RIYAD BANK

BASEL III – PILLAR 3
QUALITATIVE DISCLOSURES
31 DECEMBER 2015

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Introduction

This document provides information on the capital adequacy, and risk management processes and policies, at Riyad Bank Group. The information contained in this document is supplementary to information published in the Riyad Bank Annual Report for Year 2015 including the Audited Annual Consolidated Financial Statements, which are available on the Riyad Bank's website at www.riyadbank.com or on request to Riyad Bank, Finance Division at Riyad Bank Head Office, PO Box 22622, Riyadh, 11416, Saudi Arabia.

These risk and capital disclosures are consistent with the requirements of the Saudi Arabian Monetary Agency (SAMA) and the Basel III Accord capital adequacy requirements commonly referred to as Pillar 3 Disclosure requirements. The table headings follow the guidelines provided by SAMA. Tables 6, 9 and 11 which cover the IRB approach, securitization and Market risk under IMA are not covered in this document as the topic is not relevant to Riyad Bank.

Table 1: Scope of Application

1. In accordance with SAMA requirements, the Basel III Accord Capital Adequacy Regulations are applicable to Riyad Bank ("the Bank") on a consolidated basis, comprising Riyad Bank and its subsidiaries: Riyad Capital, Ithra' Al-Riyad and Riyad Company for Insurance Agency (collectively called the "Group").

2. Riyad Bank has a wholly owned capital market subsidiary (through direct and beneficial shareholding), "Riyad Capital", which is a Saudi limited liability company registered in the Kingdom of Saudi Arabia. Riyad Capital is a licensed financial company involved in the management of the Bank's investment services and asset management activities related to dealing, managing, arranging, advising and custody of securities. For accounting purposes all entities, where control exists, are consolidated in the Group Financial Statements, as well as for regulatory capital purposes.

3. Ithra'a Al Riyad Real Estate Company is a limited liability company wholly owned by Riyad Bank, and registered in Saudi Arabia. This subsidiary is responsible for managing asset services for real estate owners and others. It also has the right to buy and sell real estate and similar assets in pursuit of the funding purposes for which it was established.

4. Riyad Company for Insurance Agency is a limited liability Company wholly owned by Riyad Bank, and registered in Saudi Arabia. The purpose of this subsidiary is to engage in insurance agency business in the Kingdom of Saudi Arabia. The head office is located in Riyadh.

   There is no difference in the basis of consolidation used in the Audited Financial

Statements for the year ended 31 December 2015 and that used for regulatory purposes.

Some of the equity investments that are outside the scope of regulatory consolidation, being below the threshold for deduction, are risk weighted at 250% as per Basel III. All other equity investments are risk weighted at 100%.

Each company within the Group ensures compliance with regulations in terms of transfer of funds within the Group, regulatory capital, minimum capital adequacy ratios, zakat liability and statutory appropriation to reserves as per the applicable regulations and laws.

Table 2: Capital Structure

The capital of the Bank consists of the following:

1. Eligible paid-up share capital: consists of ordinary share capital of 3000 million shares of SAR 10 each. All these shares carry equal voting rights and are not redeemable. These shares rank junior to all other capital instruments and claims on the Bank.

2. Eligible Reserves consists of Statutory Reserves, Other Reserves and Retained Earnings.

3. Debt Securities: During June 2015, the Bank issued SAR 4,000 million Subordinated debt (Sukuk). These are SAR denominated with a maturity date of 24 June 2025 and are callable after 5 years, subject to the terms and conditions of the agreement.

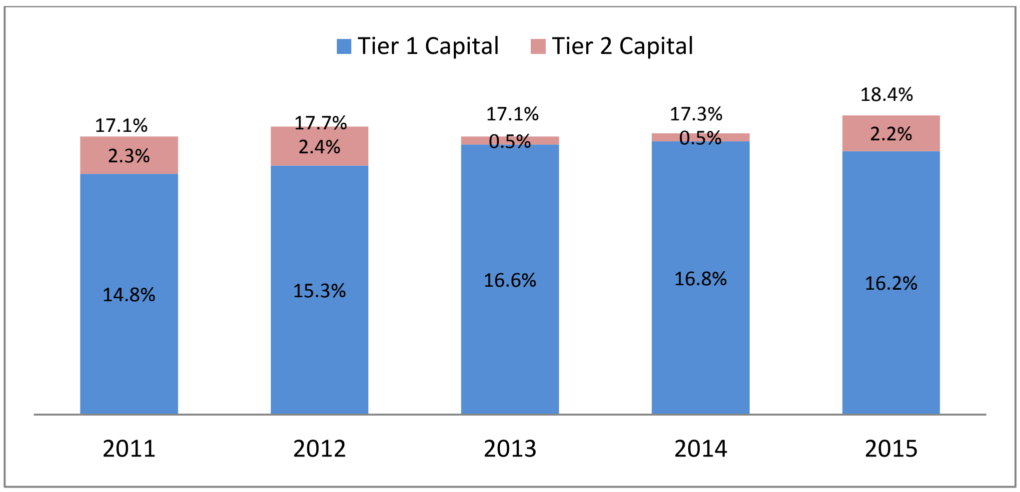
Statutory Reserves represent the accumulated appropriations of profit, while Other Reserves mainly represent the net unrealized revaluation gains (losses) on available for sale investments.

