Basel III Pillar 3 Qualitative & Quantitative Disclosures
31 December 2016

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B.1 - Table OVA: Bank Risk Management Approach

Business model determination and risk profile

ANB's (The Bank's) Risk Management strategy is intrinsically interlinked with the Bank's business strategy, i.e. Bank's risk appetite and its business strategy co-exist to achieve and enhance shareholder/stakeholder value. The Bank has a conservative approach towards conducting business and assuming risks, with significant importance attached to its brand and reputation. The Bank's philosophy is to proactively manage risks to ensure that risk-taking activities are commensurate with its size and complexity of operations. The Bank's approach towards risk management is governed by the following guidelines:

- Risks are identified, measured, monitored, controlled and managed within a robust risk management framework.
- Risks are managed proactively, based on collective oversight, experience and conservative judgment, well-supported by systems, controls and processes.

The Bank's Board (The Board) determines the business strategy, which primarily revolves around the following broad categories of business segments:

Corporate Banking manages the Loans, deposits and other credit products for corporate and institutional customers, small to medium sized businesses.

Treasury Banking manages the Bank's trading and investment portfolio and its funding, liquidity, currency and commission rate risks with focus on filling the business gaps within the Bank to enhance Corporate/Consumer cross-sell opportunities, and managing Bank's liquidity requirements through prudent policies.

Retail Banking focuses on deposit, credit and investment products for individuals.

Investment and brokerage services focuses on Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities regulated by CMA.

The formulation of Bank's strategy is a thorough process, developed on the basis of inputs provided by each business unit, which are consolidated to provide a macro-level picture of the whole Bank. The results are then further reviewed, in light of the projected macro-economic environment in general and banking prospects, in particular. The impact of strategy on the Bank's capital adequacy is considered and adjustments are made to ensure that Bank's strategy is in line with the projected risk appetite and capital adequacy. The iterative process continues till business strategy is aligned with the risk strategy.

The Board is responsible for creating environment and organizational structure to ensure effective implementation of the strategy within the risk management framework. The Board or relevant Board Committee reviews and approves risk management policies to manage all material risks faced by the Bank. Risk Management Group (RMG) is mandated with the task to communicate approved policies relating to risk identification, measurement, monitoring and control to all functional/business units in the Bank to ensure that risks undertaken are consistent with stakeholder expectations, Bank's strategic plan and regulatory requirements.

Based on the current business model, major risks faced by the Bank are Credit, Market & Liquidity and Operational, all of which have well-defined limits, controls and reporting mechanism in place.

Risk Governance Structure

The Bank's approach to risk management is based on well-established governance processes and relies on both individual responsibility and collective oversight, supported by comprehensive reporting, thus ensuring the achievement of strategic objectives with prudence and foresight. Risk management activities occur simultaneously at the following levels.

Strategic level involves risk management functions performed by the Board & its committees and senior management. It includes provision of all resources, i.e. human resources, systems, and support required for effective risk management on bank-wide basis.

Macro Level involves risk management within a business area or across business lines. Generally the risk management activities performed by middle management or units devoted to risk management fall into this category.

Micro Level involves real-time management where risks are actually created. These are the risk management activities performed by individuals who take risk on behalf of the Bank such as front office and loan origination functions.

The Bank's risk governance is built upon the premise that each business line is responsible for monitoring the risks inherent in its business activities, which is augmented by the oversight provided by the Board and its relevant committees.

A summary of roles and responsibilities of Board/its committees and other entities within the Bank is as follows:

Board is responsible for providing oversight on the effective management of the Bank's overall risk. While recognizing the risks to which the Bank is exposed, they provide the required human resources, environment, practices and systems to address such risks.

Risk Committee (RiskCom) is responsible to assist the Board in overseeing the risk management processes and ensuring that there are adequate internal control systems in place. RiskCom is also responsible for developing a risk strategy for the Bank to spell out the overall risk appetite, providing guidance/clarifications to RMG and senior management from time to time, and discharging other related responsibilities as may be assigned to it by the Board.

Executive Committee (ExCom) has been vested by the Board with powers to manage the Bank efficiently, and mainly responsible for implementing the Bank's strategy successfully. Excom approves risk management policies ensuring that they are communicated down the line by senior management. It also ensures implementation of risk management framework and maintaining adequate infrastructure to support the framework. Excom is also responsible for managing risks within the risk appetite set by the Board and ensuring the effectiveness of internal controls.

Risk Management Group (RMG) is responsible for effective implementation of the risk management framework across the Bank, including the following main activities:

- Formulation of individual risk policies in line with Risk Management Policy, risk appetite and regulatory guidelines
- Review of Credit, Market, Liquidity, Operational and other risks (Business Continuity, Fraud, E-Banking etc.) across the Bank and implementation of Basel/SAMA requirements for capital adequacy.
- Risk strategy review and recommendation;

RMG plays a pivotal role in monitoring the risks associated with all major activities of the Bank. Its role, as a risk manager, is to set parameters for risk activities and, as a strategic partner, to advise Business and Support units, on the best ways to identify risks.

Business/Support Units are accountable for managing risks associated with their respective activities within established tolerances. The purpose of this is to ensure that those who make business decisions understand the risks they are taking and incorporate this understanding in decision-making process in order to achieve acceptable risk-adjusted returns.

