship with an obligor that meets the target market. The business team is a front-end marketing team responsible for originating, evaluating and recommending credit proposals. Approval is granted in accordance with the Board approved "Credit Approval Authority Delegation Matrix" through the Credit Committee which is composed of the CEO, Business and Risk Officers. Credits are extended based on the Corporate Banking and Retail Banking Credit Policies and Guidelines.

Risk Management owns and controls the policies established for financing. They have the responsibility of regularly reviewing, and revising the Bank's credit policies, guidelines and processes, to ensure that credit risk is managed and controlled within the Risk Appetite Criteria of the Bank and credit related losses are minimized. Risk Management also ensures that credit policies are aligned and adjusted in accordance with the economic, market, regulatory and legal landscape.

Various credit portfolios are managed to achieve diversification. Concentration in the portfolio mix is managed in terms of economic activity, geography, collateral and underlying product. The Bank seeks diversification of its credit portfolios through customer

acquisition across different industry and economic activities and geographical presence across the country and by targeting large, medium and small corporate clients as well as individual clients. Obligor and sector concentrations are monitored to assess concentration risk and to attain portfolio diversification. The Bank regularly stress tests its credit portfolios, in order to evaluate the potential impact of negative factors on asset quality, risk ratings, profitability and capital allocations.

### **Expected credit Loss (ECL)**

#### *Credit Risk Grades*

The Bank follows a well-defined credit evaluation process anchored in a clear Target Market and Risk Acceptance Criteria, strong credit policies, extensive due diligence, credit review and approval processes combined with stringent credit administration and monitoring and control of credit limits.

To generate an internal risk rating, the Bank uses Moody's Risk Analyst system (MRA). The MRA is used by many leading banks globally and in the Kingdom. It enables the Bank to assign a risk rating to a single obligor. The risk rating is a point-in-time, 12-month probability of default (PD). The Bank assigns a rating from a 10-point rating scale with 1 as the best through 10 as the worst. The rating uses sub-grades (e.g. 3+, 3, and 3- ) for a granular assessment of the PD. As part of the Bank's policy, only obligors with risk ratings of 6 or better are eligible for financing. The Bank reviews and validates the MRA rating system on a regular basis – calibrating score ranges with rating grades and associated PDs. All credit exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade because of various qualitative and quantitative aspects related to the specific obligor such as changes in the audited financial statements, compliance with covenants, management changes, as well as changes in the economic and business environment.

Credit risks in the retail portfolio are estimated based on individual credit-worthiness scores, derived from an automated credit-scoring platform and is not subject to the MRA rating.

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 visits, conducted by the Relationship Management Team and Risk Officers of the Bank and regular reviews of the obligor's financial health. Embedded 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 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;
- Large Exposure at an Obligor level and Group Connected
- Banks & Non-Bank Financial Institutions;
- Risk Rating; Types of Collaterals (specifically those secured by real estate).

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

### **Provisions for Financing**

The Bank makes provisions according to IFRS9 and the guidelines set by SAMA. The Bank recognizes impairment allowances based on a forward looking Expected Credit Loss (ECL) approach.



The Bank compares the risk of default at the reporting date with the risk of default at the date of origination. If the increase in credit assessment is significant, the obligor is moved from Stage 1 to Stage 2 or Stage 2 to Stage 3. The PD is then changed from a 12-month point-in-time PD to a lifetime PD. The Bank groups its credit exposures on the basis of shared credit risk characteristics with the objective of facilitating analysis designed to identify significant increases in the credit risk on a timely basis. Given below are the most important types of the shared credit risk characteristics:

- a) Type of exposure
- b) Obligor's risk rating
- c) Collateral type and value
- e) Economic cycle and forward looking scenario
- f) Date of origination
- g) Remaining term to maturity
- h) Geographical location of the obligor
- i) Industry

The inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The above parameters are derived from internally developed statistical models, other historical data and are adjusted for forward looking information. The Bank categorizes its financial assets into the following three stages in accordance with IFRS 9 methodology:

- Stage 1: Performing assets: Financial asset(s) at origination or existing financial assets, at the reporting date, with no significant increase in credit risk since origination: The Bank recognizes an impairment allowance amounting to 12-month expected credit losses using a point-in-time PD (an estimate of the probability of default over the next 12 months). Profits associated with the asset

are recognized on the basis of gross carrying value. The impairment allowance is recorded based on 12 months ECL.

- Stage 2: Underperforming assets: Financial asset(s) that have significantly deteriorated in credit quality since origination: In determining whether a significant risk has occurred since initiation, the bank assesses the change, if any, in the risk of default over the expected life of the financial asset. The trigger point for classifying an account to Stage 2 and the consequent calculation of lifetime expected credit loss is based on past due obligations (rebuttable assumption if payments are more than 30 days past due). However, the most important consideration for categorization to Stage 2 is a determination by the Credit Committee that the credit quality has deteriorated to the degree defined by the IFRS 9 guidelines. For retail borrowers, over 30 days past due is typically the trigger point for Stage 2 Classification. The Bank recognizes impairment amounting to lifetime expected credit losses using a lifetime PD (an estimate of the probability of default over the life of the asset). Profits associated with the asset are recognized on the basis of gross carrying value. The impairment allowance is recorded based on lifetime ECL.
- Stage 3: Impaired assets: Financial asset(s) that show objective evidence of impairment: For credit impaired financial asset(s), the Bank recognizes impairment amounting to lifetime expected credit losses using a lifetime PD as in stage 2. Profits associated with the asset are recognized on the basis of net carrying value. The Bank recognizes the impairment allowance based on lifetime ECL.

The Bank also considers the forward-looking information in its assessment of significant deterioration in credit risk since origination as well as the measurement of ECLs. Based on an assessment of the likelihood that the specific counterparty will not meet its obligations, specific provisions for impaired accounts are created.

The forward looking information includes the elements such as macroeconomic factors and economic forecasts obtained through internal and external sources.

To evaluate a range of possible outcomes, the Bank formulates various scenarios. For each scenario, the Bank derives an ECL and applies a probability-weighted approach to determine the impairment allowance.

#### **Definition of ‘Default’**

The Bank follows the 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”.

#### **Write offs**

The Bank writes off any financing exposure in whole or in part, only when it has exhausted all practical recovery and remedial efforts and has concluded that there is no reasonable expectation of recovery in the foreseeable future. The write off are made after obtaining required approval. The write-off does not dilute the Bank’s recovery and collection efforts including legal recourse.

## **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 limits (including position limits) and implementing risk policies that not only meet regulatory requirements but also are designed to mitigate and/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 (Risk-Com), Executive Committee (Ex-Com), 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 (and the associated risks) within the business or support groups, common grounds are established that 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. Each business or support group is responsible for managing the inherent risks of its function.

During the year, the operational risk management team conducts specialized data gathering through meetings with department, business heads and senior management - endeavoring to gain a clear understanding of direction and the potential risks. 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 is the basis for implementing Sharia compliance. 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. Sharia governance is affected through the following functions:

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

##### Sharia Board

All Islamic banks are required to establish a Sharia'h advisory body to advise on the policies and processes and ensure that these do not incorporate elements that do not comply with Sharia principles. 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 transactions and documentation;
- Advise the Bank on the computation and distribution of Zakat;
- Assist related parties on Sharia matters;
- Provide written Sharia opinions.

The control structure for handling and reporting Sharia'h non-compliance and Potential Sharia' 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 payments and all settlement obligations on a timely basis.

The process of managing liquidity risk includes:

- Maintaining sufficient amounts as unencumbered high quality liquidity buffer - 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 and Income-based Approach to assess the Profit-Rate-Risk in the Banking Book (PRRBB whereby six scenario shocks (based on the revised IRRBB standards) are 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.

## **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 etc.

## 9. Other risks

Displaced Commercial Risk (DCR) arises from the assets managed by the Bank on behalf of the investment account holders, which could directly impact the entity's capital position. In case the interest rates rise, Islamic banks usually increases the return to the investment account holders to prevent them from transferring their funds to conventional banks for higher yield.

In the case of Alinma, these fluctuations in the interest rates are self-mitigated in nature due to the composition of the Balance Sheet of the Bank. Almost half of the financing are reprice every six (6) months to one (1) year, therefore, any loss in the Liability side are offset with the gain from the asset side. Nevertheless, in a worst scenario whereby customers decided to withdraw their accounts prior to its maturity, the Bank has additional cushion for any loss this may incur by not giving the account holders their return of investments for the period covered.

