

## **Disclosures Under Basel III Framework**

### **Basel III Pillar 3 Qualitative & Quantitative Disclosures 31 December 2018**

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## Table OVA: Bank's Risk Management approach

### a) Business model determination and risk profile

Riyad Bank is a full service Bank, undertaking Retail, Commercial and Wholesale banking activities. The Bank provides sophisticated corporate and retail products, doing so through both conventional and Shari'a-compliant platforms.

Riyad Bank has a large retail franchise covering a multitude of segments across the market. The Bank is a market leader in project and syndicated finance business, and its main emphasis in corporate arena is on the mid cap corporates as well as emerging enterprises (EEU). The **Bank's** Treasury Division is an active participant in SAR and various other foreign currency denominated money markets in the Kingdom.

The Bank is selectively increasing its branch and ATM networks but has a major focus on digital/ non-physical channels. Capital market and investment services are provided through the wholly-owned subsidiary i.e. Riyad Capital.

The Bank also has a branch in London, a representative office in Singapore and an agency in Houston, USA.

We are already a year plus through an ambitious 5-year Plan with a view to achieving market leadership in our core areas of activity. We are resolutely focused on delivering an excellent customer experience and an excellent employee experience. An excellent customer experience means that we shall pursue a programme of initiatives to deliver what we call "**Brilliant Banking**"; we shall focus on new and growth markets (such as emerging sectors, SMEs and private sector), and we shall continue to deliver a best-in-class digital offering with constant innovation. An excellent employee experience requires continually developing our talent to respond to an ever more competitive market, clear well-laid out career paths, and high-caliber leaders who inspire our people to out-run the competition, delight our customers, and excel in their jobs and careers.

The Bank adopted an integrated enterprise-wide approach with regard to risk management where all risk types and cross-risk type issues are identified/understood, measured and monitored at all levels to provide one integrated view on the **Bank's** business risk profile.

### b) The risk governance structure

The Board of Directors are responsible to ensure that the Bank is organized effectively and efficiently, and is conducting its business in accordance with all appropriate regulatory and good corporate governance and practices. The bank has relevant corporate governance and risk related Board committees that include the Executive Committee, Audit Committee, Risk Management Committee, Nomination and Compensation Committee and the Strategic Planning Group.

The Board carries out the core responsibilities of setting the **Bank's** risk appetite, approving the Bank-wide risk frameworks and relevant policies, monitoring compliance with Board approved risk limits and progress on implementation of strategic risk related projects as well as compliance with all regulatory matters. These high level frameworks and policies provide the fundamental corporate governance principles and guidance for risk taking, managing and monitoring activities throughout the Bank and its subsidiaries.

Risk Management is an independent function from the business duly, headed by CRO and comprises of Risk Management Division, Credit Division and and Enterprise Risk Management. Risk Management responsibilities in the Bank cover all facets of Credit, Market and Operational Risks as well as Liquidity and Interest rate risk in Banking book. Enterprise Risk Management Function exists within the Risk Management with primary responsibility of coordinating and managing the risk appetite and Internal Capital Adequacy Assessment Plan (ICAAP), on the basis of a comprehensive risk-profile of the Bank.

Please also refer to chart as an annexure, at the end of this document.

**c) Channels to communicate, decline and enforce the risk culture**

The **Bank’s** fundamental risk management goal is to build a culture of risk understanding so that better decisions can be made at every level. Risk culture is an integral part of the **Bank’s** overall corporate culture. The conservative risk profile is embedded in the risk culture by means of communication and training, and is monitored through periodic performance assessment.

The Chief Risk Officer (CRO) is responsible for the actual risk profile and risk processes in the Bank for all risk types (credit, market, operational, liquidity, interest rate risk, etc.) across all products and business segments. The Risk Management function headed by the **CRO is a function independent from the Bank’s business activities.**

The Bank, through Compliance Department, reporting to the CEO , ensures that decisions which legally commit the Bank are in compliance with internally approved policies and procedures, the regulations of the countries in which the Bank operates, including its branches/overseas units and its fully-owned subsidiaries.

The independent Internal Control Department reports to the CRO. Its objective is to further strengthen the risk governance framework within the Bank via development and implementation of an Integrated Internal Control Governance and Reporting Framework. This framework covers all business divisions and control functions within the Bank including subsidiaries, and provides the Board and Executive Management effective oversight and holistic view on the effectiveness of internal control across the Group.

**d) The scope and main features of risk measurement systems.**

**1. Credit Risk Measurement Systems**

The fundamental pillars of the **Bank’s** credit risk management systems are its credit rating systems for assessing the credit quality of its customers on a regular basis. These advanced systems are deployed in quantifying credit risk and is leveraged in setting various lending policies incorporating robust credit underwriting standards.

The scope and features of the risk management system deployed in credit risk management are as follows:

**i. Credit Limit Management and work flow application:**

System for wholesale business is divided into two main systems as follows:

- **Credit Administrator-** facilitates the credit management process by ensuring the timely and accurate capture of data and documents, using a consistent systems and standards, for a wide range of users across the bank
- **Credit Limit Manager-** manages credit exposures and set limits at any point-in-time in a counterparty structure and across any combination of user-specified criteria such as industry, group, country, rating, category, product type and risk type.

**Credit Risk Management System features:**

· The system is able to produce all the required information to enable the management to assess quickly and accurately the level of credit risk as well as ensure adherence to the risk tolerance levels;

The system is able to provide information on the composition of the portfolio, concentrations of credit risk, quality of the overall credit portfolio as well as various categories of the portfolio and information on rescheduled/restructured and "watch-list" accounts;

· The system is able to demonstrate the amount of credit exposures undertaken with break-down by loans categories, geography, types of exposures, products and level of credit grades, etc.;

· The system is able to provide a periodic report on the existing lending products, their target market, performance and credit quality and also the details of any planned new product offerings;

· The system is able to provide details on the overall quality of the credit portfolio. This may include, inter alia, details of problem loans including those on the watch-list, categories of their classification, potential loss to the bank on each significant problem loan, the level of existing and additional provisions required etc.;

**ii. Obligor's Risk Rating System**

This system provides a comprehensive Counter-Party risk information by combining financial spreading, Credit Analysis & Robust Data Storage using one flexible, secured Enterprise Platform.

**System features:**

· Highly flexible and Integrated Credit Risk Assessment Tool;

· Risk Analyst's open architecture design enables integration with proprietary and third-party applications and ratings models; promotes accuracy integrity and consistency;

· Streamline credit decision process and reduce turnaround time for management

· System has unique architecture and modular components, enabling Riyad Bank to meet credit risk assessment goals;

**iii. Treasury Risk System for Counterparty Credit Risk Measurement**

Riyad Bank has completed upgrade of Treasury System aligning it with the business and new regulatory standards complying with the Basel III Standardized Approach for Counterparty Credit Risk (SA-CCR methodology) for calculating EAD for OTC Derivatives.

**New Treasury System features:**

- Solution complies with Basel III SA CCR computation for EAD (Exposure at Default) OTC Derivatives as per SAMA/BASEL requirements;

- Solution is a real-time solution that assist Riyad Bank to achieve a consistent and compliant risk policy for derivative counterparty exposures. This is accomplished by allowing a bank to apply the same risk methodology across capital reporting and internal risk limits management

Solution provide capabilities on checking available limits based on Risk Based and Notional. Further, system also provides Pre-Deal calculation facilities in a fully integrated and automated environment.

**IFRS9 solution for calculation of Expected Credit Loss (ECL):**

We have implemented Finevare solution for calculating IFRS9 Expected Credit Loss Model (ECL) provisioning.

Finevare solution complies and conform with the IFRS 9 standard for impairment calculations, simulations, risk parameters, interest revenue correction and Effective Interest rate. Business reports are also generated from Finevare in an automated environment.

**3. Retail Risk Measurement Systems**

For retail asset business, the Bank uses Origination Manager Decision Module for automated application of credit policy, business acceptance rules, and scorecard decisions. This system is integrated with customer relationship management systems to allow a seamless management of retail asset origination activity.

**4. Market Risk Measurement Systems**

Riyad Bank uses an integrated market risk system that brings together bank-wide market, ALM and Liquidity risk management into one platform for daily monitoring and reporting. Kamakura Risk Manager (KRM) enables Riyad Bank to measure market valuations, Value at Risk, Net interest Income at Risk, Economic Value of Equity at Risk and IRRBB. Risk is monitored on Banking and Trading Books under normal and stressed scenarios. The VaR model is subject to daily back-testing and any exceptions to the one-day 99% VaR are analyzed and documented.

The system is regularly validated and upgraded to cater for changes in regulatory requirements and Riyad Bank’s risk profile.

**5. Operational Risk Measurement Systems**

Enterprise Governance Risk and Compliance (EGRC) is a single web based platform for Operational Risk which captures both quantitative and qualitative data for risk identification, assessment & measurement, mitigation, monitoring and for both internal and external reporting’s by using the following modules:

Risk Control & self-assessment – is an exercise used to identify both quantitative and qualitative key risks faced by the organization.

Key risk indicators – an important tool within risk management, used to enhance the monitoring and mitigation of risks and facilitate risk reporting

Operational loss – a robust and complete process life cycle of operational losses (potential, actual and near-miss with the recovery effects) in order to produce both internal and regulatory reporting’s.

Issues and action plans – which enables creation of issues and development of action plans

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

Riyad Bank has the following measures in place to monitor the Capital Adequacy Ratio and Risk related information of the Bank on a continuing basis.

i. A Risk Appetite Statement Dashboard, which includes Capital Adequacy Ratios, is prepared and submitted to the Board of Directors on a quarterly basis. This report also contains the Minimum CAR threshold set by SAMA every year and internally sets target for the Bank for the year. The risk appetite statement describes both the nature of, and **tolerance for, the material risks that are inherent bank's business.**

Explanation is provided where the ratio is below target level.

ii. Weekly movement report- a snapshot of weekly movement in loan portfolio along with overview of major transactions and past dues (below and above 90 days) categorized through facilities and segments. This report is submitted to Senior Management on a weekly basis

iii. Asset Quality report - this comprehensive report is produced on a monthly basis and covers details about portfolio growth, NPLs and Loan loss reserves, portfolio quality, provision coverage and concentrations in the portfolio. It also includes Portfolio risk profile and risk migration as well as exposures in different economic sectors.

iv. ALCO Report is circulated on a monthly basis to the ALCO Members and Invitees which comprises of senior management of the Bank. This is an exhaustive report covering amongst other topics but not limited to Funding Liquidity Ratio, Risk Indicators Dashboard, Interest income at risk, Stress tests, Concentration risk, FX trading positions and VAR analysis etc.

v. Provisioning Report at transactional and client level is produced on a monthly basis from Finevare solution and provided to Senior Management. The report covers exhaustive information on **Client's** Provisioning, staging information, rating, Past Due for **management's analysis.**

A range of other standard are also generated from Finevare to meet vast requirements related to IFRS 9 standard reporting as well as specific regulatory or internal reporting requirements.

vi. Quarterly Provision Study closely monitors and identifies provisioning requirements and problem loan migration. This is approved by the Audit Committee

vii. We are reporting on a monthly basis for Retail Portfolio to the Retail Risk Management Committee as well as Asset Quality Reports which also includes retail risk information is reported to the Board

viii. Operational Risk Management & Compliance Committee (ORMCC) acts as the senior operational risk and regulatory compliance risk committee of the Bank. ORMCC has responsibility for overseeing the operational control environment through monthly reports, the level of operational risk taken, compliance with Board and management policies, limits, as well as compliance with all regulatory requirements. ORMCC report highlights the annual and current operational risk management assessment program including reviewing details and results of current risk and control assessments, significant operational risk incidents, insurance policy related matters, results of investigations, resulting control improvements, and follow up processes on past operational losses events.

ix. The Operational Risk Department submit bi-annually reports to board in order to provide oversight of major operational risk. The main objective of the report is to assist senior executives and board of directors to take informed timely decisions to keep operational risk within the bank operational risk appetite

x. Interim condensed financial statements are prepared on a quarterly basis. The external auditors of the Bank provide a Review Report on the quarterly financial statements. Annual consolidated financial statements are prepared based on which the External Auditors issue audit opinion

xi. A comprehensive Internal Capital Adequacy Assessment Plan (ICAAP) is prepared once every year with rigorous involvement of risk owners and other internal stakeholders to assess **Bank's** capital adequacy position on forward looking basis. The Plan is reviewed by the senior management and approved by the Board of Directors and subsequently submitted to SAMA. It forms the basis of an active one-to-one dialogue with SAMA under Supervisory Review Process.

xii. Internal Liquidity Adequacy Assessment Plan (ILAAP) is prepared annually to assess the liquidity risk management framework and the liquidity risk appetite of the bank to ensure that they are adequate and in proportion to the **bank's** business model, internal risk appetite, size, complexity, riskiness and market expectations. It also ensures that the level of liquidity held is sufficient to support its survival during a liquidity stress.

xiii. Bank also undertakes risk assessment and capital requirements under defined stress scenarios for its material risks. This semi-annual stress exercise is conducted in line with SAMA Rules on Stress Testing. The results of regular and reverse stress testing are reviewed by the management and shared with Board of Directors and subsequently submitted to SAMA. The stress testing results are used as an input into the **Bank's** business and contingency funding plans and also forms part of the regulatory dialogue and engagement under Supervisory Review Process.

xiv. On a quarterly basis the Bank submits CAR to SAMA after due review and approval by senior management. During the review process the increase/decrease over the previous quarter is analyzed.

xv. Eligible capital is a key component of the CAR calculations. The Bank closely monitors the dividend payout ratio to consider the impact of dividend payments on its CAR each time it considers dividend distribution. The impact on CAR, (both before and after distribution of dividends) is an integral part of the file request sent to SAMA for approval of dividends.

xvi. Key investment decisions taken by Investment Committee consider potential impact on CAR.

xvii. Third party independent review of the **bank's** internal Obligor Risk Rating (ORR) **models'** validation is placed for CRPC perusal on annual basis. Furthermore, ORR **models'** performance and monitoring report is shared with the Senior Management on quarterly basis



**f) Qualitative information on stress testing**

An assessment of risk and capital requirements under defined stress scenarios is conducted to cover Pillar 1 risks (credit, market and operational risk) and material Pillar 2 risks

For each risk type the key model variable(s)/factor(s) are identified that directly influence size of the risk being measured before applying stress them.

**Coverage of the Portfolio:**

Adequate coverage of the stress test is achieved through designing scenarios for balance sheet exposures

i. On the assets side, stress testing covers:

- **Loan Book:** Corporate, commercial, SME, retail / consumer loans (wherever Bank's significant exposure exists)
- **The traded market portfolios:** These portfolios include interest rate, equity, foreign exchange, commodity and credit market instruments bearing the ability to mark them to market on a regular basis.

ii. On the liabilities side, funding and liquidity is tested at various levels of shocks.