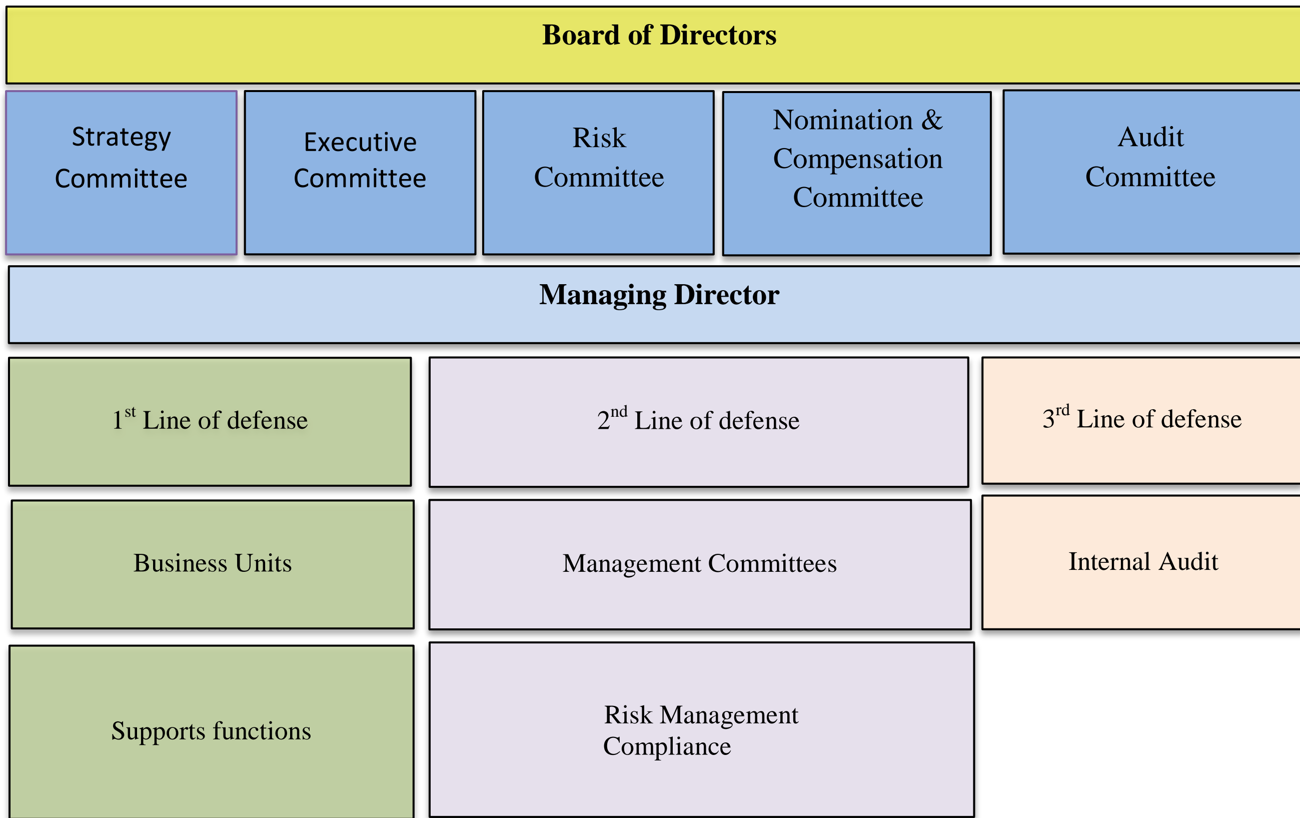
Compliance with the help of Business and Support functions, ensures Bank's compliance with the rules and regulations that govern banking business and implement Bank's Code of Ethical Behavior. Compliance is also responsible for implementing Anti-Money Laundering (AML) and Combat Terrorism Financing (CTF) rules.

The Compliance function assists in identifying, assessing, monitoring and reporting on compliance risk in Bank's operations and personnel conduct. The function contributes, in an independent manner, to the overall risk management of the Bank by protecting the integrity and reputation of the Bank and the staff, and in strengthening the accountability and transparency.

Internal Audit (IA) independently monitors the effectiveness of risk management policies, procedures and internal controls through periodic testing of the design and operation of the processes related to the identification, measurement, management, monitoring and reporting of risks. The findings of audit reviews are reported to the respective Business/Support Heads, relevant Committees and/or Audit Committee. The purpose of independent review is to ensure that those who take or accept risk on behalf of the Bank are not the only ones who measure, monitor and evaluate the risks. IA covers all perceived risks in the Bank including Contingency, Fraud, E-Banking, Information Security risks, etc.

The Bank's Risk Governance structure follows 3 lines of defense model as shown below:

RISK GOVERNANCE STRUCTURE



Channels to communicate and enforce the risk culture

The Bank's risk appetite and tolerance limits and policies relating to risk identification, measurement, monitoring and control are clearly communicated to all functional/business groups in the Bank to ensure that risks undertaken are consistent with shareholder's expectations, Bank's strategic plan and regulatory requirements. The purpose of effective communication is to ensure that the risk culture is understood throughout the Bank as intended.

RMG is responsible for inculcating risk culture and communication across the organization. The approach, inter-alia, include development and dissemination of information through various documents/channels:

Policies define the Bank's overall risk appetite and are developed based on best practices, requirements of regulatory authorities and inputs from business, senior management as well as ExCom/RiskCom/Board. Policies also provide guidance to businesses and risk management units by setting the boundaries on the types of risks the Bank is prepared and willing to take.

Guidelines are the directives provided to implement policies. Generally, they describe the risk exposures and conditions under which the Bank is prepared to do business. The guidelines may change

from time to time, due to market or other circumstances. Risk taking outside of these guidelines requires exceptional approval by appropriate authorities.