ALCO is overseeing the risk associated with these Sharia'h products through the Dynamic (forecasted) Balance Sheet. Fluctuations of interest rates and the impact on the target financial and regulatory ratios are discussed at every ALCO meeting. The relevant reports of the revised IRRBB standards are already incorporated in the reporting package. The daily reports have been amended so that the Treasury Group can monitor these risk on a more frequent basis. The Risk Management Group independently monitors this risk on an ongoing basis.

The Bank's Subsidiaries, Associate and Joint Venture Risk: Alinma consolidates the balance sheets of its subsidiaries and account for its investments in associate and joint venture using the equity method in the Bank's financial statements. In terms of the nature of their operations and capitalization, the Bank assesses no major risk impact for Al-Tanweer Real Estate Company and Alinma Cooperative Insurance Agency. Alinma Investments Company (AIC), has a separate Risk Management Unit. AIC submits an independent ICAAP report annually to its regulator, the Capital Market Authority (CMA).



In case of associate (Alinma Tokio Marine) and Joint Venture (ERSAL), it is independently managed through a formally designated management team, governance bodies with appropriate operating framework, and policies & procedures.

Disclosure under Pillar III of Basel III for December 31, 2019

Table KMI: Key Metrics (at group consolidated level)

		December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
	<b>Available Capital (amounts: SAR '000)</b>					
1	Common Equity Tier 1 (CET 1) <i>(after transitional arrangement for IFRS 9)</i>	22,878,645	22,364,864	21,612,608	20,892,584	21,876,003
1a	Fully loaded ECL accounting model <i>(before transitional arrangement for IFRS 9)</i>	22,444,925	21,931,144	21,178,888	20,458,863	21,297,709
2	Tier 1 <i>(after transitional arrangement for IFRS 9)</i>	22,878,645	22,364,864	21,612,608	20,892,584	21,876,003
2a	Fully loaded ECL accounting model Tier 1 <i>(before transitional arrangement for IFRS 9)</i>	22,444,925	21,931,144	21,178,888	20,458,863	21,297,709
3	Total Capital <i>(after transitional arrangement for IFRS 9)</i>	24,253,513	23,700,782	22,909,670	22,193,013	23,147,203
3a	Fully loaded ECL accounting model total capital <i>(before transitional arrangement for IFRS 9)</i>	23,819,793	23,267,062	22,475,950	21,759,292	22,568,909
	<b>Risk-weighted assets (amounts: SAR '000)</b>					
4	Total risk-weighted assets (RWA)-Pillar - 1	119,718,952	117,094,598	112,594,010	112,725,786	109,959,869
	<b>Risk-based capital ratios as a percentage of RWA-Pillar -1</b>					
5	Common Equity Tier 1 ratio (%)	19.11%	19.10%	19.20%	18.53%	19.89%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	18.75%	18.73%	18.81%	18.15%	19.37%
6	Tier 1 ratio (%)	19.11%	19.10%	19.20%	18.53%	19.89%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	18.75%	18.73%	18.81%	18.15%	19.37%
7	Total capital ratio (%)	20.26%	20.24%	20.35%	19.69%	21.05%
7a	Fully loaded ECL accounting model capital ratio (%)	19.90%	19.87%	19.96%	19.30%	20.52%
	<b>Additional CET1 buffer requirements as a percentage fo RWA</b>					
8	Capital conversion buffer requirement (2.5% from 2019) (%)	2.500%	2.500%	2.500%	2.500%	1.875%
9	Countercyclical buffer requirement (%)	0.000%	0.000%	0.000%	0.000%	0.000%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0.000%	0.000%	0.000%	0.000%	0.000%
11	<b>Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)</b>	2.500%	2.500%	2.500%	2.500%	1.875%
12	CET1 available after meeting the bank's minimum capital requirements (%) (5-11)	16.610%	16.600%	16.695%	16.034%	18.020%
	<b>Basel III leverage ratio</b>					
13	Total Basel III leverage ratio exposure measure (amounts: SAR '000)	140,652,541	136,546,466	131,720,425	129,697,132	128,587,174
14	Basel III leverage ratio (%) (row 2 / row 13)	16.27%	16.38%	16.41%	16.11%	17.01%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row 13)	15.96%	16.06%	16.08%	15.77%	16.56%
	<b>Liquidity Coverage Ratio**</b>					
15	Total HQLA (amounts: SAR '000)	25,344,825	24,273,739	23,262,320	21,530,722	20,387,967
16	Total net cash outflow (amounts: SAR '000)	20,327,287	19,894,644	20,874,118	18,570,632	18,663,602
17	LCR ratio (%)	124.68%	122.01%	111.44%	115.94%	109.24%
	<b>Net Stable Funding Ratio</b>					
18	Total available stable funding (amounts: SAR '000)	89,251,715	87,937,864	82,962,646	82,261,302	79,930,299
19	Total required stable funding (amounts: SAR '000)	73,827,085	72,627,458	72,085,986	70,472,710	70,426,115
20	NSFR ratio	120.89%	121.08%	115.09%	116.73%	113.50%
	** Average of 90 days					

Disclosure under Pillar III of Basel III for December 31, 2019

B.2 - Template OV1: Overview of RWA

		a	b	c
		RWA		Minimum capital requirements
		December 31, 2019	September 30, 2019	December 31, 2019
1	Credit risk (excluding counterparty credit risk) (CCR)	107,348,194	104,171,335	8,587,856
2	Of which standardised approach (SA)	107,348,194	104,171,335	8,587,856
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	2,641,287	2,702,078	211,303
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	461,946	1,310,199	36,956
17	Of which standardised approach (SA)	461,946	1,310,199	36,956
18	Of which internal model approaches (IMM)	-	-	-
19	Operational risk	9,267,525	8,910,986	741,402
20	Of which Basic Indicator Approach	9,267,525	8,910,986	741,402
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	<b>Total (1+4+7+8+9+10+11+12+16+19+23+24)</b>	<b>119,718,952</b>	<b>117,094,598</b>	<b>9,577,516</b>

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

	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 capital
<b>Assets</b>							
Cash and balances with Saudi Arabian Monetary Agency	8,039,748	8,039,748	8,039,748	-	-	-	-
Due from banks and other financial institutions	2,144,269	2,144,269	2,144,269	-	-	-	-
Investments, net	23,477,660	23,477,660	23,378,797	-	-	98,863	-
Financing, net	94,801,398	94,801,398	94,801,398	-	-	-	-
Property and equipment, net	2,413,893	2,413,893	2,413,893	-	-	-	-
Other assets	962,473	962,473	962,473	-	-	-	-
<b>Total assets</b>	<b>131,839,441</b>	<b>131,839,441</b>	<b>131,740,578</b>	-	-	<b>98,863</b>	-
<b>Liabilities</b>							
Due to banks and other financial institutions	3,289,844	-	-	-	-	-	3,289,844
Customers' deposits	102,062,835	-	-	-	-	-	102,062,835
Other liabilities	4,041,838	-	-	-	-	-	4,041,838
<b>Total liabilities</b>	<b>109,394,517</b>	-	-	-	-	-	<b>109,394,517</b>

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

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

	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)	131,839,441	131,740,578	-	-	98,863
2 Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	109,394,517	-	-	-	-
3 Total net amount under regulatory scope of consolidation	131,839,441	131,740,578	-	-	98,863
4 Off-balance sheet amounts	14,155,498	8,813,100	-	-	165,358
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	-	-	-	-	-
9 <b>Exposure amounts considered for regulatory purposes</b>	<b>145,994,939</b>	<b>140,553,678</b>	-	-	<b>264,220</b>

## 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 and Note 25 and 26 of the published annual consolidated financial statements..

**Valuation Methodologies:** Please refer note 32 of the annual consolidated financial statement available at Bank's website ([www.alinma.com](http://www.alinma.com)).