Retained Earnings are the undistributed profit of prior years and current year profits.

Table 3: Capital Adequacy

Riyad Bank provides SAMA with quarterly capital adequacy reports which detail its quarter-end capital adequacy position, semi-annual stress testing report and it also submits a forward-looking Internal Capital Adequacy Assessment Plan (ICAAP) on an annual basis. The ICAAP details the current capital position, significant capital plans for the future and stress tests of the Bank's capital position under plausible yet severe scenarios. The Bank has a reasonably adequate capital position under these scenarios. The capital adequacy position at end of financial year and quarter-end is set out in the Bank's annual report, and in the interim quarterly financial statements respectively.

In accordance with SAMA's minimum capital requirements, the Bank provides capital for the core banking risks (Credit, Market and Operational Risk) in accordance with Pillar 1 of the Basel Accord. As depicted below the Bank has consistently maintained a strong Capital Adequacy Ratio (CAR):



** For the purposes of presentation, the RWAs, total capital and related ratios after 2012 are calculated using the framework and the methodologies defined under the Basel III framework. The comparative balances and ratios for 2012 and earlier years are calculated under Basel II and have not been restated.*

Under the Supervisory Review Process (SRP) with SAMA, the Bank also provides additional capital for risks not directly covered in Pillar 1 under the Pillar 2 provisions of the Basel III Accord. These include credit concentration risk, settlement risk, IT risk, strategic risk, etc. The Bank's capital position, under the SRP, is the total of Pillar 1 and Pillar 2 Capital requirements, plus any additional capital requirements determined by the Regulator.

The Bank is actively developing more sophisticated models and methodologies to move towards advanced approaches for measuring and monitoring Credit, Market, and Operational risks for capital adequacy purposes.

Table 3.1: General Qualitative Disclosure Requirements

The Risk Management function at Riyad Bank is headed by the Chief Risk Officer (CRO) and includes oversight and management of all aspects of the Bank’s risk planning, risk modeling, risk measurement and risk methodology development, and implementation of the capital adequacy rules required by SAMA and the Basel Committee. The Credit Risk management mandate is exercised through the Credit Division, covering all aspects of credit risk. The Risk Management Division covers both financial and operational risks. In addition, the Bank's Capital Management Section, reporting to the CRO, is responsible for overseeing and coordinating the preparation of Internal Capital Adequacy Assessment Plan (ICAAP).

Asset and Liability Committee (ALCO) is responsible for regular reporting to The Board of Directors and its risk sub-committee on the development, implementation and approval of an effective Capital Management / ICAAP Operating Policy, as per The Board of Directors approved Capital Management Framework.

The Compliance function, including regulatory compliance, is separately performed by the Bank's Compliance Department reporting directly to the Bank’s Chairman.

Credit Division is responsible for managing and controlling credit risk throughout the Bank, the development and implementation of credit policy, and development and implementation of Basel Internal Ratings Based (IRB) Approach for Credit Risk.

Credit risk policy committee is responsible for monitoring of credit risk taking activities and overall credit risk management functions within the bank.

Risk Management Division is responsible for managing and monitoring Market and Operational Risk. Responsibilities for the future induction of Basel related Internal Model Approach (IMA) for Market Risk, and Advance Measurement Approach (AMA) for Operational Risk reside within this Division.

Internal Audit, Finance, Information Technology Governance (ITG) and Legal also provide valuable contributions in managing overall risk.

Asset and Liability Committee (ALCO) oversees market, liquidity, and strategic business risks assumed by the Group in the course of carrying on its business. The Bank's Operational Risk Management & Compliance Committee (ORMCC) oversees operational risk, including the operational control environment, and regulatory compliance.

ORMCC also reviews the Bank's annual compliance plan for its coverage and relevance, and on a monthly basis monitors progress towards implementing the compliance plan. Risk is inherent in the Group’s activities and is managed through a process of ongoing identification, assessment, measurement monitoring, and reporting subject to risk limits and other controls.

The Board Audit and Risk Committees receive and review regular reports on risk and controls across the Bank, including review of the Annual Compliance Plan for its coverage and relevance. A Board Risk Committee was formed for the Board term starting 1/11/2013 and comprises of three Board members.

Internal Control:

As required by Saudi Arabian Monetary Agency's guidelines on Internal Controls, the Bank's Management is required to provide a Statement of Management's responsibility for establishing and maintaining adequate internal controls and procedures followed by evaluation on the effectiveness of the internal controls. The Board of Directors are required to provide their endorsement of Management's evaluation.

To ensure the effectiveness of the Bank's internal control function the Board Audit Committee is responsible for ensuring compliance with rules and overseeing the Bank's transactions, and that a control system is in place, and the financial data reported are accurate and fair. It also monitors and reviews the effectiveness of the internal Audit activities, making recommendations to the Board on the appointment, reappointment, and changing of the external Auditors and ensuring their independence.

During the year 2015, the bank has implemented an Integrated Internal Control and Reporting Governance policy, which clearly sets the roles and responsibilities for executive management and various committees. In addition, the bank has adopted the 3 Lines of Defence Model, which sets the roles across the Three lines of Defence. To ensure that the Internal Control and reporting Governance policy is adequately implemented the bank's management has appointed divisional controllers within the key divisions, and key control functions and to assist the management on the continuous evaluation of key controls. The risk oversight functions continued to oversee the risks, limits, and thresholds according to the approved risk appetite statement through risk based annual reviews.