Processes & Standards are the activities associated with identifying, evaluating, documenting, reporting and controlling risk. Standards define the breadth and quality of information required to make a decision, and the expectations in terms of quality of analysis and presentation.

Various Reporting tools are used to aggregate measures of risk across products and businesses for the purposes of ensuring compliance with policies, guidelines and standards, thus providing a mechanism for communicating the quantum and sensitivities of the various risks in the portfolio. This information is used by the senior management as well as ExCom/RiskCom/Board to understand the Bank's risk profile and performance of the portfolio against pre-defined goals.

The Bank ensures through its annual training and communication plans that risk management processes are understood and effectively practiced across the Bank. In addition to scheduled trainings, special training sessions, as per Business unit and Support functions' requests, are also conducted. Furthermore, interactive eLearning module which has been rolled-out across the Bank is also used for communicating risk-related issues.

Scope and main features of risk measurement systems

The Bank has developed various methodologies to measure and monitor major risks inherent in its operations. Risks are evaluated both quantitatively and qualitatively, as appropriate, on a recurring basis. The implications, advantages and shortcomings of any particular measurement approach are properly documented. Appropriate additional analysis is done to address potential shortcomings. Since all risks might not be readily quantifiable, where quantification is not an effective option, qualitative measures are developed. This enables understanding the nature and quantum of risk exposures and to make prudent decisions on the basis of such information.

Credit Risk tracks trends and identifies weaknesses in the quality of corporate, commercial, retail and private banking portfolio by employing Obligor & Facility risk rating system to assess the quality of obligor and riskiness of facilities. Rating system is established with the objective to place the responsibility on business units to regularly evaluate credit risk on exposures and identify problems within their portfolios as well as establishing early warning signals for detecting deterioration in credit quality

The Bank classifies its exposures into 13 risk categories, of which 10 are for performing obligors and 3 are for nonperforming obligors. Rating is assigned to a borrower through a system-based methodology, which takes into account financial and non-financial information, translating into a grade and Probability of Default (PD) for the relationship. Facility Risk Rating (FRR), which assesses the riskiness of facilities, is used for deriving the Loss Given Default (LGD) for a relationship, thus assigning separate rating for obligor and facility characteristics.

Market Risk identifies the risk through series of market factors in foreign exchange, interest rates, commodity prices, equity prices and their volatilities. To measure the market risk, Bank uses fully integrated system to capture all live contracts. The system identifies all market factors from the traded contracts. Market Risk Department (MRD) is responsible for the design and implementation of the Bank's market risk measurement system, which produces daily risk management reports that are closely evaluated based on the relationship between risk exposure and trading limits.

The Bank has established Risk & Control Self-Assessment (RCSA) framework to identify operational risks arising from products, procedures and activities and evaluate the effectiveness of controls over those risks. These risks & controls are self-assessed and monitored by the business/support units on a regular basis. The consolidated assessment results are benchmarked against pre-defined risk appetite/acceptable levels and appropriate actions initiated to strengthen the control environment. An independent review and challenge process is in place, which assists in ensuring completeness, accuracy and consistency across the Bank.

The Bank's Loss Data Management process allows collection and analysis of loss events (actual, potential and near-miss) and identifies new risks or control weaknesses that caused the operational loss, escalating these to appropriate levels of management for strengthening the operational risk framework. The mechanism aims at minimizing any financial consequences of the events and addressing the root causes for refining the control mechanism to reduce recurrence of similar losses in future.

Process of risk information reporting provided to the Board and Senior Management

Management reports are generated for monitoring and control purposes on periodical basis - monthly, quarterly, semi-annually and annually, as appropriate.

A summary off the Bank's credit portfolio and key risks inherent is these portfolios is provided to Bank's Risk Committee and Audit Committee for their overview.

Daily reports on Trading and Liquidity risks, showing exposures versus limits are provided to the senior management including CRO, CFO and Group Treasurer. Any breach of internal limits need ratification from the approving authority, and implementation of the remedial actions is monitored by MRD. ALCO/MRPC is responsible for deciding the form and content of the reports required to carry out its functions.

Detailed market risk reviews are submitted to the Board and Excom, Risk Committee and Audit Committee, on a quarterly or semi-annual basis, as appropriate. The reviews highlight major changes in the Bank's market and liquidity risk profiles as well as compositions of the investments portfolio.

Periodic Operational risk updates on the overall operational risk environment of the Bank and key operational loss events are provided to Operational Risk Committee (ORC). Risk review reports submitted to Board/Audit Committee on a quarterly basis and Risk synopsis to Risk Committee on a half-yearly basis, summarizes operational loss events and progress on key operational risk initiatives.

Qualitative information on stress testing

A stress-testing framework that is commensurate with the Bank's size, location and nature of activities is in place. Sensitivity and Scenario-based approaches to stress testing are used to assess Bank's vulnerability and possible impact of negative economic events on its capital. The stress-testing framework is forward-looking and subject to change based on experience and evolving techniques. At least three stress-testing scenarios are applied to arrive at the stressed capital ratios, with a view to ensure that the Bank remains adequately capitalized under stressed conditions during economic down-turns. Adequate stress-testing procedures are in place for Credit, Market (trading book), Interest Rate (Banking book), Liquidity and Operational Risks. All the other risks covered under Internal Capital Adequacy Assessment Plan (ICAAP) have built-in mechanism to account for the forward-looking stressed conditions. Stress testing is carried out on semi-annual basis.

However, in the event of imminent adverse changes in the overall economy, stress testing may be conducted more frequently.