## Composition of Capital and TLAC

December 31, 2019

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**TABLE 2: CAPITAL STRUCTURE**

**Balance sheet - Step 1 (Table 2(b))**

	Balance sheet in Published financial statements (C)	Adjustment of banking associates / other entities (*) (D)	Under regulatory scope of consolidation (E)
<b>Assets</b>			
Cash and balances with Saudi Arabian Monetary Agency ('SAMA')	8,039,748		8,039,748
Due from banks and other financial institutions	2,144,269		2,144,269
Investments	23,477,660		23,477,660
Financing, net	94,801,398		94,801,398
Property and equipment, net	2,413,893		2,413,893
Other assets	962,473		962,473
<b>Total assets</b>	<b>131,839,441</b>	<b>0</b>	<b>131,839,441</b>
<b>Liabilities</b>			
Due to banks and other financial institutions	3,289,844		3,289,844
Customers' deposits	102,062,835		102,062,835
Other liabilities	4,041,838		4,041,838
<b>Total Liabilities</b>	<b>109,394,517</b>	<b>0</b>	<b>109,394,517</b>
Share capital	15,000,000		15,000,000
Statutory reserve	100,000		100,000
Fair value reserve for FVOCI investments	77,372		77,372
Retained earnings	2,287,302		2,287,302
Proposed dividend	0		0
Proposed issue of bonus shares	5,000,000		5,000,000
Treasury shares	(103,475)		(103,475)
Other reserves	83,725		83,725
<b>Total liabilities and equity</b>	<b>131,839,441</b>	<b>0</b>	<b>131,839,441</b>

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**TABLE 2: CAPITAL STRUCTURE**

**Balance sheet - Step 2 (Table 2(c))**

	Balance sheet in Published financial statements (C)	Adjustment of banking associates / other entities (D)	Under regulatory scope of consolidation (E)	Reference
<b>Assets</b>				
Cash and balances with Saudi Arabian Monetary Agency ('SAMA')	8,039,748		8,039,748	
Due from banks and other financial institutions	2,144,269		2,144,269	
Investments	23,477,660		23,477,660	
Financing, net	94,801,398		94,801,398	
of which Collective provisions	1,374,869		1,374,869	A
Property and equipment, net	2,413,893		2,413,893	
Other assets	962,473		962,473	
<b>Total assets</b>	<b>131,839,441</b>	<b>0</b>	<b>131,839,441</b>	
<b>Liabilities</b>				
Due to banks and other financial institutions	3,289,844		3,289,844	
Customers' deposits	102,062,835		102,062,835	
Other liabilities	4,041,838		4,041,838	
<b>Total Liabilities</b>	<b>109,394,517</b>	<b>0</b>	<b>109,394,517</b>	
Paid up share capital	15,000,000		15,000,000	
of which amount eligible for CET1	15,000,000		15,000,000	B
of which amount eligible for AT1	0		0	C
Statutory reserve	100,000		100,000	D
Fair value reserve for FVOCI investments	77,372		77,372	E
Retained earnings	2,287,302		2,287,302	F
Proposed dividend	0		0	
Proposed issue of bonus shares	5,000,000		5,000,000	G
Treasury shares	(103,475)		(103,475)	H
Employees Share based plan and other reserves	83,725		83,725	I
<b>Total liabilities and equity</b>	<b>131,839,441</b>	<b>0</b>	<b>131,839,441</b>	



December 31, 2019

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**TABLE 2: CAPITAL STRUCTURE**  
Common template (Post 2018) - Step 3 (Table 2(d)) i

Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2

Components of regulatory capital reported by the bank

(2)			
Common Equity Tier 1 capital: Instruments and reserves			
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	15,000,000	B
2	Retained earnings	2,721,023	F
3	Accumulated other comprehensive income (and other reserves)	5,261,097	D+E+G+I
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>22,982,120</b>	
Common Equity Tier 1 capital: Regulatory adjustments			
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash-flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined-benefit pension fund net assets	-	
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	(103,475)	H
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% thresh	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding the 15% threshold	-	
23	of which: significant investments in the common stock of financials	-	
24	of which: mortgage servicing rights	-	
25	of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	<b>Total regulatory adjustments to Common equity Tier 1</b>	<b>(103,475)</b>	
29	<b>Common Equity Tier 1 capital (CET1)</b>	<b>22,878,645</b>	

**TABLE 2: CAPITAL STRUCTURE**

Common template (Post 2018) - Step 3 (Table 2(d)) i

Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2

Components of regulatory capital reported by the bank

(2)		
	<b>Additional Tier 1 capital: instruments</b>	
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
31	of which: classified as equity under applicable accounting standards	-
32	of which: classified as liabilities under applicable accounting standards	-
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-
35	of which: instruments issued by subsidiaries subject to phase out	-
36	<b>Additional Tier 1 capital before regulatory adjustments</b>	-
	<b>Additional Tier 1 capital: regulatory adjustments</b>	
37	Investments in own Additional Tier 1 instruments	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than	-
40	scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustments	-
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-
43	Total regulatory adjustments to Additional Tier 1 capital	-
44	<b>Additional Tier 1 capital (AT1)</b>	-
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>22,878,645</b>

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<b>TABLE 2: CAPITAL STRUCTURE</b>	
Common template (Post 2018) - Step 3 (Table 2(d)) ii	

Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2

Components<sup>1</sup> of regulatory capital reported by the bank

Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
47	<i>Directly issued capital instruments subject to phase out from Tier 2</i>	-
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
49	<i>of which: instruments issued by subsidiaries subject to phase out</i>	-
50	Provisions	1,374,869
51	<b>Tier 2 capital before regulatory adjustments</b>	<b>1,374,869</b>
Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-
53	Reciprocal cross-holdings in Tier 2 instruments	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
56	National specific regulatory adjustments	-
57	<b>Total regulatory adjustments to Tier 2 capital</b>	<b>-</b>
58	<b>Tier 2 capital (T2)</b>	<b>1,374,869</b>
59	<b>Total capital (TC = T1 + T2)</b>	<b>24,253,514</b>
60	<b>Total risk weighted assets</b>	<b>119,718,952</b>
Capital ratios		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	19.11%
62	Tier 1 (as a percentage of risk weighted assets)	19.11%
63	<b>Total capital (as a percentage of risk weighted assets)</b>	<b>20.26%</b>
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement expressed as a percentage of risk weighted assets)	-
65	<i>of which: capital conservation buffer requirement</i>	-
66	<i>of which: bank specific countercyclical buffer requirement</i>	-
67	<i>of which: G-SIB buffer requirement</i>	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	-

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**TABLE 2: CAPITAL STRUCTURE**

Common template (Post 2018) - Step 3 (Table 2(d)) ii

Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation from step 2

Components<sup>1</sup> of regulatory capital reported by the bank

<b>National minima (if different from Basel 3)</b>		
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	n/a
70	National Tier 1 minimum ratio (if different from Basel 3 minimum)	n/a
71	National total capital minimum ratio (if different from Basel 3 minimum)	n/a
<b>Amounts below the thresholds for deduction (before risk weighting)</b>		
72	Non-significant investments in the capital of other financials	-
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	1,374,869
77	Cap on inclusion of provisions in Tier 2 under standardised approach	1,374,869
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>		
80	Current cap on CET1 instruments subject to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

December 31, 2019

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<b>TABLE 2: CAPITAL STRUCTURE</b>	
<b>Main features template of regulatory capital instruments-(Table 2(e))</b>	
NONE	

## Leverage ratio

### A. Summary Comparison (Table 1)

For the Quarter Ended December 31, 2019

Summary comparison of accounting assets versus leverage ratio exposure measure		
Row #	Item	In SR 000's
1	Total consolidated assets as per published financial statements	131,839,441
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	8,813,100
7	Other adjustments	-
8	Leverage ratio exposure	140,652,541

<b>B. Leverage Ratio Common Disclosure Template (Table 2)</b>		
<b>For the Quarter Ended December 31, 2019</b>		
<b>Row #</b>	<b>Item</b>	<b>In SR 000's</b>
<b>On –balance sheet exposures</b>		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	131,839,441
2	(Relevant Asset amounts deducted in determining Basel III Tier 1 capital)	
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	131,839,441
<b>Derivatives Exposure</b>		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	
5	Add-on amounts for Potential Financial Exposure (PFE) associated with all derivatives transactions	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	Total derivative exposures (Sum of lines 4 to 10)	-
<b>Securities financing transaction exposure</b>		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Credit Conversion Factor (CCR) exposure for Security Financing Transaction (SFT) assets	
15	Agent transaction exposures	
16	Total securities financing transaction exposures (Sum of lines 12 to 15)	-
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposure at gross notional amount	14,155,498
18	(Adjustments for conversion to credit equivalent amounts)	(5,342,398)
19	Off-balance sheet items (Sum of lines 17 and 18)	8,813,100
<b>Capital and total exposures</b>		
20	Tier 1 capital	22,878,645
21	Total exposures (Sum of lines 3, 11, 16 and 19)	140,652,541
<b>Leverage ratio</b>		
22	Basel III leverage ratio	16.27%

**For the Quarter Ended December 31, 2019**

A reconciliation requirements that details sources of material differences between the bank's total balance sheet assets in their financial statements and on-balance sheet exposures in the table 2.

		SR 000's
1	Total Assets amounts on Financial Statements	131,839,441
2	Total on balance sheet assets according Row #1 on Table 2	131,839,441
3	Difference between 1 and 2 above	-



## LIQA-Liquidity risk Management

Liquidity risk is the risk that the Bank will be unable to fund itself or meet its liquidity needs in the event of firm-specific, market-wide or in a combined liquidity stress events. Liquidity is of critical importance to the Bank and Bank has in place a comprehensive and conservative set of liquidity and funding policies.

