Revised Basel III Pillar 3
Qualitative & Quantitative Disclosures
31 December 2016

Revised Basel III Pillar 3– Qualitative & Quantitative Disclosures

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B.1 - 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 most 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, while the emphasis in corporate arena is on the mid cap corporates as well as emerging enterprises. The Bank's Treasury Division is an active participant in SAR and various other foreign currency money markets in the Kingdom.

The Bank has been expanding its retail and corporate banking activities by selectively increasing its branch and ATM networks along with increased emphasis 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.

As part of the Bank's strategy design, we have set ourselves the strategic ambition to become ''the best Digital Bank'' and introduce new digital offerings: desktop, mobile apps and new branch formats. We are also considering to enhance existing and introducing new product offerings as well as enriching branch services with new and enhanced devices and digital branch formats and completing implementation of a 31-point Branch Service Quality Improvement Plan.

On the Corporate side, we will continue with major projects including improving the service delivery channels to bring operational efficiency (back office support), improve service delivery of Trade Finance (TF) products as well as develop new TF products and upgrade sales and marketing processes in Emerging Enterprise Unit (EEU), especially credit assessment and approval.

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 risk profile and on the risk profile of the business.

b) The risk governance structure

The Board of Directors is responsible for ensuring that the Bank is organized effectively and efficiently, and is run in accordance with all appropriate regulatory and good corporate governance requirements. Relevant corporate governance and risk related Board committees include the Executive Committee, Audit Committee, Risk 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, headed by CRO, and comprises Risk Management and Credit Divisions respectively. Risk Management responsibilities in the Bank cover all facets of Credit, Market and Operational Risks also Liquidity and Interest rate risk in Banking book. A Capital Management Section (CM) exists within the Risk Management with primary responsibility to coordinate and manage the Internal Capital Adequacy Assessment Plan (ICAAP) on the basis of a comprehensive risk-file of the Bank.

Please also refer to chart as an annexure, to 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 Chairman on behalf of the Board, 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.

Risk management in Bank operations includes risk identification, measurement and assessment, and its objective is to minimize negative the effects risks can have on the financial results and capital of the Bank.

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 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. <u>Credit Limit Management and work flow application:</u>

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

· **<u>Credit</u> <u>Administrator-</u>** 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

· **<u>Credit</u> <u>Limit</u> <u>Manager-</u>** 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

We have undertaken upgrade of Treasury System aligning it with the business and new regulatory standards for the implementation of Standardized Approach for Counterparty Credit Risk (SA-CCR) for OTC Derivatives.

New Treasury System features:

· Solution complies with SA CCR computation for EAD (Exposure at Default) OTC Derivatives;

· 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 SA-CCR method, Notional and Risk Based and Pre-deal screening in a fully integrated and automated environment.

2. 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.

3. 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 and Economic Value at Risk on its 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.

4. 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. These measures are in addition to the risk-specific remedial actions which are described in detail under the respective risk types:

i. A Risk Appetite Statement Dashboard, which includes Tier 1 & Total Capital Adequacy Ratios, is prepared and submitted to the Board of Directors on a quarterly basis. This report also contains the ratio set by SAMA every year and internally sets target for the year. Explanation is provided where the ratio is below target levels.

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 weekly basis

iii. Asset Quality report - this comprehensive report is produced on 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 comprise the senior management of the Bank. This is an exhaustive report covering amongst other topics Funding Liquidity Ratio, Risk Indicators Dashboard, Interest income at risk, Stress tests, Concentration risk, Fx trading positions and VaR analysis etc.

v. On a quarterly basis, M&LR management Department submits an ALM risk report to the Board Risk Committee where Interest Rate Risk and Liquidity Risk positions are analyzed and reported against the defied board limits.

vi. 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.

vii. 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.

viii. 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.

ix. 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

x. 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.

xi. Bank also undertakes an assessment of risk and capital requirements under defined stress scenarios for it's 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 engagement under Supervisory Review Process.

xii. 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.

xiii. 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.

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

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

xvi. 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 stressing them. Future plausible stress 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 followed by an assessment of Bank specific impact on the financial performance under each risk area under certain assumptions. The performance of the Bank's risk measurement and stress testing models is validated on a regular basis.

Coverage of the Portfolio:

Adequate coverage of the stress test is achieved through designing scenarios for both the on-balance sheet and off-balance sheet exposures.

i. On the assets side, stress testing covers:

- **Loan and Investment Book:** Corporate, commercial, SME, retail / consumer loans (wherever Bank's significant exposure exists), Sovereign and Financial Institutions
- **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 (excluding Credit concentration) 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 stress 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 planning purpose and also shared with the Board of Directors.

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

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.

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 operationalized in the bank's lending system.

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. Concentration risk is also well managed through well-defined policy and robust methodology.

vii. Provisions for the performing loan categories are based on Collective Impairment Methodology aligned to IAS 39, combined with historical default rate experience for each risk grade. This is being refined with the adoption of new IFRS 9 calculation methodology standard and the provisioning will transition from the current incurred loss model to Expected Credit Loss Impairment Model methodology for all performing and non-performing loans (effective from Jan 01, 2018).

viii. Enhancement of management information system to provide timely, integrated and informative reports that properly identify, measure, monitor, individual and related exposures as well as credit 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 individual and portfolio levels. Further, we can tighten 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;

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.