Strategies and processes to manage, hedge and mitigate risks

The Bank's Credit Policy provides detailed guidelines to manage credit risk effectively; it is reviewed and updated from time to time based on experience, emerging issues, best market practices and directives from regulatory authorities. The Credit Policy is designed to provide objectives and credit risk management strategies, with a view to strengthen and enhance Bank's ability to measure and mitigate credit risks on pre-emptive basis to minimize credit losses.

The Bank believes that collateral security is an effective means of mitigating risk and improving credit quality. Although generally desirable to enhance credit quality, Bank does not entirely rely on collateral to make lending decisions since collateral is only considered as a secondary source of repayment. Accordingly, wherever possible, tangible security is obtained based on the Bank's risk assessment.

The Bank has implemented a interest rate hedging policy in compliance with the International Accounting Standards. Interest rate derivatives, mainly interest rate swaps and futures are used to hedge specific exposures with an aim to keep the interest rate risks within limits. The Bank also uses currency swaps to hedge specific positions in foreign currencies, when necessary. Effectiveness of all hedges is regularly monitored throughout their term.

The existing control environment is the foundation on which the Bank functions; it provides discipline and structure that influences the quality of internal control. New/updated products, policies, procedures and systems are periodically reviewed to control and/or mitigate material operational risks, risk limits and control strategies to adjust the operational risk profile in accordance with the overall risk appetite and profile of the Bank. As a risk transfer mechanism, the Bank has also taken necessary insurance covers.

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

(Figures in SR 000's)

		a	b	c
		RWA		Minimum capital requirements
		31-Dec-16	30-Sep-16	31-Dec-16
1	**Credit risk (excluding counterparty credit risk) (CCR)**	**140,121,707**	**143,869,819**	**11,209,737**
2	Of which standardised approach (SA)	140,121,707	143,869,819	11,209,737
3	Of which internal rating-based (IRB) approach			-
4	**Counterparty credit risk**	**1,880,858**	**751,607**	**150,469**
5	Of which standardised approach for counterparty credit risk (SA-CCR)	1,880,858	751,607	150,469
6	Of which internal model method (IMM)			-
7	Equity positions in banking book under market-based approach	-		-
8	Equity investments in funds – look-through approach			-
9	Equity investments in funds – mandate-based approach			-
10	Equity investments in funds – fall-back approach			-
11	Settlement risk			-
12	Securitisation exposures in banking book	-	-	-
13	Of which IRB ratings-based approach (RBA)			-
14	Of which IRB Supervisory Formula Approach (SFA)			-
15	Of which SA/simplified supervisory formula approach (SSFA)			-
16	**Market risk**	**933,982**	**772,969**	**74,719**
17	Of which standardised approach (SA)	933,982	772,969	74,719
18	Of which internal model approaches (IMM)	-		-
19	**Operational risk**	**12,892,057**	**12,881,909**	**1,031,365**
20	Of which Basic Indicator Approach			-
21	Of which Alternate Standardised Approach	12,892,057	12,881,909	1,031,365
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)**	**155,828,604**	**158,276,304**	**12,466,288**

Explanation of signficant drivers behind differences in reporting periods T and T-1
RWA for counterparty credit risk have increased due to business turnover related to Bank's customer derivatives dealings.

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

(Figures in SR 000's)

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with SAMA	19,503,973	19,503,973	19,503,973				
Due from banks and other financial institutions	4,030,850	4,030,850	4,030,850				
Positive fair value derivatives	459,770	459,770		459,770			
Investments, net	25,548,399	25,548,399	25,548,399				
Loans and advances, net	115,511,521	115,511,521	118,634,865				
Investments in associates	616,395	616,395	616,395				
Other real estate	136,634	136,634	136,634				
Investment property, net	1,651,363	1,651,363	1,651,363				
Property and equipment, net	1,839,222	1,839,222	1,839,222				
Other assets	710,595	710,595	710,595				
Total assets	**170,008,722**	**170,008,722**	**172,672,296**	**459,770**	**-**	**-**	**-**
Liabilities							
Due to banks and other financial institutions	3,858,871						3,858,871
Negative fair value derivatives	439,789						439,789
Customers' deposits	135,907,457						135,907,457
Other liabilities	3,859,862						3,859,862
Debt securities and sukuk	2,018,190						2,018,190
Total liabilities	**146,084,169**		**-**	**-**	**-**	**-**	**146,084,169**

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

(Figures in SR 000's)

		a	b	c	d	e
			Items subject to:			
		Total	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)	170,008,722	172,672,296	-	459,770	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	170,008,722	172,672,296	-	459,770	-
4	Off-balance sheet amounts	52,414,416	20,935,981			
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	Derivatives	45,506,900			874,150	36,817,441
10	**Exposure amounts considered for regulatory purposes**	**267,930,038**	**193,608,277**	**-**	**1,333,920**	**36,817,441**

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

Business model translation into the components of the Bank's credit risk profile

The Bank's credit risk exposures mainly arises from lending activities like loans & advances as well as exposures arising from off-balance sheet instruments like commitments, guarantees, letters of credit etc. Moreover, investments in the banking book also exposes the Bank to credit risk. The Bank's credit risk mainly arises from the following lending activities, being the major components of Bank's overall strategy :-

Corporate Market serviced by the Corporate Banking Group with focus on corporations in KSA, Project Finance & Syndication deals.

Commercial/SME Market serviced by Commercial Banking Department with focus on small to medium merchants and businesses engaged in commerce, manufacturing, services & construction projects.

Consumer Market serviced by Retail Banking Group provide personal loans, auto-lease and credit card facilities to employees of government entities and eligible corporations, whereas high Net-Worth individuals serviced by Private banking and Treasury Group, provide conventional facilities as well as margin trading and FX-trading facilities.