**Methodologies Used in Risk Management:**

The Bank has adopted following stress testing methodologies for the purpose its risk management across the organization:

i. Bank uses Advanced approach for stress testing of Corporate asset class both for pillar 1 "Credit" and pillar 2 "Credit Concentration" along with Market Risk in pillar 1.

ii. For Pillar 1 risks (excluding above) required capital under stressed conditions is based on models used for Standardized Approach with appropriate set of assumptions specific to the given risk type.

iii. For Pillar 2 risks the required capital under stressed conditions is based on internal models (quantitative or judgmental) that are used for capital estimation under normal conditions with appropriate set of assumptions specific to the given risk type.

iv. For each risk type the key model variable(s)/factor(s) are identified that directly influence size of the risk being measured before stressing them.

v. From a process perspective, future plausible stressed events are agreed in consultation with the Bank's Chief Economist and scenarios are drawn with likely implications for the Saudi Arabia's economic indicators, like oil prices, non-oil GDP growth, interest rate, inflation, etc. As a next step, Bank specific impact on the financial performance under each risk area is assessed under certain assumptions. The results are then aggregated to assess Bank's Capital Adequacy Ratio (CAR) under the stressed conditions. Stress results are presented to Senior Management (Asset and Liability Committee - ALCO) for capital adequacy assessment and planning purposes and is also shared with the Board of Directors and its Risk Committee.

**g) The strategies and processes to manage, hedge and mitigate risks**

Suitable policies and procedures have been adopted by Riyad Bank in order to ensure an appropriate level of risk management is directed at the relevant element of the business. The Bank's risk management strategy is to support the Bank's corporate and strategic objectives by effectively and efficiently assisting business and support units.

We have effective risk mitigation techniques in place to manage and mitigate risk as follows:

i. We have comprehensive Credit Risk Management (CRM) Framework in place approved by the Board of Directors to cover all Bank-wide credit functions and activities. The CRM framework along with strong credit risk governance structure are designed to provide comprehensive controls and continuing management of the credit risk.

ii. A strong credit Strategy and risk appetite approved by the Board is in place and monitored and reported through risk appetite dashboard which provide integrated approach to spot and trigger immediate remedial actions with clearly defined roles and responsibilities keeping in view the best international market practices.

iii. Bank has Business and Risk Acceptance (BACs and RACs) criteria to manage the risk on its corporate loan book and provide effective screening and measurement tool of credit risk to assist with the building of high quality credit portfolio at the outset.

iv. The Board of Directors has approved credit policy guidelines for the Bank. All exposures must confirm to these macro credit-limits, product types and tenors. Cross border counterparty credit lines are subject to the availability of respective country-limits, where applicable.

v. **Bank's** maximum exposure to a single borrower is in line with the maximum legal limits set by SAMA supported by policies, processes and auto solution to monitor the total indebtedness of group counterparties. Further the bank has also complied with the minimum requirements on setting large exposure rules with respect to **bank's** exposure to single counterparties, group of connected counterparties and related counterparties to meet the new regulatory requirements for large and connected exposures reporting. The rules have now been fully operationalized in the **bank's** lending system and complies with **SAMA's requirements**.

vi. We have deployed an advanced internal loan grading system as well as early warning signal system that covers areas such as loan usage, documentation, company information, third party information as well as external information. The Bank is also more vigilant in terms of the application of credit mitigants. At a bank-wide level, credit exposures are managed to promote alignment to our risk appetite statement, to maintain the target business mix and to ensure that there is no undue concentration of risk. Concentration risk is also well managed through well-defined policy and employment of robust methodology.

vii. We have adopted the new IFRS9 impairment methodology under which the impairment model under IFRS-9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS-9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition. Impairment approach of IFRS-9 applies to financial assets measured at Amortized cost and Fair Value through Other Comprehensive Income. For the risk management and reporting purposes, Bank has deployed new ECL calculation solution (Finevare) that calculates provisioning based on IFRS9 guidelines and supports an integrated modular approach in an automated environment for business and regulatory reporting. We have also put in place the required polic income

22) Provision amount (ECL)

23) Indicate if the loan was restructured or not

24) Year loan was originated

viii. Enhancement of management information system is carried out to provide timely, integrated and informative reports that properly identify, measure, monitor, individual and related exposures as well as credit risk concentrations. Revision of under writing procedures to be more formalized and specific to take quick and necessary corrective actions, with policy exception, being immediately tracked and reported to management and Board of Directors.

ix. Bank has further refined our internal rating system together with the introduction of risk migration matrix to assist with more accurate calculation of **PD's** associated with loan portfolio and enhancing risk premium/ review pricing policies.

x. For retail asset portfolios, second line oversight is provided by an independent Retail Risk Management Department which is involved in the process of setting risk acceptance criteria for product programs, providing risk assurance on origination, exposure management, and collections activity, as well as with analytics on the health of the retail portfolio with recommendations for remediation.

### Post Crisis Mitigants

i. We have enhanced collateral coverage in designated business activities, together with the reduction of risk limits at an individual and portfolio levels. Further, we can tighten credit underwriting requirements to reduce credit risk as well as restructuring, unwinding or hedging certain positions.

ii. Amend pricing policies (e.g. as interest spread or margin income) to reflect previously unidentified risks; We have also deployed RAROC which is a valuable tool, both for senior management to compare different businesses on a like-for-like basis, and for business managers to compare different products/ customers/ transactions on a like-for-like basis.

iii. Re profiling of the loans which are likely to default due to sudden change in macroeconomic environment as these may require some time to adjust to the changes.

iv. We have enhanced remedial and restructuring capabilities so as to identify and cure the problem accounts at the right time in order identify potential NPLs at an earlier stage.

We reassess market sector exposure and realign **Bank's** strategy to one where risk adjusted return on capital is maximized and carry out more frequent interim revision of riskier/concentrated sections and collateral limits.

## Template KM1: Key metrics

		a	b	c	d	e
		Dec 18	Sep 18	Jun 18	Mar 18	Dec 17
<b>Available capital (amounts)</b>						
1	Common Equity Tier 1 (CET1)	36,774	36,751	36,935	36,169	38,623
1a	Fully loaded ECL accounting model	36,774	36,751	36,935	36,169	38,623
2	Tier 1	36,774	36,751	36,935	36,169	38,623
2a	Fully loaded ECL accounting model Tier 1	36,774	36,751	36,935	36,169	38,623
3	Total capital	41,158	41,157	41,383	40,721	43,695
3a	Fully loaded ECL accounting model total capital	41,158	41,157	41,383	40,721	43,695
<b>Risk-weighted assets (amounts)</b>						
4	Total risk-weighted assets (RWA)	227,915	223,188	213,584	216,201	223,070
<b>Risk-based capital ratios as a percentage of RWA</b>						
5	Common Equity Tier 1 ratio (%)	16.1%	16.5%	17.3%	16.7%	17.3%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	16.1%	16.5%	17.3%	16.7%	17.3%
6	Tier 1 ratio (%)	16.1%	16.5%	17.3%	16.7%	17.3%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	16.1%	16.5%	17.3%	16.7%	17.3%
7	Total capital ratio (%)	18.1%	18.4%	19.4%	18.8%	19.6%
7a	Fully loaded ECL accounting model total capital ratio (%)	18.1%	18.4%	19.4%	18.8%	19.6%
<b>Additional CET1 buffer requirements as a percentage of RWA</b>						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	1.875%	1.88%	1.88%	1.88%	1.25%
9	Countercyclical buffer requirement (%)	0.025%	0.021%	0.017%	0.015%	0.017%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0.50%	0.50%	0.50%	0.50%	0.50%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.400%	2.396%	2.392%	2.390%	1.767%
12	CET1 available after meeting the bank's minimum capital requirements (%)	13.7%	14.1%	14.9%	14.3%	15.5%
<b>Basel III leverage ratio</b>						
13	Total Basel III leverage ratio exposure measure	297,586	293,346	278,699	281,037	283,068
14	Basel III leverage ratio (%) (row 2 / row 13)	12.4%	12.5%	13.3%	12.9%	13.6%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row 13)	12.4%	12.5%	13.3%	12.9%	13.6%
<b>Liquidity Coverage Ratio*</b>						
15	Total HQLA	36,700	36,932	38,258	42,897	39,740
16	Total net cash outflow	30,237	29,906	31,152	29,630	28,027
17	LCR ratio (%)	121%	123%	123%	145%	142%
<b>Net Stable Funding Ratio</b>						
18	Total available stable funding	149,865	144,697	143,088		
19	Total required stable funding	129,435	124,234	126,330		
20	NSFR ratio	116%	116%	113%		

\* LCR may not equal to an LCR computed on the basis of the average values of the set of line items disclosed in the template

**OV1: Overview of RWA - December 2018**

		<i>SAR 000</i>		
		a	b	c
		RWA		Minimum capital requirements
		Dec 18	Sep 18	Dec 18
1	Credit risk (excluding counterparty credit risk) (CCR) Includes item 23	207,432,772	203,293,609	16,594,622
2	Of which standardised approach (SA)	207,432,772	203,293,609	16,594,622
3	Of which internal rating-based (IRB) approach			-
4	Counterparty credit risk	3,447,038	1,300,004	275,763
5	Of which standardised approach for counterparty credit risk (SA-CCR)	3,447,038	1,300,004	275,763
6	Of which internal model method (IMM)			-
7	Equity positions in banking book under market-based approach	-	-	-
8	Equity investments in funds – look-through approach	-	-	-
9	Equity investments in funds – mandate-based approach	-	-	-
10	Equity investments in funds – fall-back approach	-	-	-
11	Settlement risk			-
12	Securitisation exposures in banking book	-	-	-
13	Of which IRB ratings-based approach (RBA)			-
14	Of which IRB Supervisory Formula Approach (SFA)			-
15	Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16	Market risk	2,330,200	4,202,113	186,416
17	Of which standardised approach (SA)	2,330,200	4,202,113	186,416
18	Of which internal model approaches (IMM)			-
19	Operational risk	14,705,072	14,391,908	1,176,406
20	Of which Basic Indicator Approach			-
21	Of which Standardised Approach	14,705,072	14,391,908	1,176,406
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>227,915,082</b>	<b>223,187,634</b>	<b>18,233,207</b>

**L11: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories  
- December 2018**

SAR 000

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Carrying values of items:		
					Subject to the securitisation framework	Subject to the market risk framework	
<b>Assets</b>							
Cash and balances with SAMA	16,323,172	16,323,172	16,323,309				
Due from banks and other financial institutions	11,029,176	11,029,176	11,034,376				
Positive fair vale of derivatives	286,625	286,625		286,625			
Investments, net	47,992,772	47,992,772	47,643,613		-	393,272	
Loans and advances, net	151,024,830	151,024,830	151,993,832				
Investment in associates	595,493	595,493	595,493				
Other real estate	227,405	227,405	227,405				
Property and equipment, net	1,699,462	1,699,462	1,699,462				
Other assets	720,641	720,641	850,246				
<b>Total assets</b>	<b>229,899,576</b>	<b>229,899,576</b>	<b>230,367,736</b>	<b>286,625</b>	<b>-</b>	<b>393,272</b>	<b>-</b>
<b>Liabilities</b>							
Due to banks and other financial institutions	8,580,514						8,580,514
Negative fair value of derivatives	274,270						274,270
Customer deposits	169,822,156						169,822,156
Debt securities in issue	4,003,783						4,003,783
Other liabilities*	10,444,637						10,444,637
<b>Total liabilities</b>	<b>193,125,360</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>193,125,360</b>

\*This includes loss allowance for credit related commitments and contingencies

Template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements - December 2018

SAR 000

		a	b	c	d	e
		Total (&/or Notional Amounts)	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)	229,899,576	230,367,736	-	286,625	393,272
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	229,899,576	230,367,736	-	286,625	393,272
4	Off-balance sheet amounts	85,974,706	55,612,693			
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	Market risk on Foreign exchange					677,023
10	Derivatives (also subject to Credit valuation adjustment )	63,006,128			1,970,775	71,559
10	<b>Exposure amounts considered for regulatory purposes</b>	<b>378,880,410</b>	<b>285,980,429</b>	-	<b>2,257,400</b>	<b>1,141,854</b>



## Table LIA: Explanations of differences between accounting and regulatory exposure amounts

Riyad Bank does not have any difference between 'Carrying values as reported in published financial statements' and 'Carrying values under scope of regulatory consolidation'

### **On-Balance Sheet**

In case of On-Balance Sheet items, currently there are no differences between carrying values and amounts considered for regulatory purposes except certain provisions.

### **Off-Balance Sheet & Derivatives**

In case of Off-Balance sheet and Derivatives Notional values are populated as total carrying/accounting value whereas credit equivalent amounts (i.e. after applying conversion factors including Add-on adjustments in case of Derivative portfolio) are populated under respective regulatory framework.

### **Valuation methodologies**

Please refer to note no. 2 of Annual Published Financial Statements

**CAPITAL STRUCTURE - December 31, 2018**  
**CC2 – Reconciliation of regulatory capital to balance sheet**

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

All figures are in SAR '000

	Balance sheet in Published financial statements ( C )	Under regulatory scope of consolidation ( E )
<b>Assets</b>		
Cash and balances at central banks	16,323,172	16,323,172
Due from banks and other financial institutions	11,029,176	11,029,176
Investments, net	47,992,772	47,992,772
Loans and advances, net	151,024,830	151,024,830
Debt securities	0	0
Trading assets	0	0
Investment in associates	595,493	595,493
Derivatives	286,625	286,625
Goodwill	0	0
Other intangible assets	0	0
Property and equipment, net	1,699,462	1,699,462
Other assets	948,046	948,046
<b>Total assets</b>	<b>229,899,576</b>	<b>229,899,576</b>
<b>Liabilities</b>		
Due to Banks and other financial institutions	8,580,514	8,580,514
Items in the course of collection due to other banks	0	0
Customer deposits	169,822,156	169,822,156
Trading liabilities	0	0
Debt securities in issue	4,003,783	4,003,783
Derivatives	274,270	274,270
Retirement benefit liabilities	0	0
Taxation liabilities	0	0
Accruals and deferred income	0	0
Borrowings	0	0
Other liabilities	10,444,637	10,444,637
<b>Subtotal</b>	<b>193,125,360</b>	<b>193,125,360</b>
Paid up share capital	30,000,000	30,000,000
Statutory reserves	5,101,613	5,101,613
Other reserves	58,047	58,047
Retained earnings	414,556	414,556
Minority Interest	0	0
Proposed dividends	1,200,000	1,200,000
<b>Total liabilities and equity</b>	<b>229,899,576</b>	<b>229,899,576</b>

\* For further details on column D please refer to step 1 on page 16 of the guidance notes .