B.2 - OV1: Overview of RWA - December 2016

SAR 000

		a	b	c
		RWA		Minimum capital requirements
		T Dec 16	T-1 Sep 16	T Dec 16
1	Credit risk (excluding counterparty credit risk) (CCR)	211,153,441	215,104,993	16,892,275
2	Of which standardised approach (SA)	211,153,441	215,104,993	16,892,275
3	Of which internal rating-based (IRB) approach			-
4	Counterparty credit risk	655,639	934,233	52,451
5	Of which standardised approach for counterparty credit risk (SA-CCR)*	655,639	934,233	52,451
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	23,951	31,116	1,916
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)	23,951	31,116	1,916
16	Market risk	495,050	3,000,063	39,604
17	Of which standardised approach (SA)	495,050	3,000,063	39,604
18	Of which internal model approaches (IMM)	-		-
19	Operational risk	13,889,563	13,874,063	1,111,165
20	Of which Basic Indicator Approach			-
21	Of which Standardised Approach	13,889,563	13,874,063	1,111,165
22	Of which Advanced Measurement Approach			-
23	Amounts below the thresholds for deduction (subject to 250% risk weight)			-
24	Floor adjustment			-
25	**Total (1+4+7+8+9+10+11+12+16+19+23+24)**	**226,217,644**	**232,944,468**	**18,097,412**

**Riyad Bank is using Current Exposure Methodology*

B.3 - LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories - December 2016

SAR 000

	a	b	c	d	e	f	g
	Carrying values as reported in published financial	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with SAMA	21,262,177	21,262,177	21,262,177				
Due from banks and other financial institutions	4,567,155	4,567,155	4,567,155				
Positive fair vale of derivatives	189,295	189,295	-	188,372			
Investments, net	45,157,381	45,157,381	45,104,497		52,884		
Loans and advances, net	142,909,367	142,909,367	143,981,716				
Investment in associates	548,594	548,594	548,594				
Other real estate	245,017	245,017	245,017				
Property and equipment, net	1,862,349	1,862,349	1,862,349				
Other assets	877,666	877,666	1,001,883				
Total assets	**217,619,001**	**217,619,001**	**218,573,388**	**188,372**	**52,884**	**-**	**-**
Liabilities							
Due to banks and other financial institutions	8,836,713						8,836,713
Negative fair value of derivatives	138,638						138,638
Customer deposits	156,683,349						156,683,349
Debt securities in issue	8,018,373						8,018,373
Other liabilities	6,168,867						6,168,867
Total liabilities	**179,845,940**	**-**	**-**	**-**	**-**	**-**	**179,845,940**

B.4 - Template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements - December 2016

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)	217,619,001	218,573,388	52,884	188,372	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	217,619,001	218,573,388	52,884	188,372	-
4	Off-balance sheet amounts	93,730,709	61,222,961			
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					187,650
10	Derivatives (also subject to Credit valuation adjustment)	41,954,588	-		562,691	307,400
10	**Exposure amounts considered for regulatory purposes**	**353,304,298**	**279,796,349**	**52,884**	**751,063**	**495,050**

B.5 - 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. 2d & 32 of Annual Published Financial Statements

B.6 - 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 i.e. Business Acceptance Criteria for any customer to enter into relationship with the Bank.

Further Bank defines Risk Acceptance Criteria (RAC) 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 Policy 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 complements the Credit Policy manual which primarily deals with the details of the principles, standards and processes related to lending. So, while the primary audience of the Credit Policy is the Relationship Manager and the credit sanctioning authorities such as the Credit Review and Approval Department and the Credit Committees, the Credit Risk policy manual's primary audience is personnel engaged in the measurement, management and monitoring of risk.

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

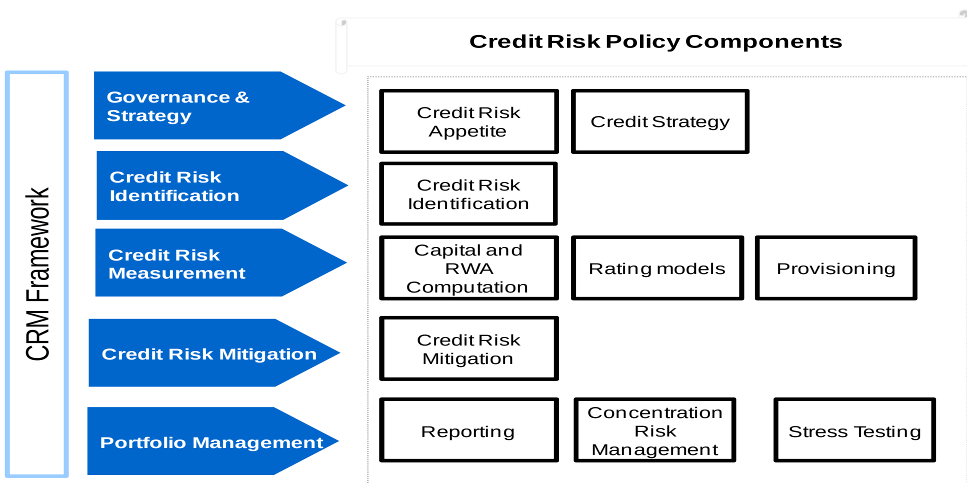


Figure 1: Integration of the Credit Risk Policy with CRM Framework

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

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

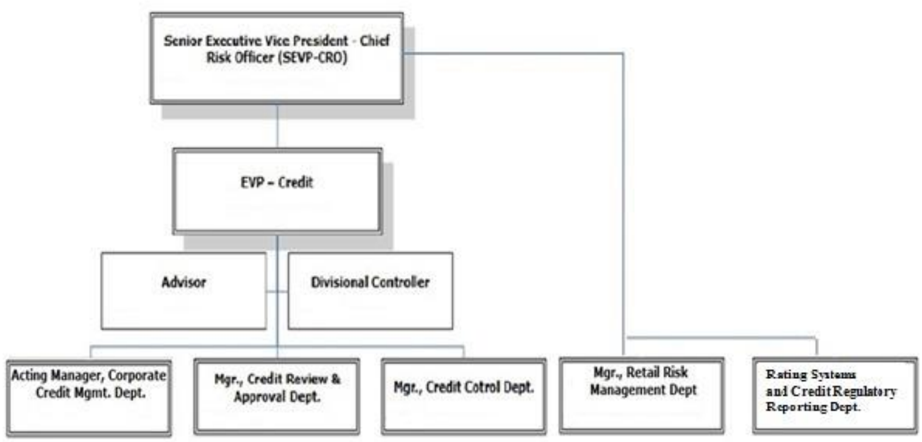
- Differs from the credit policy in that the primary audience of Credit Risk Policy is the Credit Risk management related departments whereas the Credit Policy lays down guidelines for the relationship manager and the credit sanctioning units. The scope of the policy covers all the credit risk management activities pertaining to the management of corporate credit portfolios (i.e. all non-retail portfolios), their management and its 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