The Internal Control plays a critical role in terms of aggregating and summarizing the findings which were identified by any of the 3 lines of Defence or externally through external auditors / regulators. The Integrated internal control report is presented to the Executive Management and Operational Risk Management and Compliance committee (ORMCC) and to the Board Audit Committee.

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

ORMCC will evaluate attestations and present the Management's Statement on internal control to Board Audit Committee which would assess the adequacy and recommend their endorsement to Board of Directors on the Annual Report thereby fully adhering to the regulatory requirements.

Table 3.2: Credit Risk

Credit exposures arise principally in lending, and investment activities. There is also credit risk in off balance sheet financial instruments, such as loan commitments, guarantees, etc. The Bank uses internal credit rating tools to assess credit standing of its counterparties and assigns credit ratings accordingly. The Bank also uses external credit ratings, issued by the major Credit Rating Agencies, where available. A potential credit loss might arise due to lack of proper credit analysis of the borrower's credit worthiness, inability to service the debt, lack of appropriate documentation etc.

The Board of Directors has approved a Credit Risk Management (CRM) Framework document. The CRM Framework defines the Bank's credit principles, functional structures, activities and responsibilities that determine how the Bank is organized to identify, assess, measure, approve, monitor, and reporting credit risk across all the Bank's business units.

The CRM Framework and credit risk governance structure are designed to provide comprehensive controls and continuing management of credit risk inherent in the Bank's business activities. Additionally, the Risk Appetite Statement sets the quantum of Credit Risk being the largest and most capital consuming type of risk the Bank is willing to accept in pursuit of its financial and strategic objectives.

The structure is based on:

- The Board Credit Strategy Statement,
- Clear definitions of Credit Risk appetite threshold and Credit Loss tolerant limits
- Documented and approved core Credit Risk Management Principles.

Risk Principles for lending are:
Credit exposures shall only be provided to clients within a sound credit review and approval process,

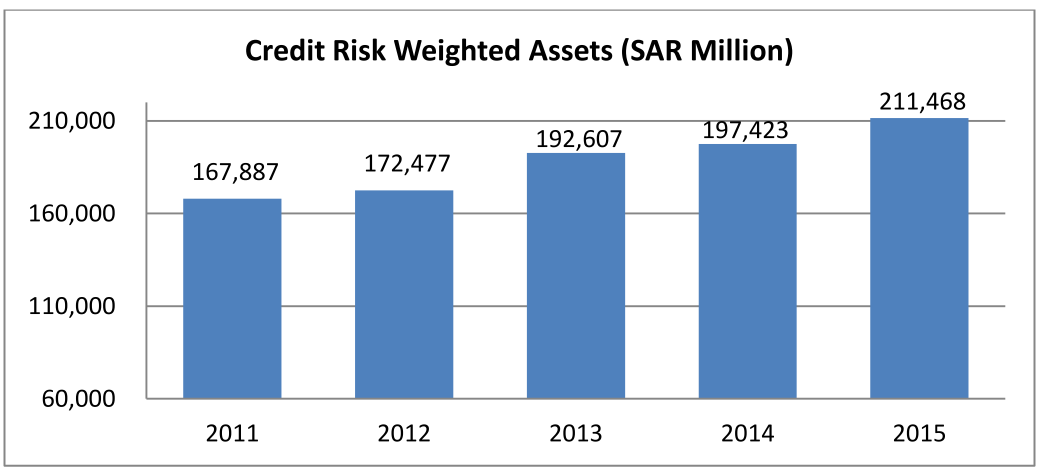
- Independence of credit risk management and separation of key functions,
- Proper internal controls to mitigate the risk of credit management processes,
- Lending is based on client's credit worthiness and his ability to fulfill his Contractual Obligations rather than security/collateral offered, and
- A loan portfolio widely distributed across various economic sectors and risk ratings.
- Large exposures are well managed within the pre-defined limits.

The Board and its Executive Committee and Risk Sub-Committees approves and oversees risk appetite, credit policy, large credits and regularly reviews the existing credit exposures, status and trends in credit quality as well industry and sector credit concentrations. In addition, the Bank's Credit Strategy and Risk Appetite Statement set out a clear plan for identifying, establishing risk tolerance parameters, along with monitoring and reporting mechanism for credit risk in the Bank.

Credit risk management is closely coordinated with, but independent of, the core revenue generating business units of the Bank. Credit Division is responsible for managing and monitoring credit risk.