**Additional information:**

List of entities (including disclosure of such entities balance sheet, balance sheet activity and principal activities:

**CAPITAL STRUCTURE- December 31, 2018**

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

All figures are in SAR'000

	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 at central banks	16,323,172	0	16,323,172	
eligible provisions	137	0	137	A
Due from banks and other financial institutions	11,029,176	0	11,029,176	
eligible provisions	5,200	0	5,200	A
Investments, net	47,992,772	0	47,992,772	
eligible provisions	44,113	0	44,113	A
Loans and advances, net	151,024,830	0	151,024,830	
eligible provisions	301,461	0	301,461	A
Debt securities	0	0	0	
Equity shares	0	0	0	
Investment in associates	595,493	0	595,493	
Derivatives	286,625	0	286,625	
Goodwill	0	0	0	
Other intangible assets	0	0	0	
Property and equipment, net	1,699,462	0	1,699,462	
Other assets	948,046	0	948,046	
Total assets	229,899,576	0	229,899,576	
<b>Liabilities</b>				
Due to Banks and other financial institutions	8,580,514	0	8,580,514	
Items in the course of collection due to other banks	0	0	0	
Customer deposits	169,822,156	0	169,822,156	
Trading liabilities	0	0	0	
Debt securities in issue	4,003,783	0	4,003,783	
of which Tier 2 capital instruments	4,000,000	0	4,000,000	B
Derivatives	274,270	0	274,270	
Retirement benefit liabilities	0	0	0	
Taxation liabilities	0	0	0	
Accruals and deferred income	0	0	0	
Borrowings	0	0	0	
Other liabilities	10,444,637	0	10,444,637	
eligible provisions	32,820	0	32,820	A
Subtotal	193,125,360	0	193,125,360	
Paid up share capital	30,000,000	0	30,000,000	
of which amount eligible for CET1	30,000,000	0	30,000,000	H
of which amount eligible for AT1	0	0	0	I
Statutory reserves	5,101,613	0	5,101,613	
Other reserves	58,047	0	58,047	
Retained earnings	414,556	0	414,556	
Minority Interest	0	0	0	
Proposed dividends	1,200,000	0	1,200,000	
Total liabilities and equity	229,899,576	0	229,899,576	

Note: Items A B, H, I have been mapped as an example to Table 2d, for further details please refer to step 2 on page 17 of the guidance notes .

**CAPITAL STRUCTURE**  
**CC1: Composition of regulatory capital**  
Common template (Post 2018) - Step 3 (Table 2(d)) i  
All figures are in SAR'000

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

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
2	Retained earnings
3	Accumulated other comprehensive income (and other reserves)
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>Common Equity Tier 1 capital: Regulatory adjustments</b>	
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)
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>
29	<b>Common Equity Tier 1 capital (CET1)</b>
<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 10% of the issued common share capital of the entity (am
40	Significant investments in the capital of banking, financial and insurance entities that are outside the 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	Additional Tier 1 capital (AT1)
45	Tier 1 capital (T1 = CET1 + AT1)

H

<sup>1</sup>For detailed explanation of rows (1-85), please refer to SAMA circular # BCS 23295 dated 23 July 2012 entitled "Composition of Capital Disclosure Requirements issued by the BCBS in June 2012.

<sup>(2)</sup> All rows related to IRB Approach are only valid, if SAMA has provided its Regulatory Approval to use IRB Approaches

<sup>(3)</sup> Countercyclical buffer is calculated as per SAMA guidelines. The percentage set aside, as of Mar 31, 2018, for countercyclical buffer is 0.015% having the following geographical breakdown:

Other GCC & Middle East 0.007%, Europe 0.002%, North America 0.005%, South East Asia 0.002% and Others 0.001%

**Note: Items which are not applicable are to be left blank.**

**CAPITAL STRUCTURE**  
**CC1: Composition of regulatory capital**

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

All figures are in SAR'000

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>Tier 2 capital: instruments and provisions</b>		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	4,000,000
47	<i>Directly issued capital instruments subject to phase out from Tier 2</i>	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	
49	<i>of which: instruments issued by subsidiaries subject to phase out</i>	
50	Provisions	383,731
51	<b>Tier 2 capital before regulatory adjustments</b>	<b>4,383,731</b>
<b>Tier 2 capital: regulatory adjustments</b>		
52	Investments in own Tier 2 instruments	
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	
54	Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	
54	a Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)	
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	
56	National specific regulatory adjustments	
57	<b>Total regulatory adjustments to Tier 2 capital</b>	
58	<b>Tier 2 capital (T2)</b>	<b>4,383,731</b>
59	<b>Total capital (TC = T1 + T2)</b>	<b>41,157,947</b>
60	<b>Total risk weighted assets</b>	<b>227,915,082</b>
<b>Capital ratios</b>		
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	16.1%
62	Tier 1 (as a percentage of risk weighted assets)	16.1%
63	<b>Total capital (as a percentage of risk weighted assets)</b>	<b>18.1%</b>
64	Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB/D-SIB buffer requirement expressed as a percentage of risk weighted assets)	6.899%
65	of which: capital conservation buffer requirement	1.875%
66	of which: bank specific countercyclical buffer requirement	0.025%
67	of which: G-SIB / D-SIB buffer requirement	0.5%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	
<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 and other TLAC liabilities of other financial entities	
73	Significant investments in the common stock of financials	612,659
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)	383,731
77	Cap on inclusion of provisions in Tier 2 under standardised approach	2,635,998
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)	

<sup>1</sup>For detailed explanation of rows (1-85), please refer to SAMA circular # BCS 23295 dated 23 July 2012 entitled "Composition of Capital Disclosure Requirements issued by the BCBS in June 2012.

<sup>(2)</sup> All rows related to IRB Approach are only valid, if SAMA has provided its Regulatory Approval to use IRB Approaches

**Note: Items which are not applicable are to be left blank.**

CAPITAL STRUCTURE	
CCA: Main features of regulatory capital instruments and of other TLAC-eligible instruments	
Main features template of regulatory capital instruments - (Table 2(e))	
1 Issuer	Riyad Bank
2 Unique identifier (eg CUSPIN, ISIN or Bloomberg identifier for private placement)	RIBL: AB
3 Governing law(s) of the instrument Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for other TLAC-3a eligible instruments governed by foreign law)	The instrument is governed by the laws of the Kingdom of Saudi Arabia
Regulatory treatment	
4 Transitional Basel III rules	Tier 2
5 Post-transitional Basel III rules	Eligible
6 Eligible at solo/igroup/group&solo	Solo
7 Instrument type	Sub-ordinated sukuk
8 Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	SAR 4,000 million
9 Par value of instrument	SAR 4,000 million
10 Accounting classification	Liability at amortised cost
11 Original date of issuance	June 24,2015
12 Perpetual or dated	Dated
13 Original maturity date	June 24,2025
14 Issuer call subject to prior supervisory approval	Issuer call at the [5th] anniversary of the Issue Date, subject to prior written approval from the regulator, if then required.
15 Option call date, contingent call dates and redemption amount	The Sukuk may be redeemed prior to the scheduled dissolution date due to: (i) regulatory capital reasons, (ii) tax reasons, or (iii) at the option of the Issuer on the Periodic Distribution Date that falls on the [5th] anniversary of the Issue Date, in each case, as set out in the terms and conditions of the Sukuk
16 Subsequent call dates if applicable	As above
Coupons / dividends	
17 Fixed or Floating dividend/coupon	Floating
18 Coupon rate and any related index	6-month SAIBOR plus 115 basis point
19 Existence of a dividend stopper	No
20 Fully discretionary, partially discretionary or mandatory	Mandatory
21 Existence of step up or other incentive to redeem	No
22 Non cumulative or cumulative	Non cumulative
23 Convertible or non-convertible	Non convertible
24 If convertible, conversion trigger (s)	Not applicable
25 If convertible, fully or partially	Not applicable
26 If convertible, conversion rate	Not applicable
27 If convertible, mandatory or optional conversion	Not applicable
28 If convertible, specify instrument type convertible into	Not applicable
29 If convertible, specify issuer of instrument it converts into	Not applicable
30 Write-down feature	Yes
31 If write-down, write-down trigger (s)	Terms of issuance provide the legal basis for the regulator to trigger write down
32 If write-down, full or partial	Can be full or partial
33 If write-down, permanent or temporary	Permanent
34 If temporary writedown, description of the write-up mechanism	NA
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Sub-ordinated. Senior Bond holders are immediately senior to this instrument
36 Non-compliant transitioned features	NA
37 If yes, specify non-compliant features	Na

**Note:**

Further explanation of rows (1-37) as given above are provided in SAMA circular # BCS 23295 dated 23 July 2012 entitled "Composition of Capital Disclosure Requirements issued by the BCBS in December 2012.

**CCyB1 – Geographical distribution of credit exposures used in the countercyclical capital buffer - December 2018**

a	b	e
Geographical breakdown	Countercyclical capital buffer rate	Bank-specific countercyclical capital buffer rate
KSA	0.0%	0.0000%
GCC and ME	2.5%	0.0103%
North America	0.0% to 2.5%	0.0020%
Latin America	0.0% to 2.5%	0.0000%
Europe	0.0% to 2.5%	0.0078%
South East Asia	0.0% to 2.5%	0.0031%
Others	0.0% to 2.5%	0.0017%
<b>Total</b>		<b>0.0250%</b>

## Leverage ratio common disclosure

December 31, 2018

### LR1: Summary Comparison of accounting assets versus leverage ratio exposure measure (Table 1)

		Dec 31, 2018
Row #	Item	In SR 000's
1	Total Assets as per published financial statements	229,899,576
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 recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustment for derivative financial instruments	1,012,034
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)	65,331,872
7	Other adjustments	1,342,472
<b>8</b>	<b>Leverage ratio exposure (A)</b>	<b>297,585,954</b>

### LR2: Leverage Ratio Common Disclosure Template (Table 2)

		Dec 31, 2018	Sep 30, 2018
Row #	Item	In SR 000's	In SR 000's
<b>On-balance sheet exposures</b>			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	229,996,682	226,026,374
2	(Relevant Asset amounts deducted in determining Basel III Tier 1 capital)	-	-
3	<b>Total on-balance sheet exposures</b> (excluding derivatives and SFTs) (sum of lines 1 and 2) (a)	229,996,682	226,026,374
<b>Derivative exposures</b>			
4	Replacement cost associated with <i>all</i> derivatives transactions (i.e. net of eligible cash variation margin)	1,245,366	343,715
5	Add-on amounts for Potential Financial Exposure (PFE) associated with <i>all</i> derivatives transactions	1,012,034	705,554
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	<b>Total derivative exposures (sum of lines 4 to 10) (b)</b>	2,257,400	1,049,269
<b>Securities financing transaction exposures</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	<b>Total securities financing transaction exposures (sum of lines 12 to 15)</b>	-	-
<b>Other off-balance sheet exposures</b>			
17	Off-balance sheet exposure at gross notional amount **	183,166,483	176,288,879
18	(Adjustments for conversion to credit equivalent amounts)	(117,834,611)	(110,018,805)
19	<b>Off-balance sheet items (sum of lines 17 and 18) (c)</b>	65,331,872	66,270,074
<b>Capital and total exposures</b>			
20	<b>Tier 1 capital (B)</b>	36,774,216	36,750,538
21	<b>Total exposures (sum of lines 3, 11, 16 and 19) (A) = (a+b+c)</b>	297,585,954	293,345,717
<b>Leverage ratio</b>			
22	<b>Basel III leverage ratio*** (C) = (B) / (A)</b>	<b>12.4%</b>	<b>12.5%</b>

\*\*Includes commitments that are unconditionally cancellable at any time by the Bank or automatic cancellation due to deterioration in a borrower's creditworthiness

\*\*\*Current minimum requirement is 3%

### Reconciliation (Table 5)

		Dec 31, 2018
Row #	Item	In SR 000's
1	Total Assets on Financial Statements	229,899,576
2	Total On balance sheet assets Row # 1 on Table 2	229,996,682
3	<b>Difference between 1 and 2 above</b>	<b>(97,106)</b>
<b>Explanation</b>		
	Positive fair value of Derivatives	286,625
	Other adjustment represents provision	(383,731)
		<b>(97,106)</b>

Table 3, comprises of explanation of each row pertaining above Table 2

Table 4 providing explanations for significant variances in Leverage Ratio over previous quarter, being first disclosure have not been included above



## LIQA – Liquidity risk management

### **Introduction**

This is the risk that the Bank may not be able to meet its obligations when due at an acceptable market cost. Liquidity risk is not a market risk as it is not a function of market rates. However, liquidity risk is closely associated with market risk as it is a product of the same transaction monitoring processes and systems and is often triggered by rapid changes in market prices or exacerbated by changes in market prices. Liquidity risk in Riyad Bank is measured as a primary risk indicator by measuring the level of volatile liabilities (wholesale liabilities maturing in less than one month) and ensuring that these are covered at a minimum of 100% by qualifying liquid assets. Other liquidity risk measures are also used within the Bank. Liquidity management is covered by a specific Board approved policy, separate from the Market Risk Management Framework and Policy of the Bank.

The Risk Management Division, and more specifically Market and Liquidity Risk Management (M&LRM), bears primary responsibility for measuring, monitoring, and reporting on liquidity risk management; reporting breaches of limits or policy; and identifying all areas and departments that expose the Bank to liquidity risks. Liquidity risk is then reported on to ALCO which provides oversight. Riyad Bank Treasury is responsible for the day to day management of the Bank's liquidity risk.

### **Governance of liquidity risk management**

Riyad Bank has a robust risk management and governance framework that covers all material risks. Liquidity risk is deemed to be a material risk for the Bank and is part of the overall risk management framework. The risk management framework comprises of Board and Senior Management committees, a Board-approved risk appetite statement, liquidity risk policy, limit management, monitoring and control framework, and an overarching enterprise risk policy.

The Bank adopts a set of liquidity management strategies that limits the liquidity risk to acceptable levels. The compliance of such internal limits are independently monitored and regularly reported to management and to the Asset and Liability Committee (ALCO). According to the degree of imminence of liquidity/funding risk, risk stages are outlined in the CFP. These stages are Precaution, Caution and Crisis. For each of these stages, a specific contingency plan has been laid out.

The bank has formulated a Contingency Funding Plan which will be activated in case the bank's liquidity situation is no longer satisfactory. The executive management will inform the Board about the activation of the contingency plan.

ALCO, on an ongoing basis provides a forum to exchange information, both internal and external, which can affect Riyad Bank's liquidity.

Internal Liquidity Adequacy Assessment Plan (ILAAP) is prepared annually to assess the liquidity risk management framework and the liquidity risk appetite of the bank to ensure that they are adequate and in proportion to the bank's business model, internal risk appetite, size, complexity, riskiness and market expectations. It also ensures that the level of liquidity held is sufficient to support its survival during a liquidity stress.

### **Liquidity risk mitigation techniques**

Riyad Bank operates within an approved Liquidity risk appetite which is defined as the level and nature of risk that the Bank is willing to take (or mitigate) in order to safeguard the interests of the depositors whilst achieving business objectives. In addition, the risk appetite statement takes into consideration constraints imposed by other stakeholders such as regulators and counterparties. Funding and Liquidity risk is deemed to be a material risk for the Bank; the risk appetite for funding and liquidity is conservative and deemed to be low. The liquidity risk appetite statement is approved by the Board. Risk appetite is defined on an annual basis or on an ad hoc basis if there is a significant change in the external environment or business strategy.

In addition, the Bank's liquidity risk management techniques include:

- a. Pro-actively monitor and manage regulatory liquidity ratios such as LCR, NSFR and Statutory Liquidity Ratio
- b. Gap limits to control and monitor the mismatch risk
- c. Concentration Risk limits

### **Contingency Funding Planning**

Riyad Bank has its own Contingency Funding Plan (CFP). The objective of the **Bank's** CFP is to ensure the Bank meets its payment obligations as they fall due under a liquidity crisis scenario. It contains (i) an assessment of the sources of funding under different liquidity conditions, (ii) liquidity status indicators and metrics and (iii) contingency procedures. Contingency liquidity risk is the risk of not having sufficient funds to meet sudden and unexpected short term obligations. The CFP references business area action plans and a communications plan. Action plans have been developed for a range of circumstances that might arise in wholesale funding markets. The communications plan aims to reassure principal stakeholders via a rapid communications response to a developing situation. CFP is reviewed annually or if there is a significant change in the external environment or the balance sheet or funding profile of the Bank.