We have adopted the three lines of defense principle to provide a clear division of activities and responsibilities in risk management at different levels in the Bank and at different stages in the exposures life cycle

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 risk mitigation; (4) continuous risk monitoring at the individual counterparty level as well as 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, reporting directly to the Bank's Chairman. Bank has implemented an Integrated Internal Control and Reporting Governance policy, which clearly sets the roles and responsibilities for executive management and various committees

4. Internal Audit function

Internal Audit functions are engaged in conducting audit assessment of loan quality, using appropriate analytical and statistical techniques. Further, Risk based Internal Audit (RBIA) is an internal methodology which is primarily focused on identifying the inherent risk involved in the activities or system as well as processes and provide assurance to the very senior management (Board) that risk is being managed by the management within the defined risk appetite level. In addition, internal audit also have to audit risk management frameworks, to provide assurance to Boards and senior management about their adequacy and effectiveness and provide independent assurance of the risk management information.

Internal Audit is also conducting the validation of the Risk Ratings assigned to individual Corporate Banking Division clients ensuring compliance with credit policies and lending procedures as well as review of loan, collateral and other documentation standards; Internal Audit also review early warning signals of deterioration of individual clients' credit conditions and assessment of the Provision process to ensure compliance with SAMA regulations, and also ensuring compliance with the Bank's overall policies & procedures

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 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 (RB) 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 to the ceilings that limits the bank exposure towards the main economic sectors matter in order to control the sectorial concentration risk.

Yearly ceilings is 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 are considering 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.

B.7 - CR1: Credit quality of assets - December 2016

SAR 000

		a	b	c	d
		Gross carrying values of		Allowances/ impairments*	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	1,921,460	143,565,422	2,577,515	142,909,367
2	Debt Securities	-	42,732,807	-	42,732,807
3	Off-balance sheet exposures	86,947	93,643,762	-	93,730,709
4	***Total***	2,008,407	279,941,991	2,577,515	279,372,883

**Including general provisioning*

Default exposures comprises of non performing loans and past due over 90 days, but not yet Impaired

B.8 - CR2: Changes in stock of defaulted loans and debt securities - December 2016

SAR 000

		a
1	**Defaulted loans and debt securities at end of the previous reporting period**	**2,574,434**
2	Loans and debt securities that have defaulted since the last reporting period	718,477
3	Returned to non-defaulted status	(219,215)
4	Amounts written off	(862,062)
5	Other changes	(203,227)
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**2,008,407**

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

a) Scope and definitions of "past due" and "impaired" exposures
Past due is defined by IFRS 7 as A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined in accounting policy as detailed in point 'c' below.

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 normally are substantiated by management's strong conviction, based on past experience, and indications that the borrower will honor his obligation, such as, 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 amortised 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.
A restructured troubled loan arises when the Bank, for economic or legal reasons related to the obligor's financial difficulties, grants him a concession that it would not otherwise consider. Bank measures a restructured troubled loan by reducing the recorded outstanding to net realizable value as required by the relevant accounting standards, taking into account the cost of all concessions at the date of restructuring. The concession is as a charge to the income statement in the period in which the loan is restructured.

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

B.9.1 CREDIT RISK: GENERAL DISCLOSURES December 2016

Geographic Breakdown SAR '000'

Portfolios	Geographic Area						
	Saudi Arabia	Other GCC & Middle East	Europe	North America	South East Asia	Other Countries	Total
Sovereigns and central banks:	38,648,090	208,185	493,755	2,225,324	160,033	125,619	41,861,006
− SAMA and Saudi Government	38,648,090	-	-	-	-	-	38,648,090
− Others	-	208,185	493,755	2,225,324	160,033	125,619	3,212,916
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-
Banks and securities firms	9,285,968	4,204,306	5,762,198	2,566,350	2,471,698	1,241,669	25,532,189
Corporates	130,078,699	1,170,806	10,691,340	15,534,062	805,842	683,357	158,964,106
Retail non−mortgages	22,228,082	-	-	-	-	-	22,228,082
Small Business Facilities Enterprises (SBFEs)	650,866	-	-	-	-	447	651,313
Mortgages	16,248,758	-	-	-	-	-	16,248,758
− Residential	16,248,758	-	-	-	-	-	16,248,758
Equity	1,632,850	148,562	-	147,612	-	-	1,929,024
Others	10,326,531	-	390,668	635,814	-	89	11,353,102
Total	**229,099,844**	**5,731,859**	**17,337,961**	**21,109,162**	**3,437,573**	**2,051,181**	**278,767,580**

B.9.2 TABLE (STA): CREDIT RISK: GENERAL DISCLOSURES - December 2016

Industry Sector Breakdown SAR '000'