Credit Risk Weighted Assets for Capital Allocation

Effective 1 January 2008, with the approval of local Regulator, the Bank adopted the Standardized Approach for measurement of credit risk for capital adequacy purposes. Credit risk capital assessment is calculated by extracting all credit risk exposures and risk categories and mapping this to appropriate Basel asset classes. The credit risk system provided by independent external vendors then calculates risk weighted assets for capital allocation purposes; the table below provides Bank's Credit risk weighted assets under the Standardized Approach as per local Regulator guidelines:



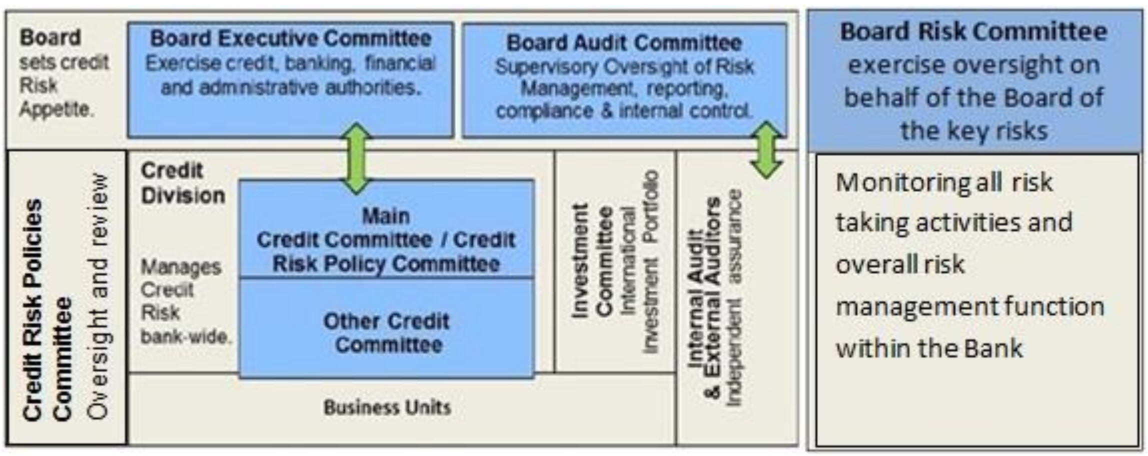
** For the purposes of presentation, the RWAs, total capital and related ratios after 2012 are calculated using the framework and the methodologies defined under the Basel III framework. The comparative balances and ratios for 2012 and earlier years are calculated under Basel II and have not been restated.*

The Bank is currently in the process of implementing Basel Foundation Internal Ratings Based (FIRB) Approach for Non-Retail credit portfolio, and Advanced Internal Ratings Based (AIRB) Approach for Retail credit portfolio.

Table 4: Credit Risk - General Disclosures

Structure and Organization of Credit Risk Management:

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



Credit Risk Policy Committees

The Credit Risk Policy Committee is one of the executive management committee at the Bank to ensure that a well-defined credit policy is developed, formulated and effectively implemented for identifying, measuring, monitoring and controlling Credit risk in all of the Banks activities, both at the individual credit and portfolio level.

Credit Committees

The Credit Committees are comprised of the Main Credit Committee, Credit Committee and Co-Signature Committees. The Main Credit Committee (MCC) and other Credit Committees operate within Board-delegated credit approval and credit risk authorities. The Credit Committees are responsible for reviewing and approving credit exposures of the Bank within risk-limits, defining criteria required for loan documentation and defining methods of follow-up and supervision.

The MCC is chaired by the Chief Executive Officer of the Bank, has senior executives as members, and is the highest management level credit authority. The Committee's decisions are determined by the majority voting and in case of equal votes, the Committee Chairman has the casting vote.

Investment Committee

The Investment Committee, chaired by the Chairman of the Board, oversees the Bank's total proprietary domestic and international investments. It is responsible for the setting of investment guidelines which govern the asset allocation and management process of the Investment portfolio. The Committee reviews and approves the asset allocation mix of the portfolio, within Board approved portfolio size and specified limits. The Committee aims to ensure that the portfolio remains well diversified at all times, and provides optimal returns for an approved level of risk.

Credit Risk Management

Credit Division is responsible for identifying, assessing, reporting and monitoring credit risk throughout the Bank, via the following work functions:

- Credit Review and Approval: reviews and conducts thorough assessments of Credit Applications.
- Special asset management: review watch accounts and manage problematic loans
- Lending Portfolio Services: ensures that credit decisions have been taken by the appropriate authority and in accordance with the SAMA's regulations and the Bank's policy. This function is also responsible for completion of documents and collateral enforceability as per the facility agreements prior to facility disbursement, and monitors the appropriate utilization of approved facilities; such function at our London Branch and Houston Agency is performed by their respective dedicated units that are subject to Bank's internal control and compliance standards.
- Corporate Risk Management: manages the Bank's credit policies and loan portfolio, and makes recommendations on strategic lending matters.
- Remedial Management: manages non-performing accounts.
- Credit Risk Management: manages credit application requirements, credit reporting and credit risk rating.

Audit Function

The Internal Audit Department reports directly and independently to the Board of Directors. The Loan Review team within Internal Audit conducts a continual review of the corporate and commercial credit portfolios. It monitors compliance with the Bank's risk management policies and reports important issues to the Board of Directors. External Auditors conduct audits and provide independent assurance to the Board Audit Committee and to the Board of Directors on the Bank's activities including credit risk.

Credit Control Environment:

Risk Appetite Statement

The Bank's level of investment in different areas is monitored and dictated through the Risk Appetite Statement. The statement considered are credit, market and operational risk and is applied using multiple dimensions via Risk Appetite Dashboards. That is comprised of extended number of top risk variables. The dashboard is monitored on ongoing business and is presented to the Board/ The Board Risk Committee.

Credit Risk Strategy statement

Credit Risk Strategy statement considers the Bank's approach and culture in regard to taking and managing Credit Risk. It ensures that the risk is rewarded, long profitable, diversified credit relationship are establish within good quality loan portfolio and adequate internal control environment.