Bank's primary objective is to be able to fund itself and to enable its core businesses to continue to serve clients and generate revenues, even under adverse circumstances. In addition, the Bank also strives to ensure that it maintains key liquidity metrics within the regulatory thresholds & Bank's risk appetite framework to remain in a safe position against liquidity stress and associated risks. The key ratios are SAMA specified requirements, namely, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and SAMA Liquidity Ratio. The second objective of the bank is to create an effective strategy for diversification in the sources and tenor of funding to improve the bank's capacity to raise available funds under stress situations. To minimize concentration risk, relationship between different markets, depth of each market and period of products which have not matured is taken into consideration. In order to avoid large funding gaps in the balance sheet, the Bank regularly monitors maturity profile of the assets and liabilities on the basis of the remaining maturity.

Bank's Treasury Group is responsible for the management of the Bank's liquidity position and the structural maturity mismatches. Treasury coordinates closely with the Market Risk Unit of Risk Management to track liquidity ratios and conduct liquidity stress tests to better prepare the bank for business as usual and unexpected stress scenarios. Liquidity ratios and Liquidity Stress Scenarios are regularly presented to ALCO together with the Contingent Funding Plans. Treasury group works under the liquidity guidelines and principles set by the Bank's Asset Liability Committee (ALCO), who is the approving authority for the Liquidity Risk Appetite and the Liquidity Risk Policy. The Executive Committee of the Board (ExCom) has the ultimate ownership for the Bank's Liquidity Risk management framework and reviews the liquidity position of the bank on a regular basis.

### Liquidity Stress Testing

In order to determine the appropriate size of liquidity buffer, Bank uses an internal Liquidity Stress Model and other applicable regulatory requirements and a qualitative assessment of Bank's condition, as well as the financial markets. In addition, stress testing model is used to configure Bank's Contingency Funding Plan (CFP).

The Bank follows a risk factor approach for stress testing. Bank has defined a list of relevant liquidity risk factors that affect the net cash outflows of the Bank and assesses the impact of these risk factors on the liquidity position of the Bank under business-as-usual (BAU) and various stress scenarios. The scenarios are categorized into idiosyncratic stress, market wide stress and a combination of the two. The stress horizon is assumed to start with a two-week severe stress period followed by a gradual improvement over a three-month time horizon.

### **Contingency Funding Plan**

The Bank is in the process of enhancing its contingency funding plan (CFP) to be more granular and set out the strategies for addressing liquidity shortfalls in emergency situations and facilitates prudent actions required to protect depositors, creditors, and shareholders.

The Bank has defined a business-as-usual situation along with three levels of emergency situations, i.e. mild, moderate and severe by identifying liquidity early warning indicators (LEWI) with their threshold emergency situation. The drivers for the LEWI are drawn from market/systemic crisis or Bank specific events or operational crisis. Some of these LEWI are large scale deposit withdrawal, major deterioration of financials of the Bank, deterioration of macro-economic variables, drastic reduction in wholesale liquidity/credit availability, financial stress in the economy, to name a few. To ensure an effective liquidity management during a crisis event, the Bank has established a Liquidity Crisis Management Team (LCMT) comprising of key personnel from various departments with defined roles, responsibilities and escalation procedures. The LCMT is triggered during a crisis event and conducts frequent meetings and coordination between all relevant stakeholders of the Bank until the crisis returns to a normal situation. The Board and ALCO have overall responsibility for the CFP.

### **Liquidity Risk Appetite Framework**

The Bank has a comprehensive Risk Appetite Framework and Policy within which the liquidity risk appetite is defined with limits/triggers set for both business as usual (BAU) and stressed levels for escalation and management action. The bank has defined the stressed level by assessing the impact of the stress testing conducted over the next twelve-month forecast balance sheet positions. The BAU limits have been defined by looking at the forecast ratios without any stress assumptions.

The Bank ensures that the management actions are triggered well in advance depending on the stressed situations and Pillar 1 regulatory ratios are maintained at all times. The Bank consistently monitors these liquidity ratios and periodically reviews the internal MAT limits which are generally kept at close to 80% of the approved limits.

## **Funding Strategy**

The Bank has a conservative strategy to manage its liquidity positions - maintaining a higher than required level of liquidity as measured by the regulatory liquidity ratios of LCR, NSFR and SAMA Liquidity Ratio. The Bank achieves this by building a base of high quality liquid assets through investments in Government assets (Sukuk and SAMA Murabaha). On the funding side, the strategy of the bank is to build core-funding base comprising of stable retail deposits to meet the bulk of its funding needs and further diversify the funding sources by establishing direct investments and money market lines with local and foreign banks. The Bank has adequate policies and processes in place to regularly measure and monitor its net cash outflows, deposit maturities, funding concentration and other liquidity ratios

## **Intraday Liquidity Model**

The Bank has developed an automated system which is able to track and measure daily gross liquidity inflows and outflows; the intraday timing of these flows; and measure the range of net liquidity shortfalls during the day.

The liquidity requirements are monitored through close coordination with the business groups such as Corporate, Retail and Treasury for managing intraday liquidity positions. There are triggers set to alert the management in real time of unforeseen large outflows happening during intraday. The daily reports generated are used to prepare a monthly summary which is being submitted to SAMA as per the requirements. The bank continues to improve its intraday liquidity management framework for measuring its positions during the day and forecast and anticipate intraday cash flows and liquidity positions.

LIQ1: Liquidity Coverage Ratio			
LCR Common Disclosure Prudential Return Templates			
For the quarter ended December 31, 2019			
Bank Name: ALINMA		SAR '000	
		Total Unweighted Value (average)	Total weighted Value (average)
<b>HIGH QUALITY LIQUID ASSETS</b>			
1	Total High-Quality liquid assets (HQLA)	25,344,825	25,344,825
<b>CASH OUTFLOWS</b>			
2	Retail deposits and deposits from small business of which:	33,117,735	3,311,773
3	<i>Stable deposits</i>	-	-
4	<i>Less stable deposits</i>	33,117,735	3,311,773
5	Unsecured wholesale funding of which	45,617,896	20,199,916
6	<i>Operational deposits (all counterparties)</i>	-	-
7	<i>Non-operational deposits (all counterparties)</i>	42,363,300	16,945,320
8	<i>Unsecured debt</i>	3,254,596	3,254,596
9	Secured wholesale funding	-	-
10	Additional requirements of which	37,906,119	1,027,963
11	<i>Outflow related to derivative exposures and other collateral requirements</i>	-	-
12	<i>Outflows related to loss of funding on debt products</i>	-	-
13	<i>Credit and liquidity facilities</i>	37,906,119	1,027,963
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	-	-
16	<b>TOTAL CASH OUTFLOWS</b>	<b>116,641,750</b>	<b>24,539,653</b>
<b>CASH INFLOWS</b>			
17	Secured lending (eg reverse repos)	-	-
18	Inflows from fully performing exposures	-	-
19	Other cash inflows	-	-
20	<b>TOTAL CASH INFLOWS</b>	<b>6,772,023</b>	<b>4,212,366</b>
			<b>TOTAL ADJUSTED VALUE</b>
21	<b>TOTAL HQLA</b>		<b>25,344,825</b>
22	<b>TOTAL NET CASH OUTFLOWS</b>		<b>20,327,287</b>
23	<b>LIQUIDITY COVERAGE RATIO (%)</b>		<b>124.68%</b>

a) Unweighted values are calculated as outstanding balances maturing or callable within 30 days (for inflows and Outflows).

b) Weighted values are calculated after application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).

c) Adjusted values are calculated after application of both i) haircuts and inflow and outflow rates and ii) any applicable caps (i.e. cap on level 2B and level 2 assets for HQLA and cap on inflows).

d) Average of Last three months data.