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

Credit Risk policies and procedures are established to provide control on credit risk portfolios through periodic assessment of the credit worthiness of obligors, quantifying maximum permissible exposure to specific obligor and continuous monitoring of individual exposures and portfolios. The Credit Risk policy of the Bank is designed to provide objectives and credit risk management strategies, which include:

- Strengthening and enhancing Bank's ability to measure and mitigate credit risks on pre-emptive basis to minimize credit losses.
- Strengthening and enhancing Bank's systems and procedures for early problem recognition.
- Strengthening and enhancing credit portfolio management process.
- Compliance with local regulatory requirement and industry's best practices for credit risk management.

The Bank's Credit Risk policy addresses all functions and activities related to the credit lending process, ranging from defining the minimum required information for assessing obligor credit worthiness to developing the clear risk-based approval authority mechanism.

The limits/benchmarks for credit risk are spread across various dimensions which include Industry Exposure Limits, Country Risk Exposure Limits and Counterparty Exposure Limits. Quantitative limits are set at different levels ranging from obligor to portfolio.

Structure and organization of the credit risk management and control function

The Credit Risk Department, part of Risk Management Group, is responsible for Policy formulation and Portfolio management for all type of credit risks undertaken by the Bank.

The Bank has adopted centralized credit approval process and follows the philosophy of joint approval authority, which is directly linked to the borrower's Probability of Default (PD) and its facility characteristics measured by Loss Given Default (LGD) estimates. Based on afore-mentioned factors, there are three main layers of approval authorities. The highest credit authority is vested in the Executive committee, a Board level committee. The second level of credit approval authority is vested in the Senior Credit Committee and third layer consists of four levels of approval authorities, which draws its members from the business units and the Credit Review Department.

Credit Review Department and Credit Administration & Control (CAC) are part of the credit management process; Credit Review Department is engaged in the day-to-day activities of the approval process, whereas CAC is part of the administrative, activation, control, monitoring, documentation and follow-up process.

Relationships between the credit risk management, risk control, compliance and internal audit

The Bank follows the philosophy of 3 lines of defense, wherein functional units are responsible for risks arising from their activities and act as first line of defense. The second line of defense comprises of relevant Management Committees, RMG and Compliance Functions. Credit Risk being part of RMG responsible for monitoring and controlling the credit risk inherent in all the activities undertaken across the Bank.

The Compliance function assists in identifying, assessing, monitoring and reporting on compliance risk in matters relating to credit risks faced by the Bank. The function contributes, in an independent manner, to credit risk management pertaining to regulatory compliance.

Internal Audit (IA) being the third line of defense, independently monitors the effectiveness of credit risk management policies, procedures and internal controls through periodic testing of the design and operation of the processes.

Scope of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors

Management reports are generated for monitoring and control purposes on periodical basis - monthly, quarterly, semi-annually and annually, as appropriate. These reports are comprehensive, have wide scope and address several issues including:

- Portfolio quality, Industry concentration and large exposures;

- Product concentration, credit monitoring and concentration of shares held by the Bank as collateral;
- Past due follow-up, customer-provisioning details and provision movement report.

Credit Risk Department also submits for review, periodic reports to Board, Risk Committee and Audit Committee, covering its observation on key credit risks faced by the Bank.

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

(Figures in SR 000's)

		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	Loans	1,225,906	117,408,959	1,836,340	116,798,525
2	Debt Securities		24,103,178		24,103,178
3	Off-balance sheet exposures				-
4	**Total**	1,225,906	141,512,137	1,836,340	140,901,703

The following criteria are used to determine obligor default. The obligor:

- Has an obligation which is 90 (or more) days past due.
- Has an obligation for which the bank has stopped accruing interest.
- Has an obligation that is classified as non-performing by the bank.

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

(Figures in SR 000's)

		a
1	**Defaulted loans and debt securities at end of the previous reporting period**	**1,268,059**
2	Loans and debt securities that have defaulted since the last reporting period	145,666
3	Returned to non-defaulted status	-
4	Amounts written off	(320,921)
5	Other changes	(133,102)
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**1,225,906**

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

Scope and definitions of “past due” and “impaired” exposures

Definition of Past Due

Exposures that are not settled on their due date are classified as “Past Due” and reflected as such on the Bank’s books the following day. The appearance of a loan as past due, does not imply that there is a problematic credit, as the business units often successfully prompt the customers to settle such amounts within a few days.

Definition of Impaired Assets

In determining whether an individually assessed exposure has become impaired, Bank makes judgments as to whether there is any observable data indicating decrease in the estimated future cash flows. This evidence may include an indication that there has been an adverse change in the payment status of borrowers. Management uses estimates based on historical loss experience for loans with similar credit risk characteristics, when estimating the cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Extent of past-due exposures (more than 90 days) that are not considered to be impaired

Generally, individually assessed customers with 90+ DPDs are considered impaired. The only exception is, when relevant credit authorities approve certain selected customers to continue as performing despite the 90+ DPDs – such approvals are invariably supported by adequate justification provided by the concerned business units, which may include possibility of collection from receivable and/or availability of high quality collateral, good past-track, etc.

Description of methods used for determining impairments

The Bank reviews its portfolios to assess specific and collective impairment on a quarterly basis. In determining whether an impairment loss should be recorded, management applies judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its cash flows. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In addition to specific allowances against individually significant loans and advances, the Bank also makes a

collective impairment allowance against exposures that, although not specifically identified as requiring a specific allowance, have relatively greater risk of default than when originally granted. The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk characteristics (for example industry sector, borrower grade or product);
- The estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- Management's judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the consolidated statement of financial position date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio based on economic and market conditions, customer behavior, portfolio management information, credit management techniques and collection and recovery experience in the market.