Framework

The Credit Risk Management Framework sets out the principles, structures, functions and activities and responsibilities for credit risk management at all levels of the Bank, while complying with the rules and regulations of domestic and international regulators and other authorities.

Policies

Board approved Frameworks, Committee Charters and Limits provide the highest level of internal authority for credit risk management and control and set out areas of risk to be avoided, guidelines on acceptable risks and general methods to manage and mitigate credit risk. Management Policies, Procedures and Methodologies support the Board approved framework, limits and Committees' charters.

Credit risk management policies that support the credit framework are approved by the Credit Risk Policy Committee.

Credit Internal Control

Riyad Bank's Policies and Procedures require the use of effective internal controls. Control activities in place are designed to reduce the risk of error, mistake, fraud, loss or other negative impact on the Bank and its customers. Riyad Bank's organizational structure supports the control culture as it separates the group business units which transact business with customers, from support units responsible for independently controlling, measuring, monitoring, and reporting on credit risk. Segregation of duties is built into the work practices of the Bank at all levels. Assurance on the effectiveness of internal control is obtained from various sources including Credit Division, Risk Management Division, Internal Audit Department, regulatory reviews and external audit.

Credit Risk Profile:

Riyad Bank's credit exposure can be classified in two broad risk categories: Retail Credit Risk and Non-retail credit risk.

Retail Credit Risk

Retail credit risk is the risk of non-collection of amounts due by retail banking customers on due dates. This typically covers risks associated with personal loans, residential mortgage loans, credit card products, and other products offered to individuals.

Retail Banking risk acceptance is primarily based on the application of fixed criteria using well defined scoring methodologies. Post approval monitoring and supervision by Consumer Finance Risk Management is handled on a portfolio level basis.

Consumer lending risks are mitigated by stipulating a maximum cap on Personal Loans, Credit Card Products, Auto Leasing and Residential Mortgage Loans. In addition, a debt-burden analysis is undertaken to assess the repayment ability of Retail borrowers.

The retail credit risk group monitors trends in the consumer finance credit portfolio and reviews sector concentration limits on credit exposures to ensure risk diversification. Comprehensive review and reporting by the Consumer Finance Loans Administration group ensures strong credit monitoring and control over the portfolio.

Portfolio provisions are made on a portfolio basis for Personal Loans, Credit Card Products and Residential Mortgage Loans in line with the Bank's provisioning policy. In the event of non-payment for 180 days from the due date, the loan is charged off against profit & loss. A Consumer Collection Department follows up on all delinquent loans.

Non-Retail Credit Risk

Non-retail lending is defined to cover all credit risks arising from non-retail activities. This would typically include corporate loans, inter-bank loans, loans to government or semi- government entities, trade finance, structured and project finance, corporate or government leasing, syndicated loans, corporate guarantees, corporate overdrafts, and lending to small and medium sized enterprises. Non -retail lending represents the majority of total credit exposure by total asset size for Riyad Bank (please refer to the audited consolidated financial statements for year-ended 31 December 2014 and relevant notes to the accounts for more detail). A summary of credit risk assessment policies under major credit risk classifications is as follows:

Country Risk

All off-shore business activities are supported by appropriate country limits put in place in line with the Board's approved country exposure limits.

Approved country limits are reviewed at least once a year and more often if market, economic or political conditions change rapidly. Country risk quality is monitored on a daily basis. All exceptions are escalated to senior management for consideration and decision.

Financial Institutions Risk

Riyad Bank has a dedicated Financial Institutions' credit risk management unit which ensures prudent and timely risk identification, quantification, monitoring, and reporting of exposures to financial institutions' counterparties.

The Bank's Financial Institutions risk appetite is set by the Board approved Financial Institutions Credit Risk, Country Risk and Settlement Risk Matrices. Ratings are used for counterparty classification. Each category contains allowed products and total credit risk ceilings which are linked to Riyad Bank and counterparty equity.

Financial Institutions' exposures are monitored on a daily basis. Limits are reviewed on an annual basis or more often if market conditions change rapidly. Limit breaches are reported to management immediately.

Investment Portfolio Risk

The Bank holds a proprietary Investments Portfolio which operates within clearly defined risk benchmarks as approved by the Investment Committee. While the Board establishes the portfolio size and the specified limits, the Committee sets the policy framework and strategic asset allocation. An independent external consultant provides support with the asset allocation process. The external Fund Managers' performance and their compliance with the operating guidelines are closely monitored on an ongoing basis. An in-depth quantitative and qualitative review of the externally managed portfolio is performed by an independent consultant on a quarterly basis.

Corporate Lending Risk

Riyad Bank manages corporate credit risk prudently by ensuring timely risk identification, quantification, calibration, monitoring and credit exposure reporting.

The Bank's risk appetite is set to mitigate and minimize potential erosion of earnings or capital due to avoidable losses in the banking and trading books or from frauds and operational inefficiencies. In addition, the Bank defines its portfolio strategy for each sector. Concentration limits are set in terms of single customer exposure and industry concentration.

Credit exposure to customers is governed by three types of limits: country, sector, and individual or group of related clients. The approved limit structure is governed by the Bank's credit policy which sets out limits, sub-limits, and cross limits. The nature and size of the approved limits are based on the borrowers' risk ratings and need.