LIQ2: Net Stable Funding Ratio (NSFR)						
SAR in '000		Unweighted value by residual maturity				Weighted value
		No Maturity	< 6 months	6 months to < 1 year	1 year or more	
<b>ASF Items</b>						
1	Capital	24,253,513	-	-	1,337,456	25,590,970
2	Regulatory capital	24,253,513	-	-	-	24,253,513
3	Other capital instruments	-	-	-	1,337,456	1,337,456.40
4	Retail deposits and deposits from small business customers:	32,690,176	2,847,536	410,031	-	32,352,969
5	Stable deposits	-	-	-	-	-
6	less stable deposits	32,690,176	2,847,536	410,031	-	32,352,969
7	Wholesale funding	26,303,657	31,540,271	4,771,626	-	31,307,777
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	26,303,657	31,540,271	4,771,626	-	31,307,777
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	9,493,762	-	-	-	-
12	NSFR derivative liabilities	-	-	-	-	-
13	All other liabilities and equity not included in the above categories	9,493,762	-	-	-	-
14	<b>Total ASF</b>					<b>89,251,715</b>
<b>RSF Items</b>						
15	Total NSFR high-quality liquid assets (HQLA)					25,344,825
16	Deposits held at other financial institutions for operational purpose	257,802	-	-	-	128,901
17	Performing loans and securities:	-	35,112,163	16,027,785	16,579,585	25,330,011
18	Performing loans to financial institutions secured by Level 1 HQLA					
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	2,794,982	-	16,579,585	1,157,528
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	32,317,181	16,027,785	-	24,172,483
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-
22	Performing residential mortgages, of which:	-	-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	-	-	-	-	-
27	Physical traded commodities, including gold	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	-	-
29	NSFR derivative assets		-	-	-	-
30	NSFR derivative liabilities before deduction of variation margin posted		-	-	-	-
31	all other assets not included in the above categories	5,988,528	-	-	49,833,830	48,347,283.33
32	Off-balance sheet items				417,788	20,889
33	<b>Total RSF</b>					<b>73,827,085</b>
34	<b>Net Stable Funding Ratio (%)</b>					<b>120.89%</b>

## 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 service 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, Corporate Banking and Retail Banking Credit Policy Guidelines and Risk Appetite Framework and Policy.

**(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; and

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.

Credit risks in the retail portfolio are estimated based on individual credit-worthiness scores, derived from an automated credit-scoring platform and is not subject to the MRA rating.

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 utilization. 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 (Risk-Com) and the Executive Committee of the Board (Ex-Com) 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, Large Exposure Concentration by counterparty and Group Connected level, 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. With the implementation of IFRS 9 from 1 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. 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 Risk-Com and the ExCom.

### B.7 - Template CR1: Credit quality of assets

		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	2,795,548	112,516,170	2,584,758	112,726,960
2	Debt Securities	-	19,037,309	26,715	19,010,594
3	Off-balance sheet exposures	-	8,813,100	179,935	8,633,165
4	<b>Total</b>	<b>2,795,548</b>	<b>140,366,580</b>	<b>2,791,408</b>	<b>140,370,720</b>

**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

		a
1	<b>Defaulted loans and debt securities at end of the previous reporting period</b>	<b>2,104,071</b>
2	Loans and debt securities that have defaulted since the last reporting period	1,137,320
3	Returned to non-defaulted status	-
4	Amounts written off	(445,843)
5	Other changes	-
6	<b>Defaulted loans and debt securities at end of the reporting period (1+2-3-4+5)</b>	<b>2,795,548</b>

**Accompanying narrative:** Explain the drivers of any significant changes in the amounts of defaulted exposures from the previous reporting period and any significant movement between defaulted and non-defaulted loans.

## 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”.

### **Description of methods used for determining impairments.**

From January 1, 2018, impairments are determined based on the IFRS 9 guidelines. The impairment allowance is based on ECL approach on financial assets that are not measured at fair value through income statement. This mainly includes financing investments that are measured at amortized cost or at FVOCI (other than equity investments), interbank placements, financial guarantees, lease receivables and credit commitments.

**(b) 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**

Below are few of the significant quantitative analysis of credit risk of the Bank:

<b>B 9.1 CREDIT RISK: GENERAL DISCLOSURES-December 2019</b>							
<b>Geographic Breakdown</b>							
<b>Portfolios</b>	<b>Geographic area</b>						
	<b>Saudi Arabia</b>	<b>Other GCC &amp; Middle East</b>	<b>Europe</b>	<b>North America</b>	<b>South East Asia</b>	<b>Other countries</b>	<b>Total</b>
<b>Sovereigns and central banks:</b>							
SAMA and Saudi Government	23,873,073	-	-	-	-	-	23,873,073
Others	-	57,506	-	-	-	-	57,506
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-
Banks and securities firms	522,304	1,345,816	632,567	50,924	4,361	10,848	2,566,821
Corporates	81,588,058	88,434	-	3,078,288	-	-	84,754,780
Retail non-mortgages	15,602,026	-	-	-	-	-	15,602,026
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-	-	-
<b>Mortgages</b>							
Residential	4,288,243	-	-	-	-	-	4,288,243
Commercial	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-
Equity	204,840	-	753	-	-	-	205,594
Others	10,289,704	-	-	394,221	-	-	10,683,925
<b>Total</b>	<b>136,368,248</b>	<b>1,491,757</b>	<b>633,321</b>	<b>3,523,433</b>	<b>4,361</b>	<b>10,848</b>	<b>142,031,967</b>

B 9.2 : CREDIT RISK: GENERAL DISCLOSURES-December 2019

Industry Sector Breakdown

Portfolios	Industry sector												
	Government and quasi government	Banks and other financial	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health	Building, construction and real	Commerce	Transportation and communication	Services	Consumer loans and credit cards	Others	Total
Sovereigns and central banks:													
SAMA and Saudi Government	23,873,073	-	-	-	-	-	-	-	-	-	-	-	23,873,073
Others	57,506	-	-	-	-	-	-	-	-	-	-	-	57,506
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Banks and securities firms	-	2,566,820	-	-	-	-	-	-	-	-	-	-	2,566,820
Corporates	6,468,464	-	3,714,572	11,638,069	454,501	2,482,813	30,874,935	9,904,022	5,721,523	8,614,492	-	4,881,390	84,754,780
Retail non-mortgages	-	-	-	-	-	-	-	-	-	-	15,602,026	-	15,602,026
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-	-	-	-	-	-	-	-	-
Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	-
Residential	-	-	-	-	-	-	-	-	-	-	4,288,243	-	4,288,243
Commercial	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitized assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity	122,283	-	-	3,828	-	-	50,286	-	23,089	-	-	6,107	205,594
Others	-	503,824	-	2,584,705	-	-	-	-	-	2,228,091	-	5,367,305	10,683,925
<b>Total</b>	<b>30,521,326</b>	<b>3,070,644</b>	<b>3,714,572</b>	<b>14,226,602</b>	<b>454,501</b>	<b>2,482,813</b>	<b>30,925,221</b>	<b>9,904,022</b>	<b>5,744,612</b>	<b>10,842,582</b>	<b>19,890,269</b>	<b>10,254,802</b>	<b>142,031,967</b>

**B 9.3: CREDIT RISK: GENERAL DISCLOSURES-December 2019**

**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	5,685,464	205,854	701,131	-	-	4,160,448	6,310,169	6,810,007	23,873,072
Others	-	-	-	-	-	-	57,506	-	57,506
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-
Banks and securities firms	315,787	1,660,977	100,000			37,627	50,868	401,561	2,566,820
Corporates	2,884,888	5,048,457	12,030,914	12,426,455	17,162,936	15,476,531	5,228,813	14,495,785	84,754,780
Retail non-mortgages	18,649	249,237	543,715	953,821	1,747,083	6,221,908	2,536,315	3,331,299	15,602,026
Small Business Facilities Enterprises (SBFE's)	-	-	-	-	-	-	-	-	-
Mortgages	-	-	-	-	-	-	-	-	-
Residential	1,041	17,211	46,141	57,469	163,352	734,239	537,636	2,731,153	4,288,243
Commercial	-	-	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	205,594	-	-	-	205,594
Others	2,354,284	-	-	-	-	5,839,465	-	2,490,176	10,683,925
<b>Total</b>	<b>11,260,113</b>	<b>7,181,737</b>	<b>13,421,901</b>	<b>13,437,745</b>	<b>19,278,965</b>	<b>32,470,217</b>	<b>14,721,307</b>	<b>30,259,981</b>	<b>142,031,966</b>