Bank's definition of a restructured exposure

The Bank treats those exposures as restructured where any principal/interest (including penalty) is written-off prior to creation of a new loan, or any loan is granted at pricing lower than the cost (SIBOR/LIBOR) or problem customers (with Risk Rating 10 or worse) whose exposures are restructured and agreement signed. The revised amount of debt agreed with the customer is classified as a 'Restructured Loan' which the borrower agrees to settle through phased repayment over a period of time.

Quantitative Disclosures

The Quantitative Disclosures are provided separately in the following sections

B.9 - CRB : Breakdown of exposures by Geographical Areas - December 2016

(Figures in SR 000's)

Asset classes/ Geographical Area	Saudi Arabia	Other GCC & Middle East	Europe	North America	South East Asia	Other Countries	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	29,391,650		23,162	5,391,858			34,806,670
Non-central government public sector entities (PSEs)							-
Multilateral development banks (MDBs)							-
Banks	4,643,650	2,745,388	722,064	473,638	157,032	95,934	8,837,706
Securities firms		563,962					563,962
Corporates	108,038,354	165,886	482,644		19	238,773	108,925,676
Regulatory retail portfolios	24,198,906						24,198,906
Secured by residential property	1,516,292						1,516,292
Secured by commercial real estate							-
Equity	1,182,337						1,182,337
Past-due loans	259,878						259,878
Higher-risk categories	901,921	49,986			34,305		986,212
Other assets	6,554,721						6,554,721
Total	**176,687,709**	**3,525,222**	**1,227,870**	**5,865,496**	**191,356**	**334,707**	**187,832,360**

B.9 - CRB : Breakdown of exposures by Industry - December 2016

(Figures in SR 000's)

Asset classes/ Industry Sector	Government and quasi government	Banks and other financial institutions	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building and construction	Commerce	Transportation and communication	Services	Consumer Loans and Credit Cards	Others	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	34,806,670												34,806,670
Non-central government public sector entities (PSEs)													-
Multilateral development banks (MDBs)													-
Banks		8,837,706											8,837,706
Securities firms		563,962											563,962
Corporates		10,408,815	1,706,763	16,349,185	462,346	8,393,691	15,075,919	15,482,866	5,579,522	4,265,085		31,201,484	108,925,676
Regulatory retail portfolios											24,198,906		24,198,906
Secured by residential property												1,516,292	1,516,292
Secured by commercial real estate													-
Equity		624,962	27,237	195,398	4,169	97,808			168,754	64,009			1,182,337
Past-due loans				4,113			2,752	203,911	1,096	980	46,955	71	259,878
Higher-risk categories		700,685		1,995			113,721	3,750		18,790		147,271	986,212
Other assets												6,554,721	6,554,721
Total	**34,806,670**	**21,136,130**	**1,734,000**	**16,550,691**	**466,515**	**8,491,499**	**15,192,392**	**15,690,527**	**5,749,372**	**4,348,864**	**24,245,861**	**39,419,839**	**187,832,360**

B.9 - CRB : Breakdown of exposures by Residual Maturity - December 2016

(Figures in SR 000's)

Asset classes/ Residual Maturity	Less than 8 days	8-30 days	30-90 days	90-180 days	180-360 days	1-3 years	3-5 years	Over 5 years	No Fixed Maturity	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	9,487,159	123,310	4,231	145,348	578,352	4,877,531	674,286	11,717,799	7,198,654	34,806,670
Non-central government public sector entities (PSEs)										-
Multilateral development banks (MDBs)										-
Banks	818,742	30,633	312,990	227,025	308,243	1,906,060	715,663	526,769	3,991,581	8,837,706
Securities firms			149,650	75,395		225,638	113,279			563,962
Corporates	1,597,873	7,270,154	14,849,127	20,724,888	19,381,552	17,599,572	13,011,328	11,743,884	2,747,298	108,925,676
Regulatory retail portfolios	561	4,512	33,359	164,529	480,516	5,948,900	16,493,904	1,072,625		24,198,906
Secured by residential property	6	6	238	695	1,925	31,738	115,235	1,366,449		1,516,292
Secured by commercial real estate										-
Equity									1,182,337	1,182,337
Past-due loans									259,878	259,878
Higher-risk categories				68,339	74,169	111,893			731,811	986,212
Other assets	5,186	10,243	17,852	29,940	64,098	25,963	45,818		6,355,621	6,554,721
Total	**11,909,527**	**7,438,858**	**15,367,447**	**21,436,159**	**20,888,855**	**30,727,295**	**31,169,513**	**26,427,526**	**22,467,180**	**187,832,360**