Portfolios	Industry sector												
	Government and quasi Government	Banks and other Financial institutions	Agriculture and Fishing	Manufacturing	Mining and Quarrying	Electricity, Water, Gas and Health Services	Building and Construction	Commerce	Transportation and Communications	Services	Consumer loans and Credit cards	Others	Total
Sovereigns and central banks:	41,861,006	-	-	-	-	-	-	-	-	-	-	-	41,861,006
− SAMA and Saudi Government	38,648,090	-	-	-	-	-	-	-	-	-	-	-	38,648,090
− Others	3,212,916	-	-	-	-	-	-	-	-	-	-	-	3,212,916
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Banks and securities firms	-	25,532,189	-	-	-	-	-	-	-	-	-	-	25,532,189
Corporates	-	4,371,487	1,623,517	38,068,162	16,860,769	5,066,827	36,100,378	33,967,426	11,103,704	8,360,661	-	3,441,175	158,964,106
Retail non mortgages	-	-	-	-	-	-	-	-	-	-	22,228,082	-	22,228,082
Small Business Facilities Enterprises (SBFEs)	-	-	9	56,116	696	6,336	202,960	222,705	7,452	142,552	-	12,487	651,313
Mortgages	-	-	-	-	-	-	-	-	-	-	16,248,758	-	16,248,758
− Residential	-	-	-	-	-	-	-	-	-	-	16,248,758	-	16,248,758
Equity	-	475,149	-	87,180	509,456	198,709	-	485,406	108,923	64,201	-	-	1,929,024
Others	-	52,884	-	5,299	-	-	37,422	2,199,606	-	24,653	461,386	8,571,852	11,353,102
Total	**41,861,006**	**30,431,709**	**1,623,526**	**38,216,757**	**17,370,921**	**5,271,872**	**36,340,760**	**36,875,143**	**11,220,079**	**8,592,067**	**38,938,226**	**12,025,514**	**278,767,580**

B.9.3 TABLE (STA): CREDIT RISK: GENERAL DISCLOSURES - December 2016

Residual Contractual Maturity Breakdown SAR '000'

Portfolios	Maturity breakdown								
	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	Total
Sovereigns and central banks:	8,780,379	1,095,533	6,800,546	1,556,383	433,771	793,825	4,535,028	17,865,541	41,861,006
- SAMA and Saudi Government	8,750,197	1,000,000	6,761,000	1,515,455	236,410	-	3,724,776	16,660,252	38,648,090
- Others	30,182	95,533	39,546	40,928	197,361	793,825	810,252	1,205,289	3,212,916
Multilateral Development Banks (MDBs)	-	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-
Banks and securities firms	6,633,464	1,432,176	1,555,645	1,124,400	3,511,949	5,444,775	2,501,017	3,328,763	25,532,189
Corporates	15,231,066	9,872,775	22,186,597	19,001,237	19,184,793	31,361,551	14,999,042	27,127,045	158,964,106
Retail non-mortgages	114,398	6,372	33,167	97,791	408,164	4,987,217	15,696,213	884,760	22,228,082
Small Business Facilities Enterprises (SBFEs)	75,616	26,936	107,742	104,963	137,957	150,993	44,929	2,177	651,313
Mortgages	109,947	56	594	2,254	3,969	142,981	422,051	15,566,906	16,248,758
- Residential	109,947	56	594	2,254	3,969	142,981	422,051	15,566,906	16,248,758
Equity	-	-	-	-	-	-	-	1,929,024	1,929,024
Others	4,801,130	97,960	396,892	427,423	483,579	393,867	501,321	4,250,930	11,353,102
Total	**35,746,000**	**12,531,808**	**31,081,183**	**22,314,451**	**24,164,182**	**43,275,209**	**38,699,601**	**70,955,146**	**278,767,580**

B.9.4 CREDIT RISK: GENERAL DISCLOSURES - December 2016

Impaired Loans, Past Due Loans and Allowances SAR '000'

Industry Sector	Impaired Loans	Defaulted	Aging of Past Due Loans (days)							General Allowances
			31-90	91-180	181-360	Over 360	Charges during the period	Charge-offs during the period	Balance at the end of the period	
Government and quasi government	-	-	-	-	-	-	-	-	-	-
Banks and other financial institutions	-	-	-	-	-	-	-	-	-	-
Agriculture and fishing	1,400	-	-	-	-	-	553	-	553	-
Manufacturing	268,591	70,413	-	-	70,413	-	63,236	(44,840)	58,897	-
Mining and quarrying	-	-	-	-	-	-	-	-	-	-
Electricity, water, gas and health services	3,064	-	-	-	-	-	129	-	129	-
Building and construction	91,556	1,654	299	396	1,259	-	1,121,142	(249,068)	957,025	-
Commerce	618,304	364,190	5,543	166,630	3,062	194,497	47,429	(6,661)	444,644	-
Transportation and communication	-	-	-	-	-	-	(6,953)	-	-	-
Services	3,406	-	-	-	-	-	1,302	-	1,858	-
Consumer loans and credit cards	171,701	327,181	571,501	327,181	-	-	626,743	(611,947)	42,060	-
Others	-	-	-	-	-	-	-	-	-	-
Portfolio provision	-	-	-	-	-	-	-	-	-	1,072,349
Total	**1,158,022**	**763,438**	**577,342**	**494,207**	**74,734**	**194,497**	**1,853,581**	**(912,516)**	**1,505,166**	**1,072,349**

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

** 'Impaired Loans' are loans with Specific Provisions*

B.9.5 CREDIT RISK: GENERAL DISCLOSURES - December 2016

Impaired Loans, Past Due Loans And Allowances SAR '000'

Geographic Area	Impaired Loans	Aging of Past Due Loans (days)				Specific Allowances	General Allowances
		31-90	91-180	181-360	Over 360		
Saudi Arabia	1,158,022	577,342	494,207	74,734	194,497	1,505,166	1,072,349
Other GCC & Middle East	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-
South East Asia	-	-	-	-	-	-	-
Others countries	-	-	-	-	-	-	-
Total	**1,158,022**	**577,342**	**494,207**	**74,734**	**194,497**	**1,505,166**	**1,072,349**

B.9.6 CREDIT RISK: GENERAL DISCLOSURES - December 2016

Reconciliation Of Changes In The Allowances For Loan Impairment SAR '000'

Particulars	Specific Allowances	General Allowances
Balance, beginning of the year	826,398	1,072,349
Charge-offs taken against the allowances during the period	(912,516)	-
Amounts set aside (or reversed) during the period	1,853,581	-
Other adjustments:	-	-
- exchange rate differences	-	-
- business combinations	-	-
- acquisitions and disposals of subsidiaries	-	-
- etc.	(262,297)	-
Transfers between allowances	-	-
Balance, end of the year	**1,505,166**	**1,072,349**

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

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

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

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.