### **Stress Testing**

Riyad Bank measures its liquidity requirements by undertaking scenario analysis under the following three scenarios:

Normal/Going-concern scenario – this refers to the normal behavior of cash flows in the ordinary course of **business and would form the day-to-day focus of the Bank's liquidity management.**

Bank-specific ("**Name**") crisis scenario – this covers the behavior of cash flows where there is some actual or perceived problem specific to Riyad Bank.

Market crisis scenario – this covers the behavior of cash flows where there is some actual or perceived problem with the general banking industry.

In addition, Riyad Bank has adopted more stringent standards or parameters to reflect its liquidity risk profile and its own assessment of the compliance with the **SAMA's** Liquidity Coverage Ratio (LCR) standards. The LCR incorporates many of the shocks experienced during the Global Financial Crisis (GFC) into one acute systemic stress for which sufficient liquidity is needed to survive up to 30 calendar days. Riyad Bank adopts a number of liquidity management strategies to control its liquidity risk and ensures that its liquidity requirements can be met even during a crisis situation.

### **Funding Strategy**

The formulation of funding strategy for the Bank is integrated with the annual strategic planning process. Annually, the Bank develops a detailed budget for immediate next year and a three year rolling forecast. For each asset type, forecast volumes are developed. Based on the forecast volumes and forecast mix, the funding strategy of the Bank is developed.

The funding strategy of the Bank focuses on increasing the customer base of non-interest bearing stable deposits, diversification of funding sources as well enlarging the product mix and customer base of interest bearing deposits. It also ensures that there is minimum reliance on the whole sale funding (inter-bank) markets and that the Bank maintains a conservative and healthy repo able investment portfolio.

### **Concentration of Funding Sources**

This metric includes those sources of funding, whose withdrawal could trigger liquidity risks. It aims to address the funding concentration of a bank by monitoring its funding requirement from each significant counterparty and each significant product/instrument.

The Bank regularly reviews and measures concentration of funding for each counter party as well as from all **products and instruments to ensure that it is within Bank's liquidity risk appetite.**

## **Risk Appetite Statement**

### **1. Liquidity Crisis scenario:**

Under the Crisis Scenario, the Bank's Policy assures having a minimum limit for quick ratio of 100. Taking in consideration all liquefiable Assets (turning into cash within one-month period). It includes all loans, CDs and Due from Banks—which are maturing in one month period, besides, liquidating / reposing the investments Portfolio. The total of the above should always be equal to more than the overall quick liabilities (Due to Banks, Wholesale Deposits, and Retail Deposits).

### **2. Regulatory Liquidity (Statutory Ratio):**

The Bank has maintained the minimum statutory liquidity ratio as stipulated by SAMA. In addition to the statutory deposits with SAMA, the Bank is required to maintain a liquid reserve, in the form of cash, or assets which can be converted into cash within a period not exceeding 30 days, of not less than 22% of the deposit liabilities.

The Bank has also always met the minimum liquidity ratio of 20% as stipulated in the banking laws.

### **3. Depositor's Concentration Risk**

Concentration risk is an indicator of over-dependence on specific counterparties or classes of assets or liabilities. Losses arising from concentration risk would relate to the increased costs of not being able to replace large deposits at going market rates for liabilities or the opportunity costs of not being able to replace high return assets at similar high rates.

### **4. Net Stable Funding Ratio (NSFR):**

The NSFR standard is structured to ensure that long term assets are funded with at least a minimum amount of stable liabilities in relation to their liquidity risk profiles. The NSFR aims to limit over-reliance on short-term wholesale funding during times of buoyant market liquidity and encourage better assessment of liquidity risk across all on-and off-balance sheet items. In addition, the NSFR approach offsets incentives for institutions to fund their stock of liquid assets with short-term funds that mature just outside the 30-day horizon for that standard. The ratio should be equal to at least 100% on an ongoing basis starting from 1 January 2016.

### **5. Liquidity Coverage Ratio (LCR):**

The LCR builds on traditional liquidity "coverage ratio" methodologies used internally by banks to assess exposure to contingent liquidity events. The total net cash outflows for the scenario are to be calculated for 30 calendar days into the future. The regulator requires that the value of the ratio be no lower than 60% starting from 1 January 2015, and rise in equal annual steps to reach 100% on 1 January 2019. (i.e. the stock of high-quality liquid assets should at least equal total net cash outflows). The Bank internal target for LCR is set at not lower than 100%.

**LIQ1: Liquidity Coverage Ratio (LCR)**  
[LCR Common Disclosure Prudential Return Template]

LCR Common Disclosure Template		
(In SR 000's)	TOTAL UNWEIGHTED VALUE (average)	TOTAL WEIGHTED VALUE (average)
<b>HIGH-QUALITY LIQUID ASSETS</b>		
1	Total high quality liquid assets (HQLA)	36,700,358
<b>CASH OUTFLOWS</b>		
2	Retail deposits and deposits from small businesses customers of which:	6,859,476
3	Stable deposits	
4	Less stable deposits	6,859,476
5	Unsecured wholesale funding of which:	31,033,892
6	Operational deposits (all counterparties)	
7	Non operational deposits (all counterparties)	31,033,892
8	Unsecured debt	
9	Secured wholesale funding	
10	Additional requirement of which:	962,039
11	Outflows related to derivative exposure and other collateral requirements	5,270
12	Outflows related to loss of funding on debt products	
13	Credit and liquidity facilities	956,769
14	Other contractual funding obligations	
15	Other contingent funding obligations	4,548,217
16	<b>TOTAL CASH OUTFLOWS</b>	<b>43,403,623</b>
<b>CASH INFLOWS</b>		
17	Secured lending (eg reverse repos)	
18	Inflows from fully performing exposures	13,158,243
19	Other cash inflows	8,217
20	<b>TOTAL CASH INFLOW</b>	<b>13,166,460</b>
		<b>TOTAL ADJUSTED VALUE</b>
21	<b>TOTAL HQLA</b>	<b>36,700,358</b>
22	<b>TOTAL NET CASH OUTFLOW</b>	<b>30,237,163</b>
23	<b>LIQUIDITY COVERAGE RATIO</b>	<b>121%</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 the application of respective haircuts (for HQLA) or inflow and outflow rates (for inflows and outflows).

c Adjusted values are calculated after the 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).

**Notes to disclosure:**

1. Data is presented as simple average of 90 days observations over Q4 2018.
2. Number of data points used in calculating the average figures is 90.
3. LCR may not equal to an LCR computed on the basis of the average values of the set of line items disclosed in the template.

**Table CRA: General qualitative information about credit risk**

**a) Business Model & Credit Risk Profile**

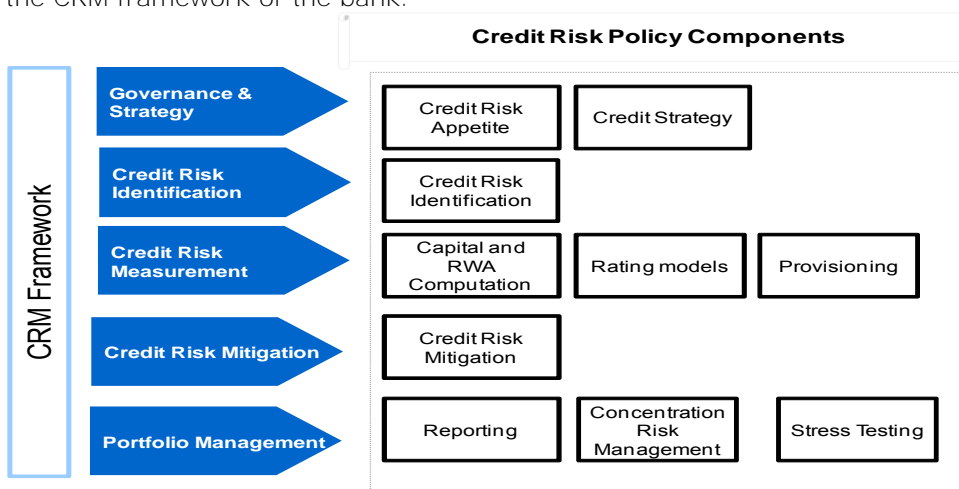
For the purposes of aligning business model to Bank’s credit risk profile, Riyad Bank has a policy defining the Target Sectors and Non-Target Sectors for different segments within corporate portfolio. In addition, we have defined criteria in the form of BAC’s i.e. Business Acceptance Criteria for any customer to enter into relationship with the Bank.

Further Bank defines Risk Acceptance Criteria (RAC’s) for different segments depending on Obligor Rating, segments, mitigants etc. We also align the pricing of the facilities to the Risk profile of the Obligor. All these parameters assist Bank to balance business profiling to Credit Risk.

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

The Credit Risk Manual is an integral part of the Credit Risk Management (CRM) framework. It provides details of Riyad Bank’s strategy towards the granting of credit and the management of associated credit risk. It deals with the details of the principles, standards, risk manuals and processes related to lending. The audience of the Credit Policy are the Relationship Managers and the credit sanctioning authorities such as the Credit Review and Approval Department and the Credit Committees jointly with the personnel engaged in the evaluation, measurement, management and monitoring of risk.

Shown below are the components of the Credit Risk Manual and how it fits/integrates with the CRM framework of the bank.



**Figure 1: Integration of the Credit Risk Manual with CRM Framework**

With respect to the business of the Bank, this Credit Risk Manual:

- Provides guidelines that deal with the identification, measurement, mitigation and management of Credit Risk
- Addresses regulatory requirements that are not directly linked to loan decision and monitoring, such as the Basel capital computation rules and the Basel credit risk mitigation rules that are adopted by the Bank.

- Lays down guidelines for the relationship manager and the credit sanctioning units. The scope of the manual covers all the credit risk management activities pertaining to the management of corporate credit portfolios (i.e. all non-retail portfolios), their management and reporting.

Riyad Bank establishes limits for each aspect of risk (single borrower limit, industry sector analysis, collateral limits, country limits, product line limits etc.)

Documents described in previous section encompass criteria/guidelines provide risk/reward relationship for the Bank, whereas Counterparty credit risk ratings are tied to maximum allowed exposure, product, pricing and collateral. Indeed, supplemental control/limits are in place for large exposure and related counterparties.

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

The Credit Risk Management Structure within the Bank is shown in the diagram below:



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

At Riyad Bank, a number of control functions are responsible for oversight monitoring design and implementation of internal controls.

##### **1. Risk Management function**

Riyad Bank's credit risk management aims at preserving the high credit quality of the Bank's portfolios and thereby protecting the Bank's short-and long-term viability. The Bank's credit risk management builds on the principles of (1) appropriate risk diversification within the scope of the mission; (2) thorough risk assessment at the credit appraisal stage; (3) risk-based pricing and application of risk mitigation techniques; (4) continuous risk monitoring at the individual/ counterparty level as well as at portfolio level; (5) avoidance of undesirable risks to the extent possible. Key risk indicators monitored are, among others, the development in risk class distribution in the lending and treasury portfolios as well as large exposures to individual counterparties, sectors and countries

##### **2. Internal Control function**

The independent Internal Control Department reports to the CRO. Its objective is to further strengthen the risk governance framework within the Bank via development and implementation of an Integrated Control Governance and Reporting Framework.

##### **3. Compliance function**

The compliance function, including regulatory compliance, is separately performed by the Bank's Compliance Department with reporting lines to the Bank's CEO. Bank has implemented an Integrated Internal Control and Reporting Governance policy which clearly sets out the roles and responsibilities of the executive management and various committees.

##### **4. Internal Audit function**

Internal Audit is an independent function providing assurance over effectiveness of controls over banks activities and reports to Board Audit Committee. Internal Audit annually assess credit risk on sample basis within Riyad bank's corporate and retail portfolios.

**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**

Riyad Bank and its fully owned subsidiaries requires management reporting from the various risk management functional divisions/departments (Credit Division, Risk Management Division) Finance, Treasury etc. on a daily, monthly, quarterly and annual basis, as and when applicable.

Information compiled from all the business areas is to be examined and processed in order to analyze, control and identify early warning signs, emerging risks in line with their respective assigned roles and responsibilities. This information is to be presented and explained to the Board and its committees (in line with their respective charters), as well as, to the Executive Management and Management Committees including business division Heads on a periodical basis.

Specific risk related reports are to be prepared and distributed at all relevant levels in the Bank in order to ensure that all risk oversight functions and business divisions have access to extensive, relevant, complete and up-to-date information to support their risk management activities.

The following under-mentioned are the reports that is shared from credit risk with the senior management of the bank:

**1. Asset Quality Report**

This comprehensive report is produced and shared on a monthly basis and covers details regarding portfolio growth, NPLs (Non-Performing Loans) and Loan loss reserves, portfolio quality, provision coverage and concentrations in the portfolio. It also includes Portfolio risk profile and risk migration as well as exposures in different economic sectors

**2. Risk Appetite Statement/ Dashboard:**

Risk Appetite is the quantum of risk that Riyad Bank Board is willing to accept in pursuit of its financial and strategic objectives, recognizing a range of possible outcomes detailed in the Group's overall business plan and budget. Riyad **Bank's**) Risk Appetite combines a top-down view of its capacity to accept risk with a bottom-up view of the business risk profile requested and recommended by each Business Division.

**3. Weekly movement Report**

It's a snapshot of weekly movement in loan portfolio along with overview of major transactions and past dues (below and above 90 days) categorized through facilities and segments. This report is submitted to Senior Management on a weekly basis.



#### 4. Economic sector ceiling

A yearly studies study/report conducted to analyze the portfolio of the bank to aggregate and monitor all risk exposures and mainly to obtain a yearly approval from Riyad Bank Board for the ceilings that limits the bank exposure towards the specific economic sectors in order to control the sectorial concentration risk.

Yearly ceilings are recommended considering the bank strategies as well as our **customers'** needs per sector. The main predictions and plans for each coming year is based on the yearly budget of the Saudi Government, additionally we consider the utilization against each sector, risk and reward (yields and the probability of default) within each sector. Recommendations (increase, maintain or decrease) is provided in order to achieve better balanced distribution of our exposures among different and various economic sectors.

The economic sector ceiling is continuously and frequently monitored on a monthly basis and reported to the Board and Senior Management. Any exceptions to the rule are highlighted and reported immediately along with remedial actions taken.