CRB - Impaired Loans, Past Due Loans and Allowances - December 2016										(Figures in SR 000's)
Industry sector	Impaired loans *	Defaulted **	Aging of Past Due Loans (days)				Specific allowances			General allowances
			Less than 90	90-180	180-360	Over 360	Charges during the Year To Date	Charge-offs during the Year To Date	Balance at the end of the Year To Date	
Government and quasi government	0	0	0	0	0	0	0	0	0	0
Banks and Other Financial Institutions	0	0	4,223	0	0	0	0	0	0	0
Agriculture and fishing	0	0	932	0	0	0	0	0	0	0
Manufacturing	759,097	27,553	131,197	651	22,645	4,256	33,187	0	199,619	0
Mining and quarrying	14,188	0	5,468	0	0	0	1,400	0	1,400	0
Electricity, water, gas and health services	0	0	1,905	0	0	0	0	0	0	0
Building and construction	1,222,998	88,289	382,275	1,293	1,519	85,476	215,764	412,634	480,562	0
Commerce	671,896	655,668	53,110	0	194,078	461,589	63,016	6,242	657,922	0
Transportation and communication	88,630	88,625	25,077	0	14,945	73,681	-3,650	0	90,069	0
Services	138,060	14,186	167,754	0	21	14,165	11,077	0	55,259	0
Consumer loans and credit cards	430,407	126,496	1,436,063	125,976	520	0	383,361	380,114	65,713	0
Others	376,385	5,869	122,665	1,576	1,817	2,477	9,239	0	285,797	0
Total	**3,701,659**	**1,006,686**	**2,330,669**	**129,496**	**235,546**	**641,644**	**713,393**	**798,989**	**1,836,340**	**881,451**

B.9 - CRB : Impaired Loans, Past Due Loans And Allowances - December 2016

(Figures in SR 000's)

Geographic area	Impaired loans*	Aging of Past Due Loans (days)				Specific allowances	General allowances
		Less than 90	90-180	180-360	Over 360		
Saudi Arabia	3,325,402	2,330,669	129,496	235,546	641,644	1,566,340	881,451
Other GCC & Middle East	376,257	0	0	0	0	270,000	0
Europe	0	0	0	0	0	0	0
North America	0	0	0	0	0	0	0
South East Asia	0	0	0	0	0	0	0
Others countries	0	0	0	0	0	0	0
Total	**3,701,659**	**2,330,669**	**129,496**	**235,546**	**641,644**	**1,836,340**	**881,451**

B.9 - CRB : Reconciliation Of Changes In The Allowances For Loan Impairment - December 2016		(Figures in SR 000's)
Particulars	**Specific allowances**	**General allowances**
Balance, beginning of the year	1,921,937	840,237
Charge-offs taken against the allowances during the period	713,392	41,214
Amounts set aside (or reversed) during the period	(798,989)	-
Other adjustments:		
- exchange rate differences		
- business combinations		
- acquisitions and disposals of subsidiaries		
- etc.		
Transfers between allowances	-	-
Balance, end of the year	**1,836,340**	**881,451**

* Impaired loans defined as any loan with specific provision

** Defaulted loans defined as non-performing loans

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

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.

The Bank reduces its exposures for capital adequacy calculations only, in cases where deposits/cash is in the form of collateral with a specific charge or lien in favor of the Bank.

Core features of policies and processes for collateral evaluation and management

The Bank believes that collateral security is an effective means of reducing risk and improving credit quality. Although collateral is generally desirable to enhance credit quality, Bank does not entirely rely on collateral to make lending decisions since collateral is only considered as a secondary source of repayment. The Bank's policy is to consider a credit exposure secured, if it is fully supported by tangible collateral/ security and in accordance with minimum requirement in terms of coverage ratios.

Information about market or credit risk concentrations under the credit risk mitigation instruments

For capital adequacy purposes, Bank only uses cash and bank guarantees as credit risk mitigants, thus presenting minimal market or concentration risk for mitigants used. As part of its regular monitoring, Bank also review it’s holding vis-à-vis total market capitalization of the companies, whose shares are held as collateral.

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

(Figures in SR 000's)

		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	101,160,234	15,638,291	3,583,139	89,569	85,071		
2	Debt securities	24,103,178						
3	**Total**	**125,263,412**	**15,638,291**	**3,583,139**	**89,569**	**85,071**	**-**	**-**
4	Of which defaulted	1,123,371	102,534	6,666	-	-		

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

Names of the external credit assessment institutions (ECAIs) used by the Bank

As per the guidelines provided by SAMA, Bank is using i) Moody's, ii) Standard & Poor's, and iii) Fitch for assigning Risk Weight and calculating Risk Weighted Assets (RWAs) under the Standardized Approach. Obligors, which are not rated by any of these three ECAIs are considered as "un-rated". Only the solicited ratings from the eligible ECAIs are being used for capital adequacy calculations.

Asset classes for which ECAIs are used

External Credit ratings of ECAIs are used for the asset classes comprising of Sovereign, Banks & Securities Firms, Corporate, and Off-Balance items, wherever applicable.

Description of the process used to transfer the issuer to issue credit ratings

Under Standardized approach for Credit Risk, Bank uses issue-specific rating if such a rating is available for the issue in which the bank has invested. In circumstances where only issuer assessment is available, Bank consider high quality issuer assessment only for the senior claims on that issuer; other unassessed claims of the highly assessed issuer are treated as unrated. Applicable Basel guidelines for Issuer versus Issues assessment are complied with at all times.

Alignment of the alphanumerical scale of each agency used with risk buckets

For determining risk weighted exposure under Standardized approach, alignment of ECAIs scales to risk buckets is applied as per mapping guidelines provided by SAMA.