**B 9.4: CREDIT RISK: GENERAL DISCLOSURES-December 2019**

**Impaired Loans, Past Due Loans and Allowances**

Industry sector	Impaired loans	Defaulted	Aging of Past Due Loans (days)				Life time ECL for Credit impaired financing			ECL against performing financing
			Less than 90	90-180	180-360	Over 360	Charges during the year	Charge-offs during the year	Balance at the end of the period	
Government and quasi government	-	-	-	-	-	-	-	-	-	84,150
Banks and other financial institutions	-	-	-	-	-	-	-	-	-	-
Agriculture and fishing	-	-	-	-	-	-	-	-	-	48,324
Manufacturing	617,584	617,584	820,026	-	-	617,584	59,825	258,612	318,437	146,763
Mining and quarrying	-	-	-	-	-	-	-	-	-	5,913
Electricity, water, gas and health services	-	-	-	-	-	-	-	-	-	32,299
Building and construction and real estate	408,874	408,874	634,976	-	-	408,874	242,252	283,155	282,765	399,045
Commerce	445,783	445,783	76,649	107,882	151,786	186,116	245,767	46,377	292,144	125,860
Transportation and communication	-	-	-	-	-	-	-	-	-	74,433
Services	30,000	30,000	-	-	-	30,000	31,998	(8,579)	23,419	111,972
Consumer loans and credit cards	340,493	340,493	1,080,329	27,602	22,147	290,744	336,388	80,209	216,421	352,185
Others	-	-	-	-	-	-	-	-	-	70,628
<b>Total</b>	<b>1,842,734</b>	<b>1,842,734</b>	<b>2,611,980</b>	<b>135,483</b>	<b>173,933</b>	<b>1,533,317</b>	<b>916,230</b>	<b>659,774</b>	<b>1,133,186</b>	<b>1,451,572</b>

## B 9.5: CREDIT RISK: GENERAL DISCLOSURES December 2019

### Impaired Loans, Past Due Loans And Allowances

Geographic area	Impaired loans	Aging of Past Due Loans (days)				Life time ECL for Credit impaired financing	ECL against performing financing
		Less than 90	90-180	180-360	Over 360		
Saudi Arabia	1,842,734	2,611,980	135,483	173,933	1,533,317	1,133,186	1,451,572
Other GCC & Middle East	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-
South East Asia	-	-	-	-	-	-	-
Others countries	-	-	-	-	-	-	-
<b>Total</b>	<b>1,842,734</b>	<b>2,611,980</b>	<b>135,483</b>	<b>173,933</b>	<b>1,533,317</b>	<b>1,133,186</b>	<b>1,451,572</b>

## B 9.6: CREDIT RISK: GENERAL DISCLOSURES December 2019

### Reconciliation Of Changes In The Allowances For Loan Impairment

Particulars	12 month ECL	Life time ECL not credit impaired	Lifetime ECL credit impaired
Balance, beginning of the period	660,251	724,605	916,230
Charge-offs taken against the allowances during the period	-	-	(442,818)
Amounts set aside (or reversed) during the period	(87,928)	321,862	492,556
Other adjustments:			
- exchange rate differences	-	-	-
- business combinations	-	-	-
- acquisitions and disposals of subsidiaries	-	-	-
- etc.	-	-	-
Transfers between allowances	131,120	(298,338)	167,218
Balance, end of the period	<b>703,443</b>	<b>748,129</b>	<b>1,133,186</b>

## 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 at the time of origination. 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. Generally the properties are not be older than 15 years. Under Ijarah based real estate offering 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).**

The Bank, in the ordinary course of business holds collaterals as security to mitigate credit risk. These collaterals mostly include customers' deposits, financial guarantees, equities, real estate and other fixed assets.

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

December 31, 2019		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	71,815,103	40,911,857	38,843,310	-	-	-	-
2	Debt securities	19,010,594	-	-	-	-	-	-
<b>3</b>	<b>Total</b>	<b>90,825,698</b>	<b>40,911,857</b>	<b>38,843,310</b>	-	-	-	-
4	Of which defaulted	2,795,548	836,857	806,254	-	-	-	-

Although a significant portion of credit is secured by collateral, however, bank is currently not availing 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;**

Multiple external credit assessment institutions (ECAIs) are used by the Bank. 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 banks and financial institutions wherever such ratings are available. Credit exposure to corporate customers 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 bank has mapped the Risk Ratings of Credit agencies to its Risk rating grades.



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

December 31, 2019

Asset classes	a	b	c	d	e	f
	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1 Sovereigns and their central banks	23,930,579	-	23,930,579	-	-	0%
2 Non-central government public sector entities	-	-	-	-	-	0%
3 Multilateral development banks	-	-	-	-	-	0%
4 Banks	2,145,799	1,019,293	2,145,799	421,021	1,601,547	62%
5 Securities firms	-	-	-	-	-	0%
6 Corporates	75,777,225	13,136,205	75,777,225	8,392,078	79,394,604	94%
7 Regulatory retail portfolios	15,527,439	-	15,527,439	-	9,468,074	61%
8 Secured by residential property	4,238,758	-	4,238,758	-	2,095,342	49%
9 Secured by commercial real estate	-	-	-	-	-	0%
10 Equity	205,594	-	205,594	-	367,343	179%
11 Past-due loans	2,018,132	-	750,155	-	750,155	100%
12 Higher-risk categories	4,953,275	-	4,953,275	-	6,815,832	138%
13 Other assets	5,730,649	-	5,730,649	-	3,272,098	57%
14 <b>Total</b>	<b>134,527,451</b>	<b>14,155,498</b>	<b>133,259,474</b>	<b>8,813,100</b>	<b>103,764,996</b>	<b>73%</b>

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

December 31, 2019

Asset classes/ Risk weight*	a	b	c	d	e	f	g	h	i	j
	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1 Sovereigns and their central banks	23,930,579	-	-	-	-	-	-	-	-	23,930,579
2 Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
3 Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
4 Banks	-	-	2,145,799	-	-	-	576,867	-	-	2,722,666
5 Securities firms	-	-	-	-	-	-	-	-	-	-
6 Corporates	-	-	-	-	-	-	83,972,851	-	-	83,972,851
7 Regulatory retail portfolios	-	-	-	-	-	15,262,244	265,195	-	-	15,527,439
8 Secured by residential property	-	-	-	-	4,238,758	-	-	-	-	4,238,758
9 Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
10 Equity	-	-	-	-	-	-	-	-	205,594	205,594
11 Past-due loans	-	-	-	-	-	-	750,155	-	-	750,155
12 Higher-risk categories	-	-	-	-	-	-	2,824,677	-	2,128,598	4,953,275
13 Other assets	2,354,284	-	-	-	-	-	3,416,973	-	-	5,771,256
14 <b>Total</b>	<b>26,284,863</b>	<b>-</b>	<b>2,145,799</b>	<b>-</b>	<b>4,238,758</b>	<b>15,262,244</b>	<b>91,806,718</b>	<b>-</b>	<b>2,334,192</b>	<b>142,072,574</b>

## 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 addition 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.

- Investment Committee - Approve allocation of investments managed by Treasury. Set tolerance levels for the bank, covering the components of investment and market risk. Oversee management of investment risk. Approve frameworks for monitoring investment risk. Monitor overall actual investment risk levels. Monitor resilience of balance sheet vis-à-vis investment risk to future changes, through reviewing stress testing. React if investment 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

December 31, 2019

		a
		RWA
	Outright products	461,946
1	Interest rate risk (general and specific)	-
2	Equity risk (general and specific)	296,588
3	Foreign exchange risk	165,358
4	Commodity risk	-
	Options	-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
<b>9</b>	<b>Total</b>	<b>461,946</b>

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.**

Not applicable

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

Not applicable

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

**Table A**

**Purpose:** To provide a description of the risk management objectives and policies concerning PRRBB.

**Qualitative disclosure**

**a** A description of the bank's definition of PRRBB for purposes of risk control and measurement.

The Bank has adopted the Basel definition of PRRBB, which refers to the current or prospective risk to a bank's capital and to its earnings, arising from the impact of adverse movements in market rates on its banking book.

Excessive PRRBB can pose a significant threat to a bank's current capital base and/or future earnings if not managed appropriately. Changes in market rates can affect the underlying economic value of the bank's assets, liabilities and off-balance sheet instruments, because the present value of future cash flows (and, in many cases, the amounts of cash flows themselves), change when market profit rates change. Changes in market profit rates also affect a bank's earnings by increasing or decreasing its Net Income after Investments and Financing (NIIF) and the level of other profit rate-sensitive income and operating expenses.

The three main sub-types of PRRBB are as follows:

- Re-pricing Gap risk arises from the term structure of banking book instruments, and describes the risk arising from the timing differences in the maturity and re-pricing of instruments' rate changes. The extent of gap risk depends on whether changes to the term structure of profit rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).

- Basis risk arises from the impact of relative changes in profit rates for financial instruments that have similar tenors but are priced using different profit rate indices.
- Option risk arises from option derivative positions or from optional elements embedded in a Bank's assets, liabilities and/or off-balance sheet items, where the bank or its customer can alter the level and timing of their cash flows. Option risk can be further characterized into automatic option risk and behavioral option risk.

While these sub-types are directly linked to PRRBB, CSRBB is a related risk that the Bank monitors and assesses within the PRRBB framework. CSRBB refers to any kind of asset/liability spread risk of credit-risky instruments that is not explained by PRRBB and by the expected credit/jump-to-default risk.