B.11 - CR3: Credit risk mitigation techniques – overview - December 2016

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	143,882,616	874,562	87,676	69,409	11,424	-	-
2	Debt securities	42,732,807	-	-	-	-	-	-
3	Total	186,615,423	874,562	87,676	69,409	11,424	-	-
4	Of which defaulted	416,294	-	548,594	-	-	-	-

B.12 - 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). 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 SA 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 used 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 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 alphanumerical scale of each agency used with risk buckets.
ECAIs use alphanumerical scales to represent risk levels. Riyad Bank uses Saudi Arabian Monetary Authority 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 use is Master Rating Scale. The Master Rating Scale (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 which is benchmarked against Moody's MRS scale.

B.13 - CR4: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects - December 2016

SAR 000

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	41,860,809	983	41,860,809	197	174,920	0.42
2	Non-central government public sector entities	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	14,732,229	15,731,794	14,732,229	8,845,054	11,390,887	48.31
5	Securities firms	1,326,275	246,703	1,326,111	131,422	528,270	36.24
6	Corporates	108,754,056	76,758,864	108,676,719	50,033,697	155,669,911	98.08
7	Regulatory retail portfolios	22,498,812	701,003	22,498,812	380,583	17,159,546	75.00
8	Secured by residential property	16,248,758	-	16,248,758	-	16,248,758	100.00
9	Secured by commercial real estate	-	-	-	-	-	-
10	Equity	1,929,024	-	1,929,024	-	2,790,277	144.65
11	Past-due loans	416,294	86,947	416,294	43,544	641,412	139.49
12	Higher-risk categories	-	-	-	-	-	-
13	Other assets	10,808,057	204,415	10,786,458	53,922	6,549,460	60.42
14	***Total***	**218,574,314**	**93,730,709**	**218,475,214**	**59,488,419**	**211,153,441**	**75.96**

B.14 - CR5: Standardised approach – exposures by asset classes and risk weights - December 2016

SAR 000

		a	b	c	d	e	f	g	h	i	j
	Asset classes/ Risk weight*	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	41,673,281	-	14,526	-	2,365	-	170,834	-	-	41,861,006
2	Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
3	Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	3,268,438	-	19,159,286	-	1,133,564	15,995	-	23,577,283
5	Securities firms	-	-	668,321	-	789,212	-	-	-	-	1,457,533
6	Corporates	-	-	1,655,885	-	4,411,285	-	151,672,596	970,650	-	158,710,416
7	Regulatory retail portfolios	-	-	-	-	-	22,879,395	-	-	-	22,879,395
8	Secured by residential property	-	-	-	-	-	-	16,248,758	-	-	16,248,758
9	Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
10	Equity	-	-	-	-	-	-	1,354,855	-	574,169	1,929,024
11	Past-due loans	-	-	-	-	-	-	96,688	363,149	-	459,837
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other assets	4,287,138	-	4,729	-	-	-	6,548,514	-	-	10,840,381
14	***Total***	**45,960,419**	**-**	**5,611,899**	**-**	**24,362,148**	**22,879,395**	**177,225,809**	**1,349,794**	**574,169**	**277,963,633**

B.21 - 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.

For the purpose of calculating the pre-settlement exposure the bank is following the current Exposure methodology (CEM) as of 31st December, 2016, wherein bank calculate the current replacement cost for each of the contract using Mark to Market (replacement) value and then adding a factor (the "add-on") to reflect the potential future exposure over the remaining life of the contract.

We have established a new credit policy for limit setting and measurement of counterparties exposure for Pre-Settlement Risk under new SA-CCR Methodology. Limit are set-up and monitored based on Counterparties Notional Trading Volume, SA-CCR methodology and EAD risk based limit monitoring mechanism.

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 SA-CCR we are considering establishing Margin Policies and Practices which will help mitigate CCR exposure; the policies will address processes to establish and periodically review minimum haircuts, recognizing any volatility and liquidity concerns with underlying collateral. Policies should also address when CCR should lead to the decision to require posted margin to be segregated. Additionally, we would maintain 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.

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 through which business can be conducted. There is currently no qualified National CCP. However, in order to conduct business with CCP we have engaged clearing broker who will be acting as our Clearing Broker and collateral will be placed in an asset segregated account with them. The trade will be cleared through them. We will have credit limit for this broker services which will be approved by the senior management committee.

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

As of December, 31st, 2016 we have been 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 should 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 should consider 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.

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.

B.22 - CCR1: Analysis of counterparty credit risk (CCR)[1] exposure by approach - December 2016

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)	188,372	562,691		1.4	751,063	445,539
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	**Total**						**445,539**

B.23 - CCR2: Credit valuation adjustment (CVA) capital charge - December 2016

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	751,063	210,100
4	**Total subject to the CVA capital charge**	**751,063**	**210,100**

B.24 - CCR3: Standardised approach – CCR exposures by regulatory portfolio and risk weights - December 2016

SAR 000

	a	b	c	d	e	f	g	h	i
Regulatory portfolio*/ Risk weight**	**0%**	**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	-	-	283,623	144,241	-	59,822	-	-	487,686
Securities firms	-	-	5,540	4,147	-	-	-	-	9,687
Corporates	-	-	-	-	-	253,690	-	-	253,690
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	**-**	**-**	**289,163**	**148,388**	**-**	**313,512**	**-**	**-**	**751,063**

*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.30 - Table SECA: Qualitative disclosure requirements related to securitisation exposures

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

The Bank is neither the originator nor sponsor for any Securitization exposure. Bank has small investment in in AAA (externally rated) traditional ABS (credit cards/auto loans only). The credit risk undertaken in this investment is similar to those like investment in any ABS security i.e. Credit risk/ Market risk/ liquidity risk/ prepayment risk.