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

(Figures in SR 000's)

		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	34,806,670		34,806,670		-	0.00%
2	Non-central government public sector entities						
3	Multilateral development banks						
4	Banks	6,245,611	4,366,093	6,245,611	2,592,095	5,714,910	64.67%
5	Securities firms	563,962		563,962			
6	Corporates	95,430,428	47,176,294	91,858,646	17,067,030	107,858,223	99.02%
7	Regulatory retail portfolios	24,198,906		24,198,906		18,149,180	75.00%
8	Secured by residential property	1,516,292		1,516,292		1,516,292	100.00%
9	Secured by commercial real estate						
10	Equity	1,182,337		1,182,337		1,182,337	100.00%
11	Past-due loans	260,062		259,878		259,879	100.00%
12	Higher-risk categories	909,372	77,227	909,203	77,009	2,095,713	212.50%
13	Other assets	6,182,086	794,802	6,182,086	372,635	3,345,173	51.03%
14	***Total***	**171,295,726**	**52,414,416**	**167,723,591**	**20,108,769**	**140,121,707**	**74.60%**

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

(Figures in SR 000's)

		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	34,806,670									34,806,670
2	Non-central government public sector entities (PSEs)										-
3	Multilateral development banks (MDBs)										-
4	Banks			1,099,505		4,972,001		2,766,200			8,837,706
5	Securities firms			130,573		433,389					563,962
6	Corporates			75,344		2,024,743		106,825,589			108,925,676
7	Regulatory retail portfolios						24,198,906				24,198,906
8	Secured by residential property							1,516,292			1,516,292
9	Secured by commercial real estate										-
10	Equity							1,182,337			1,182,337
11	Past-due loans							259,878			259,878
12	Higher-risk categories								369,818	616,394	986,212
13	Other assets							6,554,721			6,554,721
14	***Total***	**34,806,670**	**-**	**1,305,422**	**-**	**7,430,133**	**24,198,906**	**119,105,017**	**369,818**	**616,394**	**187,832,360**

B.21 - Table CCRA: Qualitative disclosure related to counterparty credit risk

Risk management objectives and policies related to counterparty credit risk

The primary objective of counterparty credit risk management function is to effectively identify, measure and manage all derivatives related counterparty exposures through regular review of counterparty limits and daily monitoring of exposures vis-a-vis limits.

Method used to assign the operating limits defined in terms of internal capital

Credit Risk Limits are established on a Credit Equivalent basis; taking into consideration the product type, tenor and notional amounts. The Bank has limited exposure towards the central counterparties as it emanates only from its trade in interest rate futures and options. All other derivative exposures are bilateral in nature.

Policies relating to guarantees and other risk mitigants and assessments

The Bank has signed Credit Support Annexure with all the major derivative financial counterparties to mitigate counterparty credit risk.

Policies with respect to wrong-way risk exposures

Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty. The Bank considers its exposure to such risk limited, which is mitigated through common collateral management practice.

Impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade

The Bank is only providing variation margin in bilateral trades with financial counterparties. The impact of any increase in variation margin due to potential credit rating downgrade at present is considered minimal.

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

(Figures in SR 000's)

		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)**	456,900	417,250		N/A	874,150	567,393
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**						**567,393**

** Since SA-CCR methodology is applicable from 1st January 2017, year-end 2016 figures reported above are based on Current Exposure Method

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

(Figures in SR 000's)

		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	781,566	1,313,464
4	**Total subject to the CVA capital charge**	**781,566**	**1,313,464**

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

(Figures in SR 000's)

	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			79,112	486,135		295	1		565,543
Securities firms									-
Corporates				800		307,807			308,607
Regulatory retail portfolios									-
Other assets									-
Total	**-**	**-**	**79,112**	**486,935**	**-**	**308,102**	**1**	**-**	**874,150**

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

Risk management objectives and policies for market risk

The primary objective of Bank's market risk management function is to provide a coherent policy and operating framework for a strong Bank-wide management of market risk and liquidity risk.

Bank's Strategies and processes

The Board approves market risk appetite, in terms of limits, for all types of market risks including foreign currency risk, interest rate risk and equity risk. These limits are based on notional amount, sensitivity, stop-loss and/or VaR (Value at Risk). The Board has also approved Market Risk Policy that provides guidance to identify, measure and monitor the Bank's exposure to market risk.

The Bank's Trading portfolio mainly consists of FX, interest rate trading positions and fixed income securities. The Bank maintains a prudent risk profile in derivatives trading which mainly consists of plain vanilla contracts with limited open positions across all market risk factors. The Bank's trading book has typically remained small with only a limited exposure in the proprietary trading positions. Trading deals are predominantly performed to off-set the risks arising as a result of deals done with corporate customers. The Board approves the trading limits keeping in view the overall business strategy of the Treasury Group. All traded products are covered by individual product programs, which lay down product description, business strategy, target customers, risk management, back office and accounting processes.

Liquidity management policy and limits ensure that liquidity is maintained at sufficient levels to support operations and meet payment demands even under stressed conditions that might arise with a sudden change in the market environment. The Bank recognizes the importance of managing liquidity under stress condition and has adopted a comprehensive stress testing framework and liquidity contingency funding plan.

The Bank considers Stress testing and contingency funding plan as important techniques in developing a complete picture of the Bank's liquidity risk profile. Stress testing uses quantitative methods, but is also subjected qualitative inputs. The purpose of stress testing is to ascertain incremental funding that may be required under the defined scenarios and whether the bank will be able to withstand the stress. The liquidity stress testing methodology and scenarios are developed in line with the regulatory guidelines incorporating conservative liquidity assumptions. Liquidity Stress Testing is carried out under multiple scenarios encompassing bank specific and systemic shocks, which are considered relevant to the business environment and balance sheet structure. In order to withstand the stress, Bank has a comprehensive Contingency Funding Plan (CFP), which addresses vulnerabilities identified in stress tests. CFP establishes lines of responsibility,

including invocation and escalation procedures. CFP details the pre-emptive measures to deal with stress scenarios and identifies funding sources depending on severity of stress.

The Bank at all times maintains a sizable inventory of High Quality Liquid Assets (HQLA) that may be used during stress conditions. The Bank maintains segregation of HQLAs based on geographical location