The Bank approved authority level is shown in the diagram below:

Riyad Bank Credit Exposure Authority Levels

Co-signature committees	Credit Committee	Main Credit Committee	Main Credit Committee, jointly with the Chairman of the Board	Executive committee of the Board and / or the Board of Directors
Low	←	Authority Level	→	High
Commercial	←	Lending Activity	→	Investment

Corporate counterparties are assessed in tandem with the Bank's risk appetite benchmarks and well defined credit -granting criteria which include a clear indication of the Bank's target market and a thorough understanding of the borrower as well as the purpose and structure of the credit and its source of repayment.

All credit extensions are made on an arm's length equivalent basis. Credit risks to related parties are covered by collateral as per regulatory requirements and are appropriately monitored. All credit applications are risk rated as per the Bank's Credit Risk Rating System.

Risk is monitored on a facility basis, total exposure (single name) basis, and portfolio basis (across entire portfolio and by facility type).

Corporate Internal Rating Structure

The Bank uses a combined rating system. First, credit quality of the borrower is assessed through obligor credit risk rating models/scorecards built on an externally developed credit rating platform. The resulting "Obligor Risk Rating" of the borrower is based on well documented quantitative (financials) and qualitative (business analysis) criteria. Next, an internal rating is assigned on a 12 point scale, based on a range of definitions and criteria given for each rating grade and by taking into account the specific nature of the facility requested, collateral offered, account behavior and other credit specific factors. Both ratings are documented in the credit applications and are submitted to the appropriate credit approving authority.

Rating changes are approved by the Credit Risk Rating Committee and / or Credit Risk Rating Review Committee. Loan Quality Review and Internal Audit monitors the in-house rating process through regular reviews of the ratings process and the ratings assigned to individual borrowers.

Treasury Credit Risk

Counterparty limits. Use of Treasury credit limits is consolidated into a total credit usage with each financial institution.

Risk Mitigants:

Corporate and Retail Risk Mitigants

Collateral gives the Bank priority over other lenders and unsecured creditors. Collateral is never the principal rationale for lending decision, but is viewed as an alternative source of repayment in the event that a business fails or enters into bankruptcy.

The Bank has explicit policy guidelines on collateral acceptance that determine collateral valuation, enforceability, marketability and liquidity. Acceptable collateral security includes time deposits, real estate, shares, mutual funds and guarantees. Other retail lending risk mitigation techniques commonly used are salary assignment and Credit Bureau reports that outline borrower's prior credit history which is mandatory for all retail loan applications. Retail lending collaterals usually include shares, mutual funds, guarantees or residential property linked directly to the borrower.

Past-due Loans Past-due loans are loans where all or part of the credit exposure payable by the counterparty has not been repaid on the due date. Individual client accounts are monitored for irregularities or unusual behavior, including non- payment of principal, insufficiency of funds or available limits to debit, interest and fees. On a daily basis, the system generates alerts and sends them to the concerned Relationship Managers for action.

Loans are considered to be in default if past due by more than 90 days, on any material portion of its credit obligations to the bank (or the banking group of which it is a part).

Remedial Management participates in the development of remediation plans jointly with Relationship Managers.

Impaired Assets

Please refer to note 3, 6 and 7 of the audited consolidated financial statements for year-ended 31 December 2015 for information on impaired assets.

Provisioning Policy:

The Bank has an established and approved provisioning Policy for retail and non- retail credit exposures . The Policy is consistently applied and the resulting recommended provisions are presented to the Board Audit Committee on a quarterly basis.

Provisions are calculated and set after a detailed and comprehensive review process involving business areas, Remedial Management, Loan Recovery Department, Chief Risk Officer, Executive Management, Internal Audit and Audit Committee on a quarterly basis. The provision calculation methodology is regularly audited by the Bank's Internal Audit Department. Provisions are also reviewed quarterly by the Bank's external auditors.

Riyad Bank provisions consist of portfolio and specific provisions. Specific provisions are created for collateralized defaulted personal loans (against shares and/or Investment Funds Portfolio), other Asset Back Portfolio and non-retail loans classified as non-performing, based on individual review on a periodical basis of credit exposures less the present value of expected recoverable amounts. Portfolio provisions, for both retail and non-retail loans, are estimated by the Bank using a well-defined methodology in line with the IAS39 requirements covering Commercial Loans & Advance Portfolio and Consumer Loans performing exposures and applying a range of provision ratios which reflect the impairment on each portfolio category.

Table 5: Credit Risk - Disclosures for Portfolios Subject to the Standardized Approach and Supervisory Risk Weights in the IRB approaches

The Bank uses Moody's, Standard & Poor's and Fitch as External Credit Assessment Institutions (ECAIs).

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.

The Bank does not rely on public/ unsolicited issue ratings.

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

Table 6: Credit Risk: Disclosure for Portfolios Subject to IRB approaches

Not Applicable.

Table 7: Credit Risk Mitigation - Disclosures for Standardized and IRB Approaches

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

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

Table 8: General Disclosure for Exposure Related to Counterparty Credit Risk

Credit Concentration Risk:

Credit Concentration Risk is defined as a potential loss arising from a loan portfolio that is large enough to destabilize the core operation of a bank. Concentration risk in credit portfolios comes into being through an uneven distribution of bank loans to individual borrowers (single-name concentration), in an industry, services sectors or / and geographical regions (sector concentration).