<b>b</b>	<b>A description of the bank's overall PRRBB management and mitigation strategies.</b>
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Provided below are the key principles followed by the Bank for management and mitigation of PRRBB:

1. PRRBB is as an important risk for the Bank which has implications on profitability in the short term and economic value of the bank in the long term. Therefore, this Risk is specifically identified, measured, monitored and controlled.
2. The Executive Committee of the Board (ExCom) is responsible for the oversight of the PRRBB Risk Management Framework and the Bank's Risk Appetite for PRRBB. Monitoring and management of PRRBB is part of the functions of Asset Liability Management Committee (ALCO). ALCO further delegates the responsibility of measurement, reporting, monitoring, mitigation and control to various departments as per a defined PRRBB management framework. Risk Management Group is responsible for initiating the development and review of the policy and framework. The review aims to continuously update the PRRBB practices, if needed, to align them with latest regulatory requirements, bank strategy and market environment. ALCO reviews and approves the PRRBB at the minimum

once every two (2) years. However, depending on the recommendations of Risk Management, ALCO will approve changes as and when these are required.

3. On a day-to-day basis, Risk Management Group is responsible for generating the PRRBB reports and monitoring the limits for breaches. Finance is responsible for development and maintenance of the historical data in conjunction with IT. Treasury department which is the primary owner of PRRBB is responsible for mitigation and control of the risk through strategic repositioning of the balance sheet and tactical hedging (if needed) to reduce risk exposure following the direction of ALCO.
4. The Bank's Risk Appetite for PRRBB is articulated in terms of the risk to both economic value (EVE at risk) and earnings (NIIF at risk). The strategy adopted for managing the risk is not to fully hedge the risk but to stay within the defined risk appetite and within the regulatory limits supported by regular monitoring of the EVE and NIIF sensitivities. The Management Action Trigger (MAT) is set at 80% of the risk appetite limit and whenever the MAT is breached, Risk Management Group will coordinate with the Units concerned, and with ALCO the appropriate corrective actions. The bank maintains its risk position at the desired level through fine-tuning the balance sheet composition rather than entering, where allowed, into artificial profit rate hedges.
5. In measuring PRRBB, key behavioral and modeling assumptions are developed using conceptually sound logic and are documented in detail. Such assumptions are rigorously tested and aligned with the Bank's business strategies on an annual basis. Models used to measure PRRBB are comprehensive and independently validated prior to implementation and are subject to formal periodic review at a minimum on an annual basis.
6. Capital adequacy requirement for PRRBB is specifically considered as part of the Internal Capital Adequacy Assessment Process (ICAAP) approved by the Board and the results of the PRRBB measurement are feed into computation of the capital charge under Pillar 2.

<b>c</b>	<b>The periodicity of the calculation of the bank's PRRBB measures and a description of the specific measures that the bank uses to gauge its sensitivity to PRRBB.</b>
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The bank calculates the PRRBB reports on a daily basis through the OFSA ALM system which has been implemented at the Bank. Listed below are the measures computed and their description

### **Profit Rate Gap Report**

Profit rate gap report captures the term structure of all rate-sensitive assets, liabilities and off-balance sheet items on the Bank's balance sheet. Instruments are slotted into predefined re-pricing buckets based on their re-pricing cash flows. For items which are not amenable for slotting, behavioral models are developed to assess the repricing profile. The re-pricing gap over a given time period is the difference between the value of its assets that mature or re-price during that period and the value of liabilities that mature or re-price during that same period. If this difference is large (in either a positive or negative direction), then changes in profit rate shall have a larger impact on gross margin. The gap size acceptable to the Bank can be arrived at by looking at the time it would need to take action to reduce or unwind unfavorable PRRBB exposures, and its capability and willingness to withstand accounting losses in order to reposition its risk profile. The re-pricing buckets used, are more granular than the new SAMA defined 19 buckets of short, medium and long term time bands, for better accuracy. The buckets used are: Overnight bucket, 0-1Y: Monthly repricing cash flow bucketing, 1-2Y: Quarterly bucketing, 2-3Y: Semi- annual bucketing and 3-10Y: Yearly bucketing and above 10Y five year bucketing.

### **Earnings Approach (Earnings at risk)**

The "Earnings Approach" is defined by the impact of changes in profit rates on the bank's earnings. This is measured by the changes in the Net Income before Investments and Financing (NIIF) which is the difference between the total revenues & the costs of funding. In the case of a positive or asset-sensitive gap, a decline in profit rates shall lower or eliminate the net profit rate spread in the short term, as

assets are rolled over at lower rates before the corresponding liabilities. An increase in profit rates shall increase the net profit spread. In the case of a negative or liability-sensitive gap, an increase in profit rates lowers earnings by narrowing or eliminating the profit spread.

The following assumptions shall be used in computation of earnings sensitivity measure:

- i. Include profit cash flows (including commercial margins and other spread components) arising from all profit rate-sensitive assets, liabilities and off-balance sheet items in the banking book.
- ii. Earnings shall be computed assuming a constant balance sheet, where maturing or re-pricing cash flows are replaced by new cash flows with identical features with regard to the amount, re-pricing period and spread components.
- iii. The measure shall be disclosed as the difference in future profit income over a rolling 12-month period between the shock scenario and the base scenario

#### **Economic Value Approach (Market Value at risk)**

The “Economic Value Approach” facilitates the analysis of the effects of profit rates on the bank’s economic value or market value, which can be viewed as the present value of future asset and liability cash flows. The following assumptions shall be used in computation of EVE sensitivity measure:

- i. Exclude own equity from the computation of the exposure level as EVE is a measure of change in economic value of the balance sheet items as compared to its current equity.
- ii. Include all cash flows from all profit rate-sensitive assets, liabilities and off-balance sheet items in the banking book in the computation of their exposure. Bank shall disclose whether it has excluded or included commercial margins and other spread components in the cash flows.
- iii. Cash flows shall be discounted using the bank’s current internal transfer pricing rate as the cash flows used are also computed based on the internal

transfer pricing rates. Using the internal transfer pricing rates reflects the Treasury view of the risk in the EVE measure as the transfer price does not include customer spreads.

- iv. EVE sensitivity shall be computed with the assumption of a run-off balance sheet, where existing banking book positions amortize and are not replaced by any new business.

**Re-pricing duration gap**

This measure captures the duration gap calculated using the re-pricing cash flows of the bank including rate sensitive assets, liabilities and off-balance sheet items. The duration measure gives an indication as to how quick the net banking book position re-prices. The lower the number the faster the re-pricing and higher the sensitivity. It also enables to identify the specific assets or liability product that is contributing to the profit rate sensitivity of the bank.

Credit spread risk in the banking book (CSRBB) is not applicable for the bank as it does not have quoted securities as part of its investment book.

<b>d</b>	<b>A description of the Profit rate shock and stress scenarios that the bank uses to estimate changes in the economic value and in earnings.</b>
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1. Measurement of PRRBB is based on the outcomes arising from a wide and appropriate range of profit rate shock and stress scenarios which are commensurate with the level of complexity of the Bank’s operations. The impact of the shocks is ascertained on both the economic value and earnings-based measures.
2. At a minimum, the following six (6) profit rate shock scenarios shall be applied:
  - a. Parallel Up: The market rate term structure is shifted up by 200bps across the tenors;

- b. Parallel Down: The market rate term structure is shifted down by 200bps across the tenors;
  - c. Short Rate Up: The shortest end of the term structure is shocked up by 300bps while the shock gradually dissipates exponentially towards the long tenors reaching 0 at the longest tenor;
  - d. Short Rate Down: The shortest end of the term structure is shocked down by 300bps while the shock gradually dissipates exponentially towards the long tenors reaching 0 at the longest tenor;
  - e. Flattener: A weighted combination of opposite shocks applied on the short (Up 300) and long tenors (Down 150) which gradually dissipate as they move to the other end of the term structure. The effect of the shock is to flatten the term structure so all the tenors have comparable rates; and
  - f. Steepened: A weighted combination of opposite shocks applied on the short (Down 300) and long tenors (Up 150) which gradually dissipate as they move to the other end of the term structure. The effect of the shock is to steepen the term structure so that the short rates are lower than usual and long rates are higher than usual.
3. While all these scenarios are applied for  $\Delta$ EVE computations, only the first two scenarios are utilized to compute the  $\Delta$ NIF using Income approach. A rate floor of 0% is applied when shocking the rates downwards.