## LIQ2 – Net Stable Funding Ratio (NSFR)

(In Currency Amount)		Unweighted value by residual maturity				Weighted value
		No maturity*	< 6 months	6 months to < 1yr	≥ 1yr	
<b>ASF Item</b>						
1	Capital	41,157,947	-	-	-	41,157,947
2	Regulatory capital	41,157,947				41,157,947
3	Other capital instruments					
4	Retail deposits and deposits from small business customers:	68,382,081	2,182,761	332,593	-	63,807,692
5	Stable deposits					
6	Less stable deposits	68,382,081	2,182,761	332,593	-	63,807,692
7	Wholesale funding	34,452,149	62,077,179	5,864,334	2,276,110	44,899,263
8	Operational deposits					
9	Other wholesale funding	34,452,149	62,077,179	5,864,334	2,276,110	44,899,263
10	Liabilities with matching interdependent assets					
11	Other liabilities:	13,174,422	-	-	-	-
12	NSFR derivative liabilities		-			
13	All other liabilities and equity not included in the above categories	13,174,422				-
14	<b>Total ASF</b>					<b>149,864,902</b>
<b>RSF Item</b>						
15	Total NSFR high-quality liquid assets (HQLA)					1,249,208
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:	1,294,496	70,323,298	17,236,407	93,938,328	121,071,003
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		12,421,357	225,000	163	1,975,866.13
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:		57,331,127	16,200,821	76,646,342	101,915,365
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	1,294,496	570,814	810,587	17,291,824	17,179,772
25	Assets with matching interdependent liabilities					
26	Other assets:	6,389,517	-	-	-	6,533,853
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		169,806			144,335
29	NSFR derivative assets					-
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories	6,389,517				6,389,517
32	Off-balance sheet items				11,625,946	581,297
33	<b>Total RSF</b>					<b>129,435,360</b>
34	<b>Net Stable Funding Ratio (%)</b>					<b>116%</b>

CR1: Credit quality of assets - December 2018

SAR 000

		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	2,725,792	150,657,567	2,358,529	151,024,830
2	Debt Securities	-	45,648,283	-	45,648,283
3	Off-balance sheet exposures	338,510	85,636,196	161,029	85,813,677
4	<b>Total</b>	3,064,302	281,942,046	2,519,558	282,486,790

## CR2: Changes in stock of defaulted loans and debt securities - December 2018

		SAR 000
		a
1	Defaulted loans and debt securities at end of the previous reporting period	4,786,570
2	Loans and debt securities that have defaulted since the last reporting period	
3	Returned to non-defaulted status	
4	Amounts written off	(1,567,432)
5	Other changes*	(493,346)
6	<b>Defaulted loans and debt securities at end of the reporting period (1+2-3-4+5)</b>	<b>2,725,792</b>

\* Other changes include addition, deletion and re-measurement.

## Table CRB: Additional disclosure related to the credit quality of assets

### a) Scope and definitions of "past due" and "impaired" exposures

#### Default due to Non Payment

Basel II specifies that a default occurs when the client is past due for more than 90 days and more than 5% credit obligation is overdue to the banking group. The outstanding obligation includes principal, Interest, commission and penal fees, as applicable.

#### Default prior to reaching 90 Days Past Due Status

Default is said to have occurred when the Bank considers that an obligor is unlikely to repay its credit obligations, even if on the default date the Obligor is not yet more than 90 days past due. The default on one facility would classify the Obligor as default and all other facilities to the Obligor would be considered to be in default.

We conduct assessment at each period end date to determine if there is any objective evidence that a financial asset or group of financial assets may be impaired. Objective evidence of impairment may include indications that the borrower is experiencing significant financial difficulty, default or delinquency in special commission or principal payments, the probability that it will enter bankruptcy or other financial reorganization.

Riyad Bank considers Exposures past-due more than 90-days but not considered impaired for accounting purposes are considered as Defaulted and therefore are treated accordingly.

An exposure to a counterparty is deemed restructured when the counterparty is experiencing difficulty in meeting its financial commitments and concessions are granted due to the **counterparty's** financial difficulty on any exposure whether on or off balance sheet item.

A forbore exposure are identified as such until the following exit criteria are fulfilled:

- When repayments as per revised terms have been made in a timely manner over a continuous repayment period of not less than one year.
- **The counterparty has solved its financial difficulties.**

The definition of forbearance covers exposure of performing and non-performing status before the granting of forbearance measures.

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

These instances are normally substantiated by in-depth financial analysis and the **management's** strong conviction based on **client's** prior credit experience and future indications that the borrower will honor his obligations towards the Bank such as his ability to remedy temporary hiccup, collection of high quality receivables, strong collateral that is placed for liquidation etc.

### c) Description of methods used for determining impairments.

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets carried at amortized cost may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised for changes in its carrying amounts.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the group on the terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of active market for a security or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers.

It may also include instances where Bank considers that the obligor is unlikely to pay its credit obligations to the Bank, in full, without recourse by the Bank to actions such as realizing the security, if held.

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

Any modification in the Assets which are classified as Amortized Cost may lead to two scenarios – De-recognition of Assets and continuance as Recognized Asset (No De-recognition).

The Bank does not prefer multiple times restructuring of contract with the counterparty, however, in exceptional circumstances, if the Bank needs to do so, **Obligor's** financial health will be evaluated and accordingly the asset will be transferred to Stage 2 (Significant Increase in Credit Risk) or Stage 3 (De-recognition/ Re-recognition) based on above mentioned criteria. Latest restructured Present Value of cash-flow will be assessed against the previous restructured Present Value of cash-flow for the purposes of determining, the amount of impairment.

In case the Modification of Asset does not result into De-recognition, the Bank will recalculate the gross carrying amount of the asset by discounting the modified contractual cash-flows using EIR prior to the modification. Any difference between the recalculated amount and the existing gross carrying amount will be recognised in Profit or Loss for Asset Modification.

The asset will be provided appropriate treatment according to the identified staging after Asset Modification i.e. 12 Month ECL for Stage 1, Lifetime ECL for Stage 2 and Default for Stage 3.

**Quantitative disclosures**

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

**CREDIT RISK: GENERAL DISCLOSURES December 2018**

**Geographic Breakdown SAR '000'**

**Geographic Area**

Portfolios	Saudi Arabia	Other GCC & Middle East	Europe	North America	Latin America	South East Asia	Other Countries	Total
Sovereigns and central banks:	36,498,828	1,165,121	220,552	1,354,004	-	-	218,112	39,456,617
- SAMA and Saudi Government	36,498,828	-	-	-	-	-	-	36,498,828
- Others	-	1,165,121	220,552	1,354,004	-	-	218,112	2,957,789
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-
Banks and securities firms	13,352,581	2,481,722	5,937,158	3,672,362	-	1,261,983	1,008,512	27,714,318
Corporates	132,984,336	1,497,695	10,317,740	11,392,504	90,867	1,710,252	390,039	158,383,433
Retail non-mortgages	23,658,682	-	-	-	-	-	-	23,658,682
Small Business Facilities Enterprises (SBFEs)	506,534	-	-	-	-	-	-	506,534
Mortgages	21,757,095	-	-	-	-	-	-	21,757,095
- Residential	21,757,095	-	-	-	-	-	-	21,757,095
Equity	2,137,983	181,907	-	270,931	-	-	-	2,590,821
Others	11,626,495	-	985	319	-	-	-	11,627,799
<b>Total</b>	<b>242,522,534</b>	<b>5,326,445</b>	<b>16,476,435</b>	<b>16,690,120</b>	<b>90,867</b>	<b>2,972,235</b>	<b>1,616,663</b>	<b>285,695,299</b>

**TABLE (STA): CREDIT RISK: GENERAL DISCLOSURES - December 2018**

Portfolios	Industry Sector Breakdown												Total
	SAR '000'												
	Government and quasi Government	Banks and other Financial institutions	Agriculture and Fishing	Manufacturing	Mining and Quarrying	Electricity, Water, Gas and Health Services	Building and Construction	Commerce	Transportation and Communications	Services	Consumer loans and Credit cards	Others	
Sovereigns and central banks:	39,456,617	-	-	-	-	-	-	-	-	-	-	-	39,456,617
- SAMA and Saudi Government	36,498,828	-	-	-	-	-	-	-	-	-	-	-	36,498,828
- Others	2,957,789	-	-	-	-	-	-	-	-	-	-	-	2,957,789
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Banks and securities firms	-	27,714,318	-	-	-	-	-	-	-	-	-	-	27,714,318
Corporates	-	8,587,972	2,337,510	34,643,553	11,423,439	4,543,784	32,495,580	41,343,021	11,175,928	11,389,412	-	443,234	158,383,433
Retail non mortgages	-	-	-	-	-	-	-	-	-	-	23,658,682	-	23,658,682
Small Business Facilities Enterprises (SBFEs)	-	-	12	59,271	-	4,075	88,820	259,139	5,687	78,754	10,776	-	506,534
Mortgages	-	-	-	-	-	-	-	-	-	-	21,757,095	-	21,757,095
- Residential	-	-	-	-	-	-	-	-	-	-	21,757,095	-	21,757,095
Equity	-	819,065	-	-	554,071	203,089	58,026	578,724	171,610	206,236	-	-	2,590,821
Others	-	296,359	-	145,846	306	-	427,066	2,455,814	8,859	122,541	98,494	8,072,514	11,627,799
<b>Total</b>	<b>39,456,617</b>	<b>37,417,714</b>	<b>2,337,522</b>	<b>34,848,670</b>	<b>11,977,816</b>	<b>4,750,948</b>	<b>33,069,492</b>	<b>44,636,698</b>	<b>11,362,084</b>	<b>11,796,943</b>	<b>45,525,047</b>	<b>8,515,748</b>	<b>285,695,299</b>



**TABLE (STA): CREDIT RISK: GENERAL DISCLOSURES - December 2018**

Portfolios		Residual Contractual Maturity Breakdown							SAR '000'	
		Maturity breakdown							Total	
Less than 8 days	8-29 days	30-89 days	90-179 days	180-359 days	1-3 years	3-5 years	Over 5 years			
Sovereigns and central banks:	14,113,331	2,271,142	73,575	14,666	147,830	4,510,852	8,878,117	9,447,104	39,456,617	
- SAMA and Saudi Government	13,949,074	2,206,557	2,252	1,131	1,298	3,724,776	8,234,967	8,378,773	36,498,828	
- Others	164,257	64,585	71,323	13,535	146,532	786,076	643,150	1,068,331	2,957,789	
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-	
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	
Banks and securities firms	4,829,616	580,652	9,905,553	1,064,534	1,949,948	3,926,113	2,421,908	3,035,994	27,714,318	
Corporates	18,047,691	12,097,015	23,823,768	20,674,852	21,557,915	25,918,058	14,884,719	21,379,415	158,383,433	
Retail non-mortgages	475,677	9,062	59,326	92,689	223,288	4,252,817	17,497,014	1,048,809	23,658,682	
Small Business Facilities Enterprises (SBFEs)	70,281	35,793	87,385	110,587	72,837	99,118	29,834	699	506,534	
Mortgages	92,821	157	85,440	5,017	13,637	216,783	671,434	20,671,806	21,757,095	
- Residential	92,821	157	85,440	5,017	13,637	216,783	671,434	20,671,806	21,757,095	
Equity	-	-	-	-	-	-	-	2,590,821	2,590,821	
Others	8,951,221	182,681	499,175	444,124	595,081	443,520	286,818	225,179	11,627,799	
<b>Total</b>	<b>46,580,638</b>	<b>15,176,502</b>	<b>34,534,222</b>	<b>22,406,469</b>	<b>24,560,536</b>	<b>39,367,261</b>	<b>44,669,844</b>	<b>58,399,827</b>	<b>285,695,299</b>	

CREDIT RISK: GENERAL DISCLOSURES - December 2018									
Impaired Loans, Past Due Loans and Allowances SAR '000'									
Industry Sector	Impaired Loans	Defaulted	Aging of Past Due Loans (days)				Charges during the period	Charge-offs during the period	Balance at the end of the period
			31-90	91-180	181-360	Over 360			
Government and quasi government		-							
Banks and other financial institutions		-					8,263	-	8,263
Agriculture and fishing		-					3,492	-	3,492
Manufacturing	501	13,897	1,979	847	6,460	6,590	553,170	(323,571)	231,725
Mining and quarrying		74		74			257	-	257
Electricity, water, gas and health services		-	89,709				1,276	-	1,276
Building and construction	490,505	110,253	146,572	26,631	71,124	12,498	975,052	(1,110,501)	321,636
Commerce	824,993	273,921	180,172	23,225	148,442	102,254	841,992	(167,095)	809,696
Transportation and communication		-	699				195,054	(191,454)	3,600
Services	2,051	3,808	3,656		2,810	998	38,763	(32,256)	10,336
Consumer loans and credit cards	243,387	376,604	1,059,077	376,604			1,241,405	(378,931)	968,239
Others		-					176	-	9
Portfolio provision		-					(1,072,349)	-	-
<b>Total</b>	<b>1,561,437</b>	<b>778,557</b>	<b>1,481,864</b>	<b>427,381</b>	<b>228,836</b>	<b>122,340</b>	<b>2,786,551</b>	<b>(2,203,808)</b>	<b>2,358,529</b>

**Definitions:** \* 'Defaulted' are Loans that are Past Due over 90 days, but not yet Impaired

\* 'Impaired Loans' are loans with Specific Provisions

<b>CREDIT RISK: GENERAL DISCLOSURES - December 2018</b>						
<b>Impaired Loans, Past Due Loans And Allowances SAR '000'</b>						
<b>Geographic Area</b>	<b>Impaired Loans</b>	<b>Aging of Past Due Loans (days)</b>				<b>Specific Allowances</b>
		<b>31-90</b>	<b>91-180</b>	<b>181-360</b>	<b>Over 360</b>	
Saudi Arabia	1,561,437	1,481,864	427,381	228,836	122,340	2,358,529
Other GCC & Middle East	-	-	-	-	-	-
Europe	-	-	-	-	-	-
North America	-	-	-	-	-	-
South East Asia	-	-	-	-	-	-
Others countries	-	-	-	-	-	-
<b>Total</b>	<b>1,561,437</b>	<b>1,481,864</b>	<b>427,381</b>	<b>228,836</b>	<b>122,340</b>	<b>2,358,529</b>

CREDIT RISK: GENERAL DISCLOSURES - December 2018	
Reconciliation Of Changes In The Allowances For Loan Impairment SAR '000'	
Particulars	Specific Allowances
Balance, beginning of the year	2,084,926
Charge-offs taken against the allowances during the period	(2,203,808)
Amounts set aside (or reversed) during the period	2,786,551
Other adjustments:	-
- exchange rate differences	-
- business combinations	-
- acquisitions and disposals of subsidiaries	-
- etc.	(309,140)
Transfers between allowances	-
<b>Balance, end of the year</b>	<b>2,358,529</b>

*Note: Charge-offs and recoveries have been recorded directly to the income statement.*

*'other adjustments' represents write-offs that have been charged to P&L in previous years*

## 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.

Netting can reduce capital adequacy requirements by offsetting deposits held by the bank against financing arrangements. However netting arrangements are not used by Riyad Bank unless the deposits need to be in the form of collateral with a specific charge or lien on the deposit for any credit risk mitigation benefits to be derived by Riyad Bank.

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

Collateral residual risk is monitored to manage valuation, maturity, enforceability, liquidity and marketability of collaterals.

Acceptable collaterals are detailed as per **Bank's** policy. Different classes of collaterals are subject to independent policy guidelines and periodic valuation. Real Estate, Shares, Mutual Funds and Non- rated Corporate Guarantees are not considered as eligible credit risk mitigants by local Regulator and are excluded while calculating regulatory capital of the Bank.

#### - Collateral Valuation

Valuation is based on the current market value of the collateral. Documentation and Security Department maintains and update the list of approved external valuers and surveyors on a frequent basis. They are professionally qualified, reputable, experienced and competent valuers. Where required, or when in doubt, Documentation and Security Department always ask collateral specialists to perform a check valuation. External experts are pre-approved by the Credit Risk Management/Vendor management Department. Collateral inspection reports are kept with Documentation Security Dept. in the documents File.

#### - On-going Collateral Monitoring and Management

Management monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement when deemed necessary.

The administration and safe-keeping of the loan facilities documentation and collateral documentation instruments is the responsibility of a specialized Credit Documentation & Security unit within the Credit Control Department. The existence of appropriate signed collateral documentation prior to entering a credit facility into the **Bank's** limits systems is the responsibility of the Credit Documentation and Security Department.

In addition to credit facility limit expiry dates, the expiry dates of any time-sensitive collateral/cover are also captured. The notice period required for timely renewal of such cover or the presentation of claims under the same is flagged for proper and timely notification. Credit Documentation & Security Department maintains a collateral expiry agenda and notify Relationship Management in advance of upcoming collateral events.

Timely re-appraisal of collateral values is notified by Documentation and Security Department. Such re-appraisal frequencies are in accordance with the standard re-appraisal rules of the Bank.

Documentation and files of each credit facility are checked at least once a year at the review dates to ensure that all authorizations, maturity dates, appraisals etc. are current and as they should be.

c) Market or Credit risk concentrations under the credit risk mitigation instruments used.

Riyad Bank strives to avoid excess credit risk concentrations in any single party, counterparty and industry sector.

- Management of Credit Concentration Risk

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

- Types of Concentration Risk

Historical experience has shown that concentration of Credit Risk in asset portfolios has been one of the key drivers of stress in the Banking sector. This is true for both individual institutions as well as the Banking system at large. The importance of Concentration Risk in the **Bank's** portfolio requires a separate assessment to gauge the gap between Pillar 1 capital requirement and the actual underlying risk.

Concentration Risk refers to the risk arising from an uneven distribution of counterparties in credit or any other business relationship or from concentration in business sectors or geographical regions. Accordingly, Concentration Risk in the credit portfolios comes into existence through a skewed distribution of financing to:

- Geographical regions (regional concentration);
- Collateral types (collateral concentration);
- Individual borrowers (name concentration) including assessment of connected party exposures;
- Industry / sector (sector concentration)

These aforesaid areas of concentration have also been highlighted by SAMA's guideline document on the Internal Capital Adequacy Assessment Plan (ICAAP).

- Coverage

The Bank ensures that the concentration risk assessment covers all of the portfolios, not limited to but including the following asset classes

- Sovereign
- Banks and FIs
- Corporate

The following are the guidelines for managing and accessing concentration risk:

- Exposures to counterparty include its on- and off-balance sheet exposures and indirect exposures.
- Exposures arising from securities, foreign exchange, derivatives or other off-balance sheet exposures are captured where appropriate;
- The criteria used for identifying a group of related persons has been identified;
- Large exposures are identified and reported separately as part of management reporting
- The circumstances in which the exposure limits can be exceeded and authority to approve such breaches (e.g. the Board of directors) are clearly documented
- The individual and aggregate exposure limits for various types of counterparty (e.g. governments, banks, corporate and individual borrowers) are made as part of normal management reporting.

Economic sector ceiling is set and regularly monitored to ensure that balance distributed loan portfolio is built, and any potential industry / economic sector concentration is avoided.

CR3: Credit risk mitigation techniques – overview - December 2018

SAR 000

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	153,017,117	485,450	208,246	190,775	157,996	-	-
2	Debt securities	45,648,283	-	-	-	-	-	-
3	Total	198,665,400	485,450	208,246	190,775	157,996	-	-
4	Of which defaulted	2,725,792	-	-	-	-	-	-

## Table CRD: Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

### a) "Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs)

The Bank uses Moody's, Standard & Poor's and Fitch as External Credit Assessment Institutions (ECAIs) in accordance with SAMA guidelines for determining the risk weights of Sovereigns, Public Sector Entities (PSE), Multilateral Development Banks (MDBs), Banks and Securities Firms and Corporate exposures. There are no changes over the reporting period.

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

Eligible ECAIs are used for Sovereigns, Central Banks, Banks, Securities Firms and Corporate exposures, when available. In accordance with the guidelines issued by the local Regulator, if a given exposure is rated by two External Credit Assessment Institutions, then the lower rating is applied; in case any exposure is rated by three External Credit Assessment Institutions, the two lowest ratings are referred to and the higher of these two ratings is applied.

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

Under the Standardized Approach, the Bank applies the issue specific risk weights where the bank's claim is not an investment in a specific assessed issue. The Bank use issue-specific assessment for cases where specific debt ranks pari-passu or senior to the claim. The Bank fully complies with paragraph 99-101 of BASEL II International Convergence of Capital Measurement and Capital Standards dated June 2006. And in cases, where borrower has an issuer assessment, this assessment typically applies to senior unsecured claims on that issuer. Consequently, only senior claims on that issuer will benefit from a high quality issuer assessment. Other unassessed claims of a highly assessed issuer are treated as unrated.

### d) The alignment of the alphanumeric scale of each agency used with risk buckets.

ECAIs use alphanumeric scales to represent risk levels. Riyad Bank uses Saudi Arabian Monetary Authority's prescribed External Credit Assessment Institutions' mapping tables issued by the local Regulator for Sovereign and Central Banks, Banks and Securities Firms, as well as for Corporate exposures

The tool that we have deployed to assess is referred to as "Master Rating Scale" (MRS). The MRS serves as a consistent benchmark and label to group obligors with similar risk profiles into particular rating grades, which in turn are associated with unique Probability of Defaults (PD). MRS facilitates a single view to risk management for future reporting and portfolio management including limit setting, credit pricing and also for capital computation. The proposed MRS with a twenty four point scale has been formulated and benchmarked against Moody's MRS scale.



**CR4: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects - December 2018**

SAR 000

Asset classes	a	b	c	d	e	f
	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1 Sovereigns and their central banks	39,443,368	78,028	39,443,368	13,249	443,770	1.13
2 Non-central government public sector entities	-	-	-	-	-	-
3 Multilateral development banks	-	-	-	-	-	-
4 Banks	19,920,770	11,732,663	19,920,770	6,926,930	13,338,041	49.68
5 Securities firms	63,415	243,422	63,415	112,949	85,785	48.64
6 Corporates	111,360,799	72,553,621	111,139,872	46,017,476	154,937,743	98.59
7 Regulatory retail portfolios	24,119,570	724,568	24,001,563	163,653	18,124,009	75.00
8 Secured by residential property	21,757,095	-	21,757,095	-	10,878,548	50.00
9 Secured by commercial real estate	-	-	-	-	-	-
10 Equity	2,590,821	-	2,590,821	-	3,509,809	135.47
11 Past-due loans	1,340,239	268,257	1,340,239	115,652	1,553,411	106.70
12 Higher-risk categories	-	-	-	-	-	-
13 Other assets	9,776,719	303,894	9,749,411	81,432	4,561,656	46.40
14 <b>Total</b>	<b>230,372,796</b>	<b>85,904,453</b>	<b>230,006,554</b>	<b>53,431,341</b>	<b>207,432,772</b>	<b>73.42</b>

**CR5: Standardised approach – exposures by asset classes and risk weights - December 2018**
*SAR 000*

	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	38,994,896	-	19,957	-	3,971	-	437,793	-	-	39,456,617
2	Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
3	Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	3,641,285	-	21,265,181	-	1,869,315	71,919	-	26,847,700
5	Securities firms	-	-	7,991	-	168,373	-	-	-	-	176,364
6	Corporates	-	-	713,347	-	3,312,618	-	153,119,762	11,621	-	157,157,348
7	Regulatory retail portfolios	-	-	-	-	-	24,165,216	-	-	-	24,165,216
8	Secured by residential property	-	-	-	-	21,757,095	-	-	-	-	21,757,095
9	Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
10	Equity	-	-	-	-	-	-	1,978,162	-	612,659	2,590,821
11	Past-due loans	-	-	-	-	-	-	1,260,851	195,040	-	1,455,891
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other assets	5,246,338	-	28,561	-	-	-	4,555,944	-	-	9,830,843
14	<b>Total</b>	<b>44,241,234</b>	<b>-</b>	<b>4,411,141</b>	<b>-</b>	<b>46,507,238</b>	<b>24,165,216</b>	<b>163,221,827</b>	<b>278,580</b>	<b>612,659</b>	<b>283,437,895</b>

## Table CCRA: Qualitative disclosure related to counterparty credit risk

### a) Risk management objectives and policies related to counterparty credit risk, including:

#### Counterparty Limits

Riyad Bank has developed and implemented a financial institution's credit risk management process to ensure prudent and timely risk identification, quantification, monitoring and reporting of exposures. All counterparties are assessed in conjunction with the Banks's counterparty risk appetite benchmarks and internal risk matrix.

We use appropriate reporting matrix and limits systems, have well developed and comprehensive stress testing, and maintain systems that facilitate measurement and aggregation of CCR throughout the organization.

Meaningful limits on CCR exposures are an important part of the risk management framework. We have an appropriate independent exposure monitoring system that tracks exposures against established limits. Adequate risk controls are in place to mitigate limit exceptions.

Pre-settlement risk is the credit risk associated with dealing room products before Settlement. It is generally based on the "replacement value" (Mark-to-Market) plus "potential future" volatility concept.

In 2014, the Basel Committee published its final paper on the new standardized approach for calculating the EAD of counterparty credit risk exposures (SA-CCR). Starting 1st January, 2017 the bank has adopted a new SA-CCR methodology introduced by Basel which calculates the EAD according to the new Standardized Approach for CCR. In this connection, we have also acquired a solution that complies with SA-CCR exposure computation methodology based on the framework issued by SAMA and BIS. All related and respective policies are also approved and is in place.

Senior management and the board of directors are responsible for setting risk tolerances for CCR; measuring, monitoring, and controlling CCR risk exposures; and developing and implementing effective policies and procedures. Senior management receives comprehensive CCR exposure reports on a frequent basis.

Under new SA-CCR methodology and as part of the regulatory requirement, the bank is subject to daily variation margining on its un-cleared derivatives exposures. We have established Margin Policies and Practices which to help mitigate CCR exposure; the policies addresses establishment of processes and periodical review minimum transfer amounts, eligible margining collateral, eligible currencies, minimum haircuts, recognizing any volatility and liquidity concerns with underlying collateral. Policies also cover when CCR should lead to the decision to require posted margin to be segregated. Additionally, we have policies and procedures for monitoring margin agreements involving third-party custodians that identify the location of the account where collateral is posted and methods for gathering adequate documentation from the custodian to confirm collateral disposition

#### Credit valuation adjustment

The credit valuation adjustment is the capital charge for potential mark to market losses due to the credit quality deterioration of a counterparty. The standardized approach uses the external credit rating of each counterparty and includes the effective maturity and exposure at default.

We are applying non-IMM bank methodology to measure CVA capital charge since it uses SA-CCR (Standardised counterparty credit risk) for measuring EAD of OTC Derivatives transactions. CVA charge for the Bank is not material.

**b) The method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures**

All exposures are subject to continuous monitoring of events/signals that could potentially lead to or indicate a material change in risk.

Monitoring of compliance with limits for counterparty credit exposure is carried out by Risk Management on a daily basis against applicable limits. Limit breaches are reported to senior management as well as to the Board of Directors if the maximum exposure limit is exceeded.

We have developed and designed risk matrix for Financial Institutions (BACs and RACs) that sets target sectors, minimum pricing guidelines, risk profile of the counterparty, nature of the product, Products Weighting, Tenor of transaction and country of issue etc.

Establishment of Central Counter Party (CCP) is still work in progress at SAMA; however, SAMA has assessed and published the list of the Foreign Qualifying CCPs (for G4 currencies i.e. US\$, Euro, GBP, JPY) through which business can be conducted. There is currently no qualified National CCP. However, in order to conduct business with CCP (G4 currencies) we have engaged clearing broker who acted as our Clearing Broker and collateral is placed in an asset segregated account with them. The trade will be cleared through them. We have established credit limit for this broker services which is approved by the senior management committee.

**c) Policies relating to guarantees and other risk mitigants and assessments concerning counterparty risk, including exposures towards CCPs;**

Till December, 31st, 2016 we were using new CEM (Current Exposure Methodology) in place. We have now new policy under SA-CCR in place where eligible collateral and other risk mitigants are defined such as cash, high quality government and central bank securities and corporate bonds etc.

Riyad Bank reviews central counterparties where exposures exist. Such reviews include a due diligence evaluation of the central counterparty's risk management framework. For example, Bank reviews each central counterparty's membership requirements, guarantee fund contributions, margin practices, default-sharing protocols, and limits of liability. Additionally, the Bank considers the counterparty's procedures for handling the default of a clearing member, obligations at post-default auctions, and post-default assignment of positions

**d) Policies with respect to wrong-way risk (WWR) exposures;**

WWR occurs when the exposure to a particular counterparty is positively correlated with the probability of default of the counterparty itself. This is also governed by Financial Institution Matrix that has an inverse relationship. When the counterparty rating has improved and credit risk is low it enjoys high operating limits to prevent wrong way risk. Riyad Bank regularly assesses the potential exposure that the bank may have to wrong way risk which are likely to lead to this risk.

**e) The impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade.**

We have standard documentation in place that allows the Bank in case of credit rating downgrade, to embed impacts of such downgrade in the covenant for monitoring purposes and also at the same time allows Riyad Bank to call off/terminate such facility and request for additional collateral to mitigate such risk.

CCR1: Analysis of counterparty credit risk (CCR)[1] exposure by approach - December 2018

SAR 000

		a	b	c	d	e	f
		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	889,548	722,884		1.4	2,257,404	1,561,101
2	Internal Model Method (for derivatives and SFTs)			-	-	-	-
3	Simple Approach for credit risk mitigation (for SFTs)					-	-
4	Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
5	VaR for SFTs					-	-
6	<b>Total</b>						<b>1,561,101</b>

**CCR2: Credit valuation adjustment (CVA) capital charge - December 2018**

*SAR 000*

		a	b
		EAD post-CRM	RWA
	Total portfolios subject to the Advanced CVA capital charge		
1	(i) VaR component (including the 3×multiplier)		
2	(ii) Stressed VaR component (including the 3×multiplier)		
3	All portfolios subject to the Standardised CVA capital charge	2,257,404	1,885,937
4	<b>Total subject to the CVA capital charge</b>	<b>2,257,404</b>	<b>1,885,937</b>

**CCR3: Standardised approach – CCR exposures by regulatory portfolio and risk weights - December 2018**

SAR 000

	a1	a2	b	c	d	e	f	g	h	i
Regulatory portfolio* / Risk weight**	0%	2%	10%	20%	50%	75%	100%	150%	Others	Total credit exposures
Sovereigns and their central banks	-	-	-	-	-	-	-	-	-	-
Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
Banks	-	-	-	211,306	473,719	-	5,229	-	-	690,254
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	1,226,085	-	-	1,226,085
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-
Other assets	-	296,359	-	-	-	-	44,639	67	-	341,065
<b>Total</b>	-	<b>296,359</b>	-	<b>211,306</b>	<b>473,719</b>	-	<b>1,275,953</b>	<b>67</b>	-	<b>2,257,404</b>

\*The breakdown by risk weight and regulatory portfolio included in the template is for illustrative purposes. Banks may complete the template with the breakdown of asset classes according to the local implementation of the Basel framework.

\*\*Banks subject to the simplified standardised approach should indicate risk weights determined by the supervisory authority in the columns.

**B.26 - CCR5: Composition of collateral for CCR exposure**

	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	-	-	-	-	-	-
Cash – other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-



## Table SECA: Qualitative disclosure requirements related to securitisation exposures

### **Bank's objectives in relation to securitization and re-securitization activity**

Currently, the Bank is neither the originator, sponsor nor investor for any Securitization exposure.

### **Details of SPEs/Affiliated entities where Bank is acting as sponsor**

Not applicable as we don't have any exposure

### **Summary of the bank's accounting policies for securitization activities.**

Not applicable as we don't have any exposure.

### **Names of external credit assessment institution (ECAIs) used for securitizations**

Not applicable as we don't have any exposure

### **Basel internal assessment approach (IAA)**

Not applicable to Riyad Bank

**SEC1: Securitisation exposures in the banking book - December 2018**

SAR 000

		a	b	c	e	f	g	i	j	k
		Bank acts as originator			Bank acts as sponsor			Banks acts as investor		
		Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
1	Retail (total)	-	-	-	-	-	-	-	-	-
	- of which									
2	residential mortgage	-	-	-	-	-	-	-	-	-
3	credit card	-	-	-	-	-	-	-	-	-
4	other retail exposures	-	-	-	-	-	-	-	-	-
5	re-securitisation	-	-	-	-	-	-	-	-	-
6	Wholesale (total)	-	-	-	-	-	-	-	-	-
	- of which									
7	loans to corporates	-	-	-	-	-	-	-	-	-
8	commercial mortgage	-	-	-	-	-	-	-	-	-
9	lease and receivables	-	-	-	-	-	-	-	-	-
10	other wholesale	-	-	-	-	-	-	-	-	-
11	re-securitisation	-	-	-	-	-	-	-	-	-

SEC4: Securitisation exposures in the banking book and associated capital requirements – bank acting as investor - December 2018

SAR 000

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q
	Exposure values (by RW bands)					Exposure values (by regulatory approach)				RWA (by regulatory approach)				Capital charge after cap			
	≤20% RW	>20% to 50% RW	>50% to 100% RW	>100% to <1250% RW	1250% RW	IRB RBA (including IAA)	IRB SFA	SA/SSFA	1250%	IRB RBA (including IAA)	IRB SFA	SA/SSFA	1250%	IRB RBA (including IAA)	IRB SFA	SA/SSFA	1250%
1 Total exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2 Traditional securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3 Of which securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4 Of which retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5 Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6 Of which re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7 Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8 Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9 Synthetic securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10 Of which securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11 Of which retail underlying	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12 Of which wholesale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13 Of which re-securitisation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14 Of which senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15 Of which non-senior	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

## Table MRA: Qualitative disclosure requirements related to market risk

### **Risk management Objectives and Policies**

Riyad Bank's market risk objectives are governed by Market Risk Management Framework, which provides the Bank's market risk appetite and a robust market risk management. The framework is approved by the Board and sets out the objectives and requirements of policies and procedures for Market Risk Management. Market Risk Operating Policy provides roles & responsibilities of the Bank's Senior Management and Market & Liquidity Risk Management Department for effective management of market risks in the Bank's trading activities as per the appetite set by the Board.

#### **a) Strategies and processes of the bank**

The Bank's risk management strategy is to support the Bank's corporate and strategic objectives within the Risk Appetite set by the Board through effective controls and monitoring.

The Bank's trading activities are guided by Asset and Liability Committee (ALCO) within the strategic objective of market risk averseness

The Bank maintains minimal trading positions through FX trading. Derivative trading positions are taken for the Bank's customer needs but are closed back to back to offset market risks arising from it. All trading positions are subject to Value-at-Risk and Stop-Loss limits which is monitored and reported on a daily basis. All proprietary investments are classified in Banking Book to avoid the increased market risk.

The Bank has an independent Market & Liquidity Risk Management Department (MLRM) within its Risk Management Division which is responsible for identification, measurement, monitoring and reporting of market risk. The function closely monitors and reports inherent market risks all trading activities of the bank.

The bank allows limited products for hedging purposes to avoid complexity. The classification of each hedge deal is approved by MLRM and the hedge effectiveness of all hedging and hedged instruments is monitored and reported on a regular basis.

#### **b) Structure and organization of the market risk management function**

##### **Asset and Liability Committee (ALCO)**

ALCO is responsible for monitoring the asset and liability portfolios of the Bank, monitoring current economic and business conditions and setting strategic and tactical targets for instruments and portfolios that make up the Bank's balance sheet, within the broader Board approved limits. ALCO is also responsible for ensuring that wholesale trading and Banking book positions are maintained within Board approved limits, reviewing and approving the Funds Transfer Pricing system within the Bank, tactical review of wholesale funding and investment activities, and is responsible for overseeing the regulatory capital allocation process and regulatory capital limits management process within the Bank.

##### **Investment Committee**

Riyad Bank maintains a substantial domestic and international investment portfolio to provide an alternative income source for the Bank via investment in countercyclical investments which are expected to perform well during periods when more normal sources of Bank income may not perform as well. The Investment Committee is responsible for establishing investment guidelines and mandates (limits and parameters) for the investment managers who manage the portfolio, and for monitoring and reviewing the risks and performance of this investment portfolio.

**Market and Liquidity Risk Management Department** comprises of -

**i. Asset Liability Management Section**

ALM section supports the **Bank's** capital markets businesses and Asset and Liability Committee (ALCO). The section conducts regular analysis of the Bank's interest rate and liquidity risks using simulation models. These measures include Net Interest Income at Risk, Market Value at Risk and Liquidity which is reported to ALCO and the Board of Directors.

**ii. Market Risk Management Section**

Market Risk section covers the monitoring of market risk on the trading and banking books and also the international investments portfolio. The section also conducts a daily analysis of the risks on banking and trading books under the stress scenarios along with a daily back testing to record any breaches. The section is also responsible for the capital charge calculation and reporting the same under normal and stressed conditions.

**iii. Treasury Middle Office (TMO) Section**

TMO independently monitors the risks and profitability of Treasury. It ensures the segregation and integrity of key reporting processes especially the market rate revaluation process, and ensures that Treasury complies with the approved limits structure. It also assists Treasury with business and systems developments.

**c) Risk Reporting**

Risks and control effectiveness are reported to management to ensure that managers within the business lines, and at senior levels, for a more informed decision making process. As the first line of defense, it is the responsibility of line managers, and senior managers, to be able to manage risks in accordance with Board approved risk appetite.

Risk reports are provided to managers and senior management on regular basis (e.g. monthly, weekly etc.) to ensure that management has the opportunity to assure themselves that risk positions are within limits and in line with the **Bank's** current strategy. Typically, these would be provided to senior management on a monthly or weekly basis for the purposes of holding the various Risk Committee meetings and reviews. Line managers, supervisors and staff directly responsible for managing risk on a day to day basis, would obviously receive full positions reports on a much more frequent basis.

The general policy within Riyad Bank is for risk issues to be raised with the line manager first, then to escalate it to the senior manager responsible for that area. Risk matters are also escalated to the relevant risk committee, either immediately if critical, or as part of the normal reporting process, if less urgent. If insufficient action is taken as a result of this reporting and escalation process, staff and risk managers have the authority to take matters further, such as to the Chief Risk Officer, to the Chief Executive Officer, to Internal Audit Department, or in very extreme cases, to the Board of Directors office or to external auditors.

Independent risk reporting is also a key component of the risk reporting controls. Separation between the group creating the risk (the risk taking business unit) and the unit reporting the risk level (the risk monitoring unit) is very common throughout the Bank. Internal Audit continuously monitors this fundamental segregation of duties within the Bank. Risk Management Division also takes this into account when assessing the risk within business units. Much of the **Bank's** risk reporting is prepared and delivered by various units within the Risk Management Division as an independent check.

For Enterprise-wide risk reporting purposes, a tabular risk weight was developed to provide comprehensive description of the risk coverage in the Bank. It is based on all risk types relevant to the Bank and how each respective risk weight is governed, evaluated, managed, monitored and reported within the Bank as well as the frequency of such reporting.

The Bank deploys adequate risk management systems for the effective measurement, monitoring and reporting. For market risk, Kamakura Risk Manager (KRM) is used by the Bank which is widely acknowledged and used for Value at Risk and other liquidity risk measures such as Net Interest income at Risk and Economic Value at Risk. The systems are regularly assessed and upgraded for improvement in risk measurement and adherence to regulatory changes.

**MR1: Market risk under standardised approach - December 2018**

		<i>SAR 000</i>
		a
		RWA
	Outright products	<b>2,330,200</b>
1	Interest rate risk (general and specific)	866,625
2	Equity risk (general and specific)	786,550
3	Foreign exchange risk	677,025
4	Commodity risk	
	Options	-
5	Simplified approach	
6	Delta-plus method	
7	Scenario approach	
8	Securitisation	
<b>9</b>	<b>Total</b>	<b>2,330,200</b>

## Table IRRBBA – IRRBB risk management objectives and policies

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

**Scope of application:** Mandatory for all banks within the scope Of application set out in III.

**Content:** Qualitative and quantitative information. Quantitative information is based on the daily or monthly average of the year or on the data as Of the reporting date.

**Format:** Flexible

### Qualitative disclosure

<b>a</b>	Interest Risk in the Banking Book (IRRBB) is the risk to Riyad Bank’s earnings and capital that arises out of customers’ demands for interest rate related products with various repricing profiles. As Riyad Bank engages in such activities as lending, balance sheet funding and capital management, it may be exposed to the inherent Interest Rate, Foreign Exchange and Liquidity risks.
<b>b</b>	Riyad Bank manages Interest Rate Risk in the Banking Book (IRRBB) within its established Net Interest Income at Risk (NII@R) and Economic Value of Equity at Risk (EVE) limit that are measured and monitored by Risk Management Division and reported to the Asset and Liability Committee and to the Board.  The strategies used to mitigate the stressed IRRBB are through the Funds Transfer Pricing (FTP) mechanism, the management of interest rate risk is taken out of the hands of the business units and entrusted to the Treasury /Balance Sheet Management units. The Treasury /Balance Sheet Management performs analysis of the risks inherent in the balance sheet based on the calculations provided by the Market and Liquidity Risk Management (M&LRM), and determines appropriate hedging strategies in consultation with the ALCO and then executes those strategies.
<b>c</b>	The periodicity of calculation of bank’s IRRBB measures is monthly. The bank uses interest income at risk and economic value of equity at risk to gauge and a description of the specific measures that the bank uses to gauge its sensitivity to IRRBB.
<b>d</b>	While the Basel committee recommends a 200 bps parallel shifts for stress testing purpose, the bank uses seven interest rate shock scenarios to gauge the change in its economic value and earnings; +/- 100 bps and +/- 200 bps; +/- 400 bps ramp (12 months period to achieve an increase of 400 bps for all terms) and one rotation (6 months period to achieve an increase of short term rates by 50bps up to 6 months term).
<b>e</b>	Re-pricing and yield curve risks were determined to be the predominant risk categories affecting the Bank. The risk exposure to the embedded options like prepayments and delays, though possible in the contracts, is not material and hence has not been considered over the past years. Based on the behavioral trends it has been concluded that options risk is not currently significant for the Bank and hence can be excluded from the capital allocation process for interest rate risk at present.
<b>f</b>	Strategies to mitigate IRRBB include the use of cash and derivative instruments. In the case of significant and fast parallel shifts in rates in either direction, the alternative products available to the Bank are: <ol style="list-style-type: none"> <li>1. Buy/Sell long/short term government securities or bonds</li> <li>2. Liquidate some Investments</li> <li>3. Buy/Sell futures</li> <li>4. Buy/Sell forwards</li> <li>5. Write payer/receiver swaps</li> <li>6. Pay/Receive fixed rate deposits</li> <li>7. Issue fixed/floating bonds/loans/CDs</li> <li>8. Buy/sell caps/floors</li> </ol> <b>In each case the strategy undertaken by the ALCO is to appropriately adjust the Bank’s exposure in terms of duration, timing and interest rates whilst minimizing the accounting issues and remaining within all regulatory limits and ratios.</b>
<b>g</b>	For generating cash flows, the end rates (including commercial margins and other spreads) have been used. For discounting however, SAIBOR and LIBOR rates have been used. The average repricing maturity for NMD’s have been estimated based on a historical ten-year redemption data analysis of deposits. For analysing the prepayment rates (i.e. the CPR) last ten years of pre-payment data for loans under all segments were studied. The maximum CPR’s in all portfolios have been found to be around 1% and hence have not been factored in the calculation.

### Quantitative disclosures

<b>1</b>	Average maturity assigned to NMDs: 3 years.
<b>2</b>	Longest repricing maturity assigned to NMDs: within 6-7 years.

SAR Millions

### Template IRRBB1 – Quantitative information on IRRBB

**Scope of application:** Mandatory for all banks within the scope Of application set out in III.

**Content:** Quantitative information.

**Format:** Fixed

**Accompanying narrative:** Commentary on the significance of the reported values and an explanation of any material changes since the previous reporting period.

In reporting currency	ΔEVE		ΔNII	
	Dec-18	Dec-17	Dec-18	Dec-17
Parallel up	442	570	229	-22
Parallel down	948	1,040	228	13
Steeper	42	953		
Flattener	16	945		
Short rate up	331	1,208		
Short rate down	345	1,279		
<b>Maximum (See note below)</b>	<b>948</b>	<b>1,279</b>	<b>229</b>	<b>13</b>
<b>Period</b>	<b>T</b>		<b>T-1</b>	
<b>Tier 1 Capital (See note below)</b>	<b>36,774</b>		<b>38,623</b>	

#### Definitions

For each of the supervisory prescribed interest rate shock scenarios, the bank must report for the current period and for the previous period:

- (i) the change in the economic value of equity based on its IMS, using a run-off balance sheet and an instantaneous shock or based on the result of the standardised framework as set out in Section 4 if the bank has chosen to adopt the framework or has been mandated by its supervisor to follow the framework; and
- (ii) the change in projected NII over a forward-looking rolling 12-month period compared with the bank's own best estimate 12-month projections, using a constant balance sheet assumption and an instantaneous shock.

#### Note

**Row 11 to 16:** The Bank needs to provide EVE and NII Loss Numbers (as Positive) in the given table for the current period (T) and last period (T-1)

**Row 19:** The Bank needs to provide Tier 1 Capital for the current period (T) and last period (T-1)



## Operational risk

### Operational Risk Management: Strategy & Objectives:

Operational risk is a risk of Bank not achieving its strategy or objectives as a consequence of inadequate or failed internal processes, people and systems, or from external events.

Operational Risk Management Department (ORMD) provide professional risk management services to all business areas of the bank to optimally manage their risks. The ORM objective is to control and manage operational risk by timely identifying, measuring / assessing, monitoring, mitigating and reporting the risk. ORMD role as 2nd Line of Defense function is to adopt a pro-active approach to ensure key risks must be identified well in advance before the actual risk happen and minimize the risk to an acceptable level consistent with the **Bank's** risk appetite. It is supported by operational risk management robust framework, policies and procedures.

### Structure and Organization of Operational Risk Management:

Operational Risk Management Department is headed by the Senior Vice President of operational risk who reports to the Head of Risk Management. The Head of operational risk is responsible for the **development and implementation of Bank's Operational Risk Framework across the Bank.**

Operational Risk Management Department activities are supported by five functional areas within the department to facilitate the sustainability and integrity of the **Bank's** operations and to protect its reputation by controlling, mitigating or transferring the impact of operational risk by performing various risk controlling activities within their scope of work

#### i. Operational Loss Analysis Section

The primary objective of the Operational Loss Analysis section is to minimize operational risk through the timely recording, tracking, analysis, and reporting using SAS system operational loss module to the relevant personnel and committees. In addition, it helps in determine chain of events (root cause, event and effect) and suggests ways to reduce the probability and impact of losses in order to bring risk to the acceptable level set-up by the Board.

#### ii. The Examinations and Investigations Section

Examination & Investigation Section (E&I) is responsible to undertake risk-based examination of branches & Business units and investigation of operational losses and near misses with an aim to minimize the operational risk and to ensure that bank operations comply with current policies and procedures. E&I section suggest remedial actions to business units and branches against their examination and investigation findings and ensure these corrective actions are implemented by rigorous follow up with the respective branch / business unit and monitor the implementation.

#### iii. The KRI and Process Analysis Section

The role of the KRI and Process Analysis section is to manage the impact of operational risk upon the Bank and is responsible to provide operational risk oversight through quantification and assessment of operational risks across the **bank's** business lines. The section core activity is to systematically identify and assess the operational risks face by the Bank using an integrated assessment approach to have timely and proficient operational risk analysis and risk assessments covering both new / changes to existing product & services, change requests, policy & procedures to ensure that they adhere to both internal and external (regulatory- SAMA) requirements pertaining to Operational risk.

In addition, the section is responsible for the implementation of Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRIs) and to conduct risk assessments (including products & services) by following risk based approach covering high risk business lines, support functions and significant processes to identify key risks and controls to be captured / reported to a Risk Register using SAS EGRC system to act as a single risk repository at Enterprise level.

#### **iv. The Insurance Section**

The insurance section manages the Bank's insurance program and risk transfer of operational losses experienced by the Bank through a cost-effective insurance program that provides adequate protection against insurable risks.

The primary objective is to ensure that appropriate level of cover is maintained for insurable risks across the bank's business areas, and for the design, placement and administration of the bank's insurance plan.

The Insurance Section performs claims management activity that monitors the progress of all reported claims under different types of insurance until final settlement of the claim as per agreed-upon terms & conditions.

#### **iv. Technology Risk Management Section**

Technology Risk is a newly established section under the Operational Risk Mgmt. Dept., the section is formed to ensure the governance of the bank technology activates and the oversight of technology risk across the bank in coordination with Technology functions.

#### **Scope and Nature of Operational Risk Reporting**

Operational Risk Management Department ensure that a regular risk reporting is carried out for senior executives. In this regard an integrated risk report presented on a monthly basis to the Operational Risk Management and Compliance Committee (ORMCC) and a Semi-Annual Report presented to the Board Risk Committee.

There are other risk assessment, examination and investigation reports which are prepared by ORMD and are presented to concerned business line executive management.

#### **Operational Risk Weighted Assets for Capital Allocation**

Bank is remained on the adopted Standardized approach methodology in determining its regulatory Operational risk capital and risk weighted assets as per Basel and SAMA provided guidelines of operational risk.

## REMA – Remuneration policy (Compensation & Incentives Policy)

### Introduction

Riyad **Bank's** compensation and incentives policy is the foundation upon which its base pay, incentive pay, allowances and benefits programs are built. They are underpinned by the performance management process.

Both external and internal equity are important in developing, administering and maintaining the salary management program. Market competitive pay is important in attracting, retaining and engaging the highest quality and caliber of employees.

RB has a salary management program that supports its strategic business objectives, that is externally competitive and internally equitable, and is designed to provide compensation opportunities based on performance.

RB is committed to varying compensation – base pay and incentive rewards – based on company, business and individual performance. The appropriate mix of base pay and incentives depends on the job duties, competitive practices and grade level.

RB views performance as a combination of results and competencies. While the emphasis will be on achieving and exceeding goals, superior **performance will also include behaviours and activities consistent with RB's purpose, values and prudent risk management policies.**

RB intends to communicate openly the basic principles of the salary management and performance evaluation programs so that they are clearly understood, supported and perceived as fair by employees.

**Policy Summary**

<b>Purpose</b>	To establish and apply compensation policies and processes which support delivery of business strategy, reinforce the desired organisational culture, reflect prudent risk management and comply with SAMA regulations
<b>Core Principles</b>	· Rewards performance – both the measurable and behaviours.
	· Competitive with our chosen markets.
	· Uses a total reward model – basic salary, allowances, benefits and variable pay.
	· Fair and equitable in its treatment of employees.
	· Simple to understand and easy to administer.
<b>Enablers</b>	· Effectively managed (Risk Management and Governance).
	· Effective communication to employees.
	· Well-designed and applied performance management.
	· Effective governance – policies and monitoring.
	· Good decision-making in design, implementation and review.
	· Efficient supporting systems and processes.
	· Comprehensive, accurate and timely management information.

Core Principle	What it means	What it looks like
<p><b>Rewards Performance</b></p>	<p>1. Reward arrangements which offer high rewards for high performance and lower to no rewards for average or poor performance.</p> <p>2. Linking reward to agreed measures of business and individual performance.</p> <p>3. Differentiates based on performance</p> <p>4. A meaningful proportion of reward 'at risk'</p>	<ul style="list-style-type: none"> <li>• Salary increases and bonus payments should reflect market, business &amp; individual performance, including adherence to risk management policies and processes.</li> <li>• Where individual performance is below expectations, no salary increase or bonus should be paid.</li> <li>• Everyone should have the opportunity to earn a bonus, if business performance justifies.</li> <li>• The maximum bonus opportunity should be significantly more than the on-target opportunity.</li> <li>• For bonus purposes, the chosen business performance measure is a percentage of the Bank's overall profitability</li> <li>• Personal performance will be measured against individual KPIs &amp; competencies.</li> <li>• Personal KPIs will always include an assessment of the employee's compliance with risk management policies, procedures and controls.</li> <li>• Salary increases &amp; bonus awards will be markedly different for different levels of performance</li> <li>• Employees who do not meet their goals or do not follow risk management policies will not receive a bonus.</li> </ul>
<p><b>Competitiveness</b></p>	<p>1. Ensuring that rewards are implemented at a level that enables each part of the Bank to attract and retain employees of the required caliber.</p> <p>2. Systematic benchmarking of total reward against the right market comparators (Reward policy is not driven by market trends and movements alone, but is informed by them).</p>	<ul style="list-style-type: none"> <li>• Positioning salaries overall at market median against explicitly defined &amp; agreed external salary markets, provided that this is justified by business performance.</li> <li>• Managing fixed cost elements of reward (e.g. allowances &amp; other benefits) so that they conform to market practice (measured against defined &amp; agreed external markets).</li> <li>• Targeting special programmes towards key at-risk populations.</li> </ul>

Core Principle	What it means	What it looks like
<p><b>Total Reward</b></p>	<p>1. Ensuring the right balance of reward, with an emphasis on:</p> <ul style="list-style-type: none"> <li>• variable versus fixed pay</li> <li>• motivation versus activity</li> </ul> <p>2. Managing total remuneration, including:</p> <ul style="list-style-type: none"> <li>• salary</li> <li>• incentives (short-term and deferred)</li> <li>• allowances</li> <li>• benefits</li> </ul> <p>3. Applying recognition policies that motivate.</p> <p>4. Balancing short-term gains and long-term risks.</p>	<ul style="list-style-type: none"> <li>• <b>The mix of reward should emphasise those elements which can motivate performance rather than those where cost is fixed and does not produce additional organisational benefit.</b></li> <li>• <b>Reward recommendations must not be shaped in isolation but should always be determined based on a clear understanding of the intended total reward package.</b></li> <li>• <b>Reward decisions must take account of the balance between external competitiveness and affordability.</b></li> <li>• <b>Taken together, these mean:</b> <ul style="list-style-type: none"> <li>- Controlling, not enhancing allowances, benefits and other fixed costs.</li> <li>- Not providing guaranteed bonus awards.</li> <li>- Focusing attention on building motivational and performance related reward arrangements.</li> </ul> </li> <li>• <b>Introducing recognition programmes (financial or non-financial), where motivational benefits clearly outweigh costs.</b></li> <li>• <b>For specific roles/grades, using a combination of short-term and deferred bonuses to create an equilibrium between the need for results in the short-term with balanced risk-taking over the long-term.</b></li> <li>• <b>The deferred bonuses should take into account: ROE, net income, credit portfolio, cost/income ratio and the performance of peer banks.</b></li> </ul>
<p><b>Fair &amp; Equitable</b></p>	<p>Ensuring fairness of treatment (not outcomes) within and between business functions and employee groups.</p>	<ul style="list-style-type: none"> <li>• <b>Clearly defined and well-applied reward and performance management processes and decision criteria.</b></li> <li>• <b>Compliance with relevant regulatory frameworks.</b></li> <li>• <b>Rigorous monitoring.</b></li> </ul>

Core Principle	What it means	What it looks like
<p><b>Simplicity</b></p>	<ol style="list-style-type: none"> <li>1. Clarity of focus.</li> <li>2. Ease of understanding by employees.</li> <li>3. Ease of administration and operation.</li> </ol>	<ul style="list-style-type: none"> <li>• All reward proposals should state what they are designed to achieve.</li> <li>• Reward communications should be clear, user friendly and feedback should be obtained to test that these objectives are being met.</li> <li>• Employees at each level in a business or functional area should enjoy the same reward arrangements unless there is a clear business, market and performance reasons for separate treatment.</li> <li>• Employees at each level should have their reward package clearly explained to them so that they are able to value it properly</li> <li>• Informal 'return on investment' (ROI) calculations and discussions should be done periodically to ensure that programmes are not costing more in terms of cash and administrative effort than the benefit they are providing.</li> </ul>
<p><b>Risk Management</b></p>	<ol style="list-style-type: none"> <li>1. Rewards for employees in control functions will be determined independently of the functions they control.</li> <li>2. Risk Management will review the compensation and incentives policies to ensure employees are not rewarded for taking excessive risk or creating undue concentration of risk.</li> </ol>	<ul style="list-style-type: none"> <li>• Business Heads in functions being monitored and controlled by Audit, Compliance, Risk Management and Credit Risk will not have any input to reward decisions of employees in the control functions.</li> <li>• Any changes to reward policies will be signed off by the Risk Management function before submission to Nomination &amp; Compensation Committee (NCC).</li> </ul>
<p><b>Governance</b></p>	<ol style="list-style-type: none"> <li>1. Board of Directors is responsible for reward across the Bank.</li> <li>2. The Nominations &amp; Compensation Committee (NCC) will advise the Board of Directors.</li> <li>3. The Nominations &amp; Compensation Committee (NCC) is responsible for ensuring that compensation decisions take account of risk.</li> </ol>	<ul style="list-style-type: none"> <li>• The Board of Directors has ultimate responsibility for approving the compensation &amp; incentives policy, and ensuring the effective implementation of the policy.</li> <li>• The Board will be advised by the Nominations &amp; Compensation Committee on all matters relating to the compensation &amp; incentives policy</li> <li>• The Committee will take reports and recommendations from the Executive Management of the Bank, supported by Human Resources and Risk Management.</li> <li>• The Nominations &amp; Compensation Committee will review and recommend to the Board of Directors all compensation matters relating to Executive Management.</li> <li>• Decisions affecting compensation will reflect all aspects of risk, including hard-to-measure risks such as reputation.</li> <li>• The Committee will ensure that compensation decisions do not threaten capital ratios or liquidity.</li> </ul>

**REM1: Remuneration awarded during the financial year**

		a	b
Remuneration amount		Senior management	Other material risk-takers
1	<b>Fixed remuneration</b>		
	<b>Number of employees</b>	<b>23</b>	<b>384</b>
2	<b>Total fixed remuneration (3 + 5 + 7)</b>	<b>34,132</b>	<b>97,267</b>
3	Of which: cash-based	34,132	97,267
4	Of which: deferred		
5	Of which: shares or other share-linked instruments		
6	Of which: deferred		
7	Of which: other forms		
8	Of which: deferred		
9	<b>Variable remuneration</b>		
	<b>Number of employees</b>	<b>18</b>	<b>286</b>
10	<b>Total variable remuneration (11 + 13 + 15)</b>	<b>8,125</b>	<b>20,362</b>
11	Of which: cash-based	8,125	20,362
12	Of which: deferred	1,977	1,970
13	Of which: shares or other share-linked instruments		
14	Of which: deferred		
15	Of which: other forms		
16	Of which: deferred		
17	<b>Total remuneration (2 + 10)</b>	<b>42,257</b>	<b>117,629</b>



**REM2: Special payments**

Special payments	Guaranteed bonuses		Sign-on awards		Severance payments		Total amount
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Number of employees	
Senior management							
Other material risk-takers							

REM3: 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 adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management	7,767				
Cash					
Shares					
Cash-linked instruments					
Other					
Other material risk-takers	8,137				
Cash					
Shares					
Cash-linked instruments					
Other					
<b>Total</b>	<b>15,904</b>	-	-	-	-

## General Qualitative Disclosure Requirements

### Internal Control

Internal Control Dept. (ICD) is one of key control function instituted within the Bank to ensure adherence with the key requirements of the **SAMA's** Guidelines on Internal Control. The bank has established an effective mechanism which identifies the key risks faced by the bank are updated within the Risk Register. Guidance for testing of the controls associated with the key risks have been approved by the Executive Management and are implemented through quarterly control testing process. The executive management has also implemented the 3 Lines of Defence model within the bank which defines the roles and responsibilities and clarifies the difference and relationship between business and risk oversight/monitoring functions.

ICD is assigned with the key responsibility of conducting the periodic control testing through bank-wide divisional controllers. The results of the key controls testing and findings from other control functions are shared with Divisional Heads to enable them and to ensure that exceptions are adequately followed-up for timely remediation.

ICD aggregates and summarizes the findings reported by 3 lines of Defence functions and external parties like External Auditors and Regulators within the integrated internal control risk and governance report which are published to Executive Management, Operational Risk Management & Compliance Committee (ORMCC) and to the Board Audit Committee periodically. This integrated report enables Management, in ensuring timely remediation and to accelerate the closure process on exceptions and to enforce priorities, wherever required.

Annually, ICD will initiate a Management Attestation process whereby bank wide Divisional Heads, Risk Oversight Owners and the Executive Management are required to provide attestation based on their evaluation on the effectiveness of control environment within their division. ORMCC will evaluate attestations and present the **Management's** statement on internal control to the Board's Audit Committee, who would review the adequacy and provide their independent recommendations to the Board of Directors for approval.

### Disclosure Policy for Basel III Pillar 3

To comply with the requirements of 'General Guidance Notes: Part A' issued via **SAMA's** circular 361000126572 dated July 9, 2015, Para 10 Riyad bank has established a Disclosure Policy for Basel III Pillar 3 information.

The Disclosure Policy amongst other things covers scope, implementation date, purpose, applicability and the roles and responsibilities and Internal Controls over preparation of Pillar 3 Disclosures.

Annexure