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

Not applicable as the Bank does not acts as sponsor.

Summary of the bank's accounting policies for securitization activities.
Securitization portfolio forms part of Investments, which are classified as "Available for sale", are subsequently measured at fair value

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

We use S&P and Moody's to assess the rating of the ABS security where the Bank acts as an investor.

Basel internal assessment approach (IAA)

Not applicable to Riyad Bank

B.31 - SEC1: Securitisation exposures in the banking book - December 2016

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	-	-	-	-	-	-	52,884	-	52,884
2	residential mortgage	-	-	-	-	-	-	-	-	-
3	credit card	-	-	-	-	-	-	40,865	-	40,865
4	other retail exposures	-	-	-	-	-	-	12,019	-	12,019
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	-	-	-	-	-	-	-	-	-

B.34 - SEC4: Securitisation exposures in the banking book and associated capital requirements – bank acting as investor - December 2016

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**	**24,058**	**19,373**	**9,453**	**-**	**-**	**-**	**-**	**52,884**	**-**	**-**	**-**	**23,951**	**-**	**-**	**-**	**1,916**	**-**
2	Traditional securitisation	24,058	19,373	9,453	-	-	-	-	52,884	-	-	-	23,951	-	-	-	1,916	-
3	Of which securitisation	24,058	19,373	9,453	-	-	-	-	52,884	-	-	-	23,951	-	-	-	1,916	-
4	Of which retail underlying	24,058	19,373	9,453	-	-	-	-	52,884	-	-	-	23,951	-	-	-	1,916	-
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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

Risk management Objectives and Policies

Riyad Bank has Market and Liquidity Risk Management Department (M&LRM) under the Risk Management Division that supports Bank's capital markets businesses and Asset and Liability Committee (ALCO). The department conducts regular analysis of the Bank's interest rate, foreign exchange, and liquidity risks. These measures include Net Interest Income at Risk, Market Value at Risk, Liquidity, and Value at Risk (VaR), which is reported to ALCO and the Board of Directors. In addition to regular market risk exposure limit compliance, M&LRM undertakes a variety of adhoc analyses of market risk issues, as directed by the executive management.

a) Strategies and processes of the bank

The Bank's risk management strategy is to support the Bank's corporate and strategic objectives by assisting business and support units to effectively and efficiently.

The Bank's risk management process comprises of the following:

i. Risk Identification

Identification of risk is carried out using risk workshops attended by subject matter experts and managers related to the area under examination; workshops are facilitated by Risk Management Division personnel. In the event that the Bank does not have expertise in a specific risk area, independent external experts may be used to facilitate the process and/or provide expert advice. Each risk identified is noted without prejudice or judgment, ready for the next stage Risk Assessment.

ii. Risk Assessment

Risks identified are then assessed by the combined risk and subject matter expert team to determine the level of significance, likelihood and impact of the risk. Risks that are either high impact or have a high likelihood of occurring (or both) will receive much closer management attention than risks that have low impact and low likelihood. However, even low risks need to be considered as these can over time lead to a “slow bleed” from an organization if not controlled effectively. In developing appropriate response mechanisms against each type, we utilize the likelihood-significance table as a guiding tool in terms of our approach to each identified risk. Based on each risk’s ‘Likelihood’ and ‘Significance’, the four Quadrants indicate our response to each type/kind of risk that has been identified within the Bank.

iii. Risk Measurement

Market risks are measured through the Treasury and wholesale market systems that feed current market positions through to the risk systems. The most common risk measures used include Value at Risk (VaR) in various forms, stress testing and scenario analysis, exposure against approved limits, volatility measures and risk/return measures for investments.

iv. Risk Management

Once the Bank has identified, assessed and planned (via limits and risk appetite statements), appropriate risk monitoring and management techniques are used. There are four major risk treatment choices that can be considered as mentioned below:

- Avoid the Risk: In the avoid risk scenario Riyad Bank would decide that the level of risk is too high and avoids the risk entirely. Avoidance can commonly occur by withdrawing from that line of business entirely, or by passing the risk to another entity to manage (outsourcing the business and the risk).

- Mitigate the Risk: Mitigation means that positive action is taken to reduce the overall level of risk significantly to an acceptable level for the organization. This could include: withdrawing from parts of the business line, requesting external parties to share some of the risk (e.g. via partial outsourcing), strong insurance coverage, limiting the level of business activity so the risk is limited, developing contractual or other legal limitations on the risk level, or other methods.

- Manage the Risk: Management of the risk indicates that the Bank has decided the level of risk is acceptable, if sufficient controls, monitoring and reporting are put in place to ensure that management becomes aware of any significant change in the risk profile, and can take positive steps to remedy the situation until the risk profile once again is within acceptable boundaries. Common risk management controls include dual authority (maker/checker or 4 Eyes principles), reconciliations, regular reporting & review, limits, escalation processes, audits, risk reviews and more.

- Accept the Risk: Risk acceptance should indicate that the Bank has assessed the risk and found that it is acceptable to the Bank. No significant controls need to be put in place. The Bank consciously accepts that this risk may occur, but it is viewed as worth taking (accepting) this risk due to the overall profitability of the business line. It is important to distinguish between conscious risk acceptance (a deliberate decision) and unconscious risk acceptance. In the latter case, the Bank has not effectively identified or assessed the level of risk, and enters into a business line without realizing the level of risk the Bank is accepting. In extreme cases, this could lead to significant financial damage to a financial institution if the risks are not managed or mitigated correctly. The Riyad Bank process described here is specifically designed to minimize the chance of this unconscious risk acceptance occurring in our business.

b) Structure and organization of the market risk management function

Market and Liquidity Risk Management Department comprises of -

i. Asset Liability Management

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

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)

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.

iv. Investments Middle Office (IMO)

IMO is responsible on behalf of Riyad Capital for the risk-monitoring activities for the Asset Management and Equity Brokerage activities of Riyad Capital.

v. 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 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.

vi. 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.

c) Risk Reporting

Risks and control effectiveness are reported to management to ensure that managers within the business lines, and at senior levels, have the capacity to recognize when risks are growing too large and request remedial action to be taken. 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. Where reporting is not totally independent, Risk Management normally provide a regular review process to ensure the reporting that does occur is correct, timely and appropriate.

Market risks are measured through the Treasury and wholesale market systems that feed current market positions through to the risk systems. The most common risk measures used include Value at Risk (VaR) in various forms, stress testing and scenario analysis, exposure against approved limits, volatility measures and risk/return measures for investments.

B.37 - MR1: Market risk under standardised approach - December 2016

SAR 000

		a
		RWA
	Outright products	**495,050**
1	Interest rate risk (general and specific)	307,400
2	Equity risk (general and specific)	
3	Foreign exchange risk	187,650
4	Commodity risk	
	Options	-
5	Simplified approach	
6	Delta-plus method	
7	Scenario approach	
8	Securitisation	
9	**Total**	**495,050**

The major component of Riyad Bank's market risk comes from the FX exposure. RB doesn't have any exposures in Equity and Commodity markets under its trading book. Nor there are any proprietary OTC Option positions open.

B.41 - Operational risk

Operational Risk Management: Strategies & Processes:

Riyad Bank's operational risk strategy is to ensure that the Bank is safeguarded against all major operational risks while also ensuring that losses incurred as a result of operational risks are kept to a minimum. Assist all the business divisions to manage and mitigate their risks effectively and also be compliant with all regulatory and legal requirements. The Bank has developed and put in place robust proactive risk mitigation strategies supported by risk management frameworks, policies and procedures aimed at detecting and controlling operational risk prior to it becoming a threat. Organizational units have clearly defined risk and control objectives to ensure any failure of people, system or processes is managed proactively and as efficiently as possible.

Structure and Organization of Operational Risk Management:

A centralized Operational Risk Management function headed by the Senior Vice President of operational risk oversees the impacts of operational risks upon Riyad Bank. Operational risk summary reports are prepared jointly by the various units within Operational Risk Department and are reviewed on a monthly basis by the Operational Risk Management and Compliance Committee (ORMCC) which is chaired by the CEO, as well as submitting a Semi-Annual Report to the Board Committee. Operational Risk Management is responsible for identification, assessing, and measuring, managing and controlling operational risk throughout the Bank, via the following sub functions:

i. Insurance & Operational Loss Analysis

A dedicated Operational Loss Management section within Operational Risk Department records, analyses and reports all operational losses incurred. The loss section mitigates risk through appropriate cost-effective insurance programs, managing insurance claims and risk management surveys. The operational loss section also assesses the adequacy of risk treatment and assists business management to improve the effectiveness of internal controls by developing appropriate mitigation strategies.

The Insurance section within Operational Risk department is responsible in managing all bank-wide insurance policies and claims. It is also responsible for ensuring 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 through a cost-effective insurance program that provides protection against insurable risks.

In delivering these objectives, the Insurance section tracks & manages all claims as well as settlements with insurers and negotiates with Insurers and Brokers on all terms such as cost, coverage, limitations, exclusions and deductibles, to obtain suitable deals.

ii. Key Risk Indicators (KRIs) & Process Analysis

The KRI and Process Analysis section is responsible in providing operational risk oversight through the quantification and assessment of operational risks across the bank's business lines. This section also provide professional operational risk analysis and risk assessments covering all bank business lines, products, services, processes including relevant technological changes i.e. Change Requests (CRs) and Policies & Procedures review. Furthermore, it also includes ensuring adherence to Basel requirements pertaining to Operational Risk. This is achieved through bank wide deployment and reporting of Key Risk Indicators (KRIs), Risk Control Self-Assessment (RCSA), mandatory risk assessments of all bank products and services to compliance with Basel II requirements for Operational Risk. The major mission of the section is to facilitate operational risk awareness across the bank via the mitigation and management of bank wide operational risks and to identify control gaps related to all bank processes, products and services.

iii. Examination & Investigation (E&I)

Examination & Investigation (E&I) Section is responsible to undertake risk-based approach in accordance with the approved methodology. The mandate includes branches across Riyad bank and key Business Units. Moreover, E&I Section are also responsible for conducting bank-wide investigations. Additionally, provides advices on specific matters in relation to design and implementation of policies and procedures. E&I section continuous monitoring of resultant outcome of remedial actions implemented by business units and branches across the bank are reported to ORMCC on monthly basis.

Operational Risk Weighted Assets for Capital Allocation

Riyad Bank currently uses the Standardized approach methodology in determining its regulatory Operational risk capital and risk weighted assets, and Riyad Bank will move in future towards the implementation of new standardized measurement approach (SMA) as per the Basel and SAMA guidelines of operational risk.

B.42 - Interest rate risk in the banking book (IRRBB)

a) The general qualitative disclosure requirement of IRRBB and key assumptions

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 re-pricing 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.

The objective of the Bank in managing its interest rate risk is to secure a stable net Interest income over at least a 12 month period and over the long term.