<b>e</b>	<b>Significant modeling assumptions used in the bank's IMS Vs ICAAP</b>
	The modeling assumptions used in the bank's internal models and used for assessment of capital adequacy is identical to the one reported as part of the disclosures. The assumptions are built in line with the recommendations provided as part of the SAMA regulations.
<b>f</b>	<b>A high-level description of how the bank hedges its PRRBB, as well as the associated accounting treatment.</b>



The bank maintains its risk position at the desired level through strategic planning of the balance sheet composition rather than entering into tactical and artificial profit rate hedges or other such market instruments.

**g A high-level description of key modeling and parametric assumptions used in calculating  $\Delta EVE$  and  $\Delta NII$  in Table B.**

For NMDs, first a set of homogenous cohorts have been identified using various customer and account level attributes like Line of business, Customer segment, Sector, Nationality, Residence, Product type, Profit rate paid, Currency etc. Within the retail cohorts, the transaction and non-transactions accounts were further segregated. The identification of transactional accounts was based on the previous twelve-month transactional history of each accounts considering utility bill payments, point-of-sale transactions, standing orders and salary credits. If the account was found to have at least one transaction of any of the above types of the transactions during all the months of the previous year, it was considered transactional. For each of the cohorts, the accounts were further segregated based on the account opening month (vintage/length of relationship) and a balance decay profile was built for various time horizons using the historical monthly average balances. A five-year monthly data history was available with the bank for the analysis as the Bank itself began operations in 2009 with data systems being gradually developed. The NMD portfolio of the bank consisted largely of the non-profit bearing accounts and hence a rate pass through analysis was not performed. Instead, the decay profile time series was then regressed with market rates. The balances that were found to be correlated with the market rates were designated as the non-core portion and slotted in the overnight bucket while the non-correlated component was slotted as per their decay profile over various time buckets. The decay profile was further adjusted to fit within the regulatory caps of maximum portion to be considered as core and the maximum effective maturity of the core

portion. The NMDs of the bank are largely non-profit bearing accounts but have been slotted in time buckets and have been included in the discounting calculations for computing EVE.

For the fixed rate retail financing portfolios, major product types of Murabaha Financing, Fixed rate Ijarah financing were used as the homogenous cohorts. The floating rate Ijarah home financing portfolio was also considered but has insignificant prepayment rates. The fixed rate Ijarah portfolio was also found to have insignificant prepayment rate while also being immaterial as it only comprises 1.1% of the total assets. While the bank has a policy of imposing a three-month profit as penalty for prepayments as capped by SAMA, it may not be sufficient to recoup the economic cost of prepayment and hence a prepayment analysis was performed. Based on the historical five-year facility wise repayment history, excess repayments over and above the scheduled payment were computed. The portfolio wise aggregate of monthly excess repayments was used to compute the Single Monthly Mortality (SMM) measure for the historical period. A weighted average base line prepayment rate was computed and scenario wise scalars were applied for slotting cash flows per scenario.

For retail term deposits, a full list of historical term deposits that were on the books of the bank during the previous five (5) years were gathered and deposits which were redeemed earlier than their maturity were identified. A base line term deposit redemption ratio was computed using the weighted number of deals that were redeemed early compared to number of total deals. Further, scenario wise scalars were applied on the redemption ratio for adjusting the term deposit cash flows while slotting in the time buckets. The portion of term deposits that are expected to redeem early based on the scenario specific redemption ratio are slotted in the overnight bucket while the rest of the balances are slotted as per their maturity. Due to limited number of early redemptions observed, entire retail term deposit portfolio has been considered as a single cohort.

The corporate financing portfolio of the bank consists largely of floating rate Ijarah, fixed rate short tenor trade financing and Bai-Ajel products. More than 83% of the corporate balances reprise or mature within one year and of the remaining portion the bank has observed insignificant if any prepayments. For corporate term deposits, the bank ensures that any early redemption is penalized to recoup the full economic loss and hence no further analysis was conducted. The bank does not have any automatic rate options embedded in its products as it does not offer rate floors or caps and does not deal directly in any explicit rate options. Other non-amenable portfolios like Credit cards were slotted using a judgment approach as these products were priced as per the policy of the bank rather than being driven by changes in market rates.

Finally, the items amenable to slotting are slotted into the time buckets as per their re-pricing tenors or maturity tenors, the non-amenable items slotted as per the behavioral analysis conducted. The only other major currency position observed other than SAR is the USD. Given the currency is pegged and does not breach the materiality threshold of 5%, the computation of the PRRBB measures was done only using the SAR.

The Net Income after Investments and Financing (NIIF) sensitivity was estimated using the customer rates assuming a flat balance sheet profile over a horizon of twelve months under the parallel 200bps up and down scenarios. For Economic Value of Equity (EVE) sensitivity the internal transfer pricing cash flows were discounted by applying the six shock scenarios on the current transfer pricing curve (base reference rate and product wise liquidity premium) to get the change in EVE under each scenario. Essentially the credit spreads have been totally removed from both the cash flows and discounting factors. The worst case change in EVE was observed in short rate up shock scenario.

h	<b>Any Other information</b>
None.	
<b>Quantitative disclosures</b>	
1	<b>Average maturity assigned to NMDs.</b>
Average maturity of all NMDs: 2.23 Years	
2	<b>Longest reprising maturity assigned to NMDs.</b>
The slotting of NMDs has been done till the longest tenor of 5.5Years	

In Reporting Currency	EVE		NII	
	December 31, 2019	September 30, 2019	December 31, 2019	September 30, 2019
Paraller Up	1,465,206	1,311,420	254,103	235,294
Paraller Down	2,130,925	2,105,343	322,053	291,349
Steeper	47,409	8,035		
Flattener	207,679	208,718		
Short Rate Up	772,085	637,275		
Short Rate Down	737,521	757,775		
Maximum (See Note Below)	2,130,925	1,937,196		
Period	December 31, 2019		September 30, 2019	
Tier 1 Capital (See Note Below)	22,878,645		22,364,864	

41 – REMA - Remuneration policy (Compensation & Incentives Policy).

As an integral part of the compensation governance, the Bank follows appropriate compensation practices in line with the SAMA guidelines and Financial Stability Board (FSB) Principles/Standards. The Bank has implemented a “Compensation & Allowances” policy approved by the Board of Directors (the “Board”). The Bank has also established a Nomination and Compensation Committee. It has been mandated by the Board to review and recommend sound compensation policies for adoption by the Bank. While developing and implementing such policies, the Bank has sought to align the same with the risks related to capital, liquidity and sustainability as well as timing of revenue streams. The Bank has adopted fixed as well as variable compensation schemes. The variable component is aligned not only with the aforesaid risks but also with the overall performance of the Bank and the individual, and risk involved in the relevant job function. The Bank consistently evaluates its compensation policies against the industry and makes necessary revisions as and when required.

REMA - Remuneration awarded during the financial Year					
		Remuneration		Senior Management	Other Material risk-takers
1	Fixed remuneration	Number of employees		21	712
2		Total fixed remuneration (3+5+7)		32,069	255,720
3		Of which: cash based		32,069	255,720
4		of which: deferred			
5		Of which: share or other share-linked instruments			
6		of which: deferred			
7		Of which: other forms			
8		of which: deferred			
9	Variable remuneration	Number of employees		21	712
10		Total variable remuneration (11+13+15)		11,136	48,309
11		Of which: cash based		11,136	48,309
12		of which: deferred		-	-
13		Of which: share or other share-linked instruments		-	-
14		of which: deferred		-	-
15		Of which: other forms			
16		of which: deferred			
17	Total remuneration			43,205	304,029

REMA 2 - Special Payments							
							SAR '000
Special Payments	Guaranteed bonuses		Sign-on awards		Severance payments		Total amount
	No. of employees	Total amount	No. of employees	Total amount	No. of employees	Total amount	
Senior Management	-	-	-	-	-	-	-
Other Material risk-takers	-	-	-	-	-	-	-

REMA 2 - Deferred Remuneration					
	a	b	c	d	e
Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of Which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustments	Total amount of amendments during the year due to ex post explicit adjustments	Total amount of amendments during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
<b>1 Senior Management</b>	<b>5,117</b>		<b>5,117</b>	-	<b>10,910</b>
Cash	5,117		5,117	-	5,117
Shares	-		-	-	5,793
Cash-Linked instruments	-		-	-	-
Others	-		-	-	-
<b>2 Other Material Risk-takers</b>	<b>5,080</b>		<b>5,080</b>	-	<b>2,116</b>
Cash	5,080		5,080	-	2,116
Shares	-		-	-	-
Cash-Linked instruments	-		-	-	-
Others	-		-	-	-
<b>Total (1+2)</b>	<b>10,197</b>		<b>10,197</b>	-	<b>13,026</b>