Concentration in Name and Economic Sector in corporate credit portfolio has been given primary importance. Risk arising from "imperfect diversification" of exposures into particular economic sector is important in terms of marginal contribution to capital allocation. Moreover, the bank also carries risk on account of "finite granularity" emanating from the size of an individual obligor. Measuring these risks allows the Bank to more realistically oversee those risks inherent in "Name" and "Economic Sector" concentration. The Bank, is using an exposure based HHI methodology to calculate the credit concentration risk capital charge.

1. Credit Concentration in Economic Sectors

Economic Sector exposure setting process involves defining and segregating the credit portfolio by economic sectors. Measuring and managing concentration risk in the Bank's corporate credit portfolio on exposure to various economic sectors is guided by certain practical considerations. It not only acknowledges credit risk in a portfolio context and take advantage of portfolio diversification in loans to different economic sectors but also equip the Bank to arrive at a capital estimate by incorporating credit concentration risk. For this methodology 25 different RB's internally defined economic sectors were considered.

2. Credit Concentration Risk- Name

The notion of name concentration risk is generally better understood than economic sector concentration risk. The measurement tool available ranges from simulation based/analytical credit portfolio models to ad-hoc HHI based models to determine capital requirements. Conceptually, the name concentration risk related to idiosyncratic risk which represents the effects of risks that are particular to size of individual borrowers. As a portfolio becomes more fine-grained, in the sense that the largest individual exposures account for a smaller share of total portfolio exposure, idiosyncratic risk is diversified away at the portfolio level. This risk is totally eliminated in an infinitely granular portfolio (one with a very large number of exposures).

Table 9: Securitization: Disclosures for Standardized and IRB Approaches

Not Applicable.

Table 10: Market Risk - Disclosure for Banks using the Standardized Approach

Please refer note 29 of the audited consolidated financial statements for year-ended 31 December 2015 for detailed commentary and information on Market Risk.

Market risk:

Market Risk Governance

The Bank has an Asset and Liability Committee (ALCO) as one of its executive management committees which reviews its market risk activities (in both Banking and Trading books), liquidity and ensures strategies exist for the management of the Bank's assets, liabilities and capital. The Committee meets on a monthly basis and is chaired by the CEO.

Interest rate risk

Interest Rate Risk arises from the possibility that the changes in interest rates will affect either the fair values or the future cash flows of the financial instruments. The Board has established interest rate Value at Risk (V@R) and gap limits. The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established limits.

Equity price risk

Equity price risk refers to the risk of decrease in fair values of equities in the Bank's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks. The bank has set V@R limits for its non-trading investment portfolios and does not have equities in its trading book.

Foreign currency exposure

The Bank manages exposure to effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency profiles and in total for overnight positions, which are monitored daily.

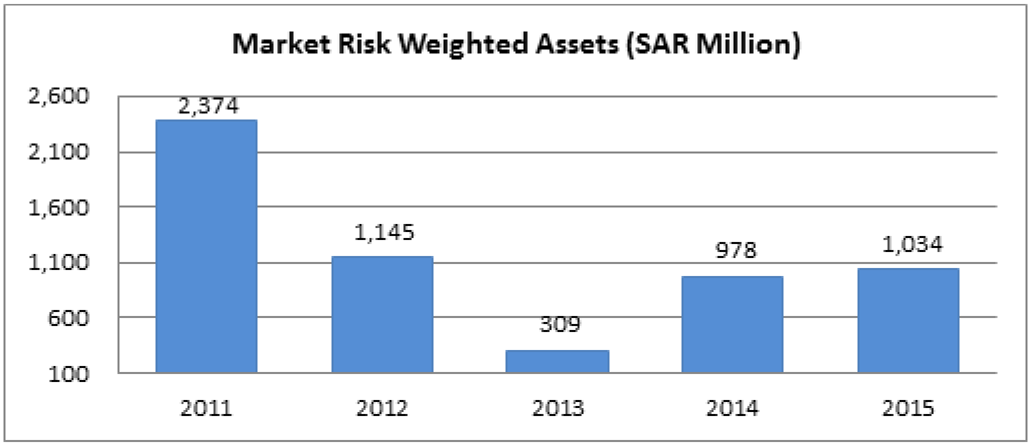
Liquidity analysis

Liquidity risk is the risk that the Bank will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to become unavailable. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an appropriate balance of cash, cash equivalents and readily marketable securities. Riyad Bank is also Basel III compliant with respect to the two liquidity risk ratios of Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

Market Risk Weighted Assets for Capital Allocation

Riyad Bank uses the Standardized Approach in determining its regulatory Market risk capital and weighted assets. The Bank will apply to SAMA to use the Internal Model Approach (IMA) for both traded and non-traded market risk capital charge determination after the current regulator driven "Fundamental Review of the Trading Book" standards is finalized.

The table below provides Bank's Market risk weighted assets under the Standardized Approach as per SAMA guidelines:



** For the purposes of presentation, the RWAs, total capital and related ratios after 2012 are calculated using the framework and the methodologies defined under the Basel III framework. The comparative balances and ratios for 2012 and earlier years are calculated under Basel II and have not been restated.*

Table 11: Market Risk: Disclosures for Banks using the Internal Models Approach

Not Applicable.