Management

Riyad Bank manages Interest Rate Risk in the Banking Book (IRRBB) within its established Net Interest Income at Risk (NII@R) and Economic Value at Risk (Market Value at Risk) limit that are measured and monitored by Risk Management Division and reported to the Asset and Liability Committee and to the Board.

Measurement

Interest Rate Risk in the Banking Book (IRRBB) in Riyad Bank is treated as a Pillar 2 Risk as per SAMA guidelines; the Bank uses the "Duration" method to measure its IRRBB for Pillar 2 capital. The Bank has also implemented a Value at Risk (V@R) model it intends to use to measure interest rate risk and will obtain the necessary regulatory approval to use V@R to measure and report IRRBB capital charge.

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) - December 2016

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

	SAR 000's
Rate Shocks	**Change in earnings**
Upward rate shocks:	
SAR +200bp	(17,850)
USD +200bp	(89,261)
Downward rate shocks:	
SAR-200bp	17,850
USD-200bp	89,261

General Qualitative Disclosure Requirements

Internal Control

Internal Control plays a critical role in terms of aggregating and summarizing the findings which were identified by 3 Lines of Defense functions or externally through external auditors and regulators. The integrated internal control report is presented to Executive Management, Operational Risk Management & Compliance Committee (ORMCC) and to the Board Audit Committee.

On the basis of the integrated report, ORMCC ensures that Management's remediation plans are effectively implemented on a timely manner and enforce priorities, wherever required. At the year end, Internal Control will undertake annual attestation process whereby Executive Management and Divisional Heads are required to provide their attestations on the effectiveness of control environment within their division. Furthermore, key control functional heads are required to provide an extended attestations as a risk oversight owner.

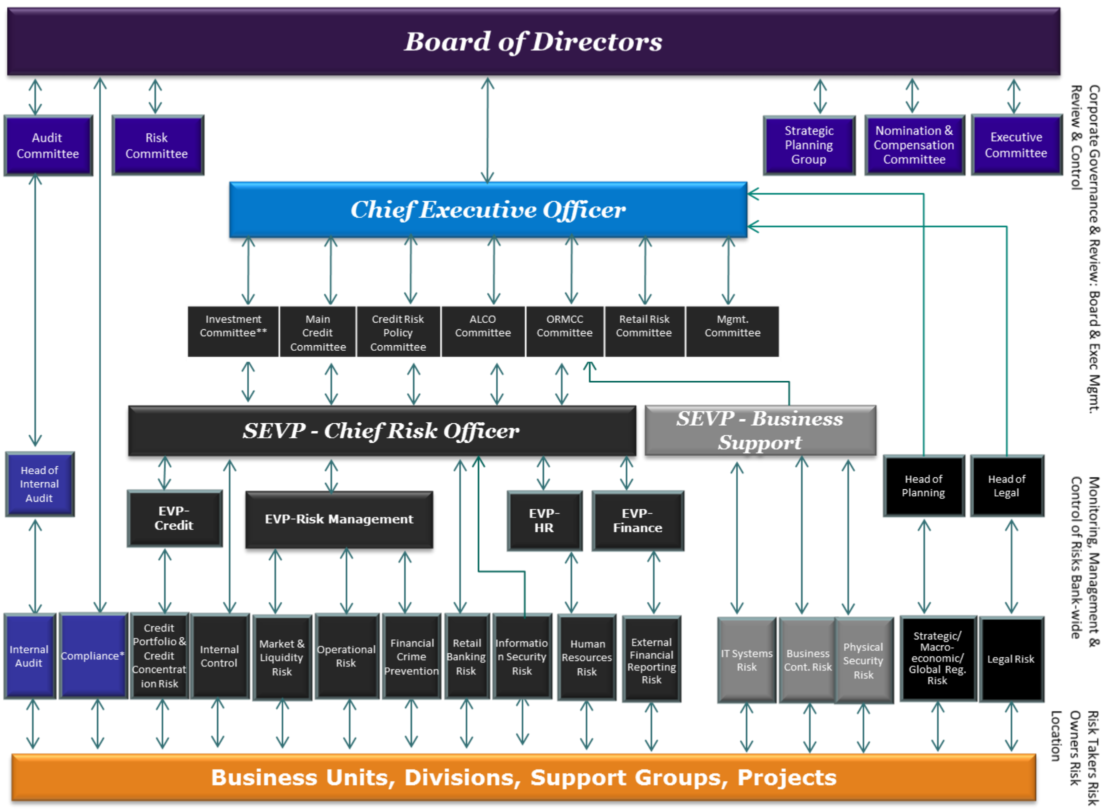
ORMCC will evaluate attestations and present the Management's Statement on internal control to the Board Audit Committee, which would assess the adequacy and provide their recommendation to the Board of Directors for approval.

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


Board of Directors
Audit Committee
Risk Committee
Strategic Planning Group
Nomination & Compensation Committee
Executive Committee
Corporate Governance & Review: Board & Exec Mgmt. Review & Control
Chief Executive Officer
Investment Committee**
Main Credit Committee
Credit Risk Policy Committee
ALCO Committee
ORMCC Committee
Retail Risk Committee
Mgmt. Committee
SEVP - Chief Risk Officer
SEVP - Business Support
Head of Internal Audit
Head of Planning
Head of Legal
EVP-Credit
EVP-Risk Management
EVP-HR
EVP-Finance
Monitoring, Management & Control of Risks Bank-wide
Internal Audit
Compliance*
Credit Portfolio & Credit Concentration Risk
Internal Control
Market & Liquidity Risk
Operational Risk
Financial Crime Prevention
Retail Banking Risk
Information Security Risk
Human Resources Risk
External Financial Reporting Risk
IT Systems Risk
Business Cont. Risk
Physical Security Risk
Strategic/ Macro-economic/ Global Reg. Risk
Legal Risk
Business Units, Divisions, Support Groups, Projects
Risk Takers Risk Owners Risk Location