Table 12: 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. 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 Departments within Operational Risk Department and are reviewed on a monthly basis by the

Operational Risk Management and Compliance Committee which is chaired by the CEO, as well as submitting a Semi-Annual Report to the Board Audit Committee. Operational Risk Management is responsible for managing and controlling operational risk throughout the Bank, via the following work functions:

Insurance & Operations Loss Analysis Section

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.

Internal Control Examination Section

Internal Control Examination Section (ICE) is responsible to undertake risk-based Examination and Investigation in accordance with the approved methodology. Examination of branches includes branches across Riyad bank including (Retail, Corporate, Ladies, Private & Golden Service Centre) and Business Units includes (i.e. Riyad Capital Investment Operations covering Investment centers, Consumer Finance Department, Payments, Cash & Clearing , Branch Support Operation, Customer Care Unit and Corporate Customer Care Unit).Moreover ICE is also responsible for conducting bank-wide ad-hoc investigations. Additionally ICE also provide advice on specific matters in relation to design and implementation of policies and procedures. As Member of Procedures Review Committee (Review new policies and procedures and provides inputs on operational risks).ICE has an approved follow up process for early and effective and implementation of recommendations and effective reporting to ORMCC.

Fraud Control Department

Fraud Control Department is the focal point for the Bank's implementation in combating embezzlement and fraud against the bank and its customers. Responsibilities include fraud prevention, monitoring & detection, investigations, and reporting of any and all suspicious activities either from external customers or internal staff.

Key Risk Indicators (KRIs) & Risk Control Self-Assessment (RCSA)

The KRI and Process Analysis Sectionis responsible in providing operational risk oversight through the quantification and assessment of operational risks across the bank's business lines. 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 and compliance with Basel II requirements for Operational Risk. The major mission of the Sectionis 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.

Insurance Department

The Insurance Department within Operational Risk 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 Department 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.

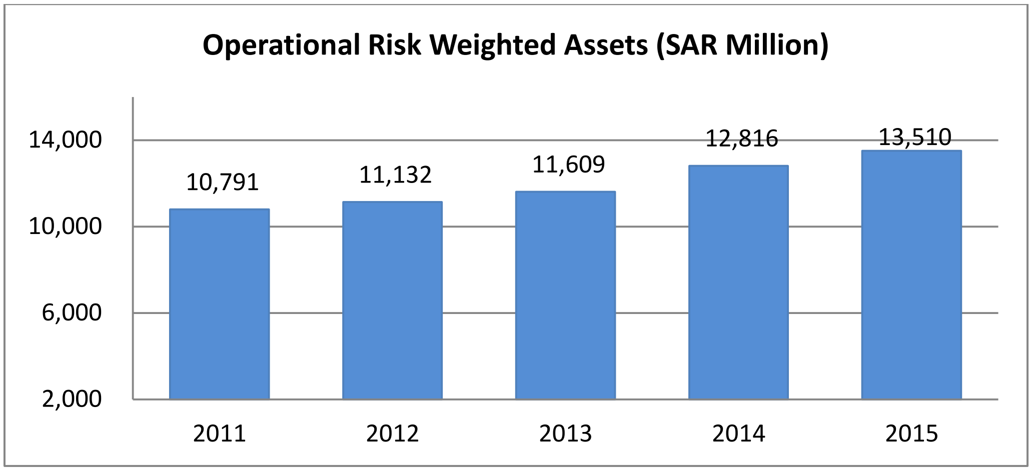
Money Laundering Control Department

The Money Laundering Control Department creates policies to develop effective rules designed to comply with the laws and regulations related to compliance with the Anti-Money Laundering (AML), Combating Terrorist Financing (CTF) and Know Your Customer (KYC) principles in order to protect the Bank and its business from being exploited as a channel for passing the suspicious transactions, and it also monitors the transactions to report the suspicious cases to the competent authorities. It responds to all requests of Saudi Arabian Monetary Agency within the agreed timelines, and it provides training and awareness plans for all Riyad Bank employees on combating money laundering.

Operational Risk Weighted Assets for Capital Allocation

Riyad Bank currently uses the Standardized measurement methodology in determining its regulatory Operational risk capital and risk weighted assets, and is gradually preparing itself to move towards the Advanced Measurement Approach (AMA).

The table below provides Bank's risk weighted assets for Operational risk under the Standardized measurement methodology as per SAMA guidelines:



** For the purposes of presentation, the RWAs, total capital and related ratios after 2012 are calculated using the framework and the methodologies defined under the Basel III framework. The comparative balances and ratios for 2012 and earlier years are calculated under Basel II and have not been restated.*

Table 13: Equities - Disclosures for Banking Book positions

The Bank holds equity investments both for capital gains and strategic purposes. All investment securities are initially recognized at fair value, including any incremental direct transaction costs associated with the investment. After initial recognition these investments are measured at fair value. For an available for sale equity investment where the fair value has not been hedged, any gain or loss arising from a change in its fair value is recognized directly in 'Other reserves' under shareholders' equity until the investment is derecognized or impaired, at which time the cumulative gain or loss previously recognized in shareholders' equity is included in the consolidated income statement for the year. Investments in associates are initially recognized at cost and subsequently accounted for under the equity method of accounting.

Table 14: Interest Rate Risk in the Banking Book (IRRBB)

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) limit that is 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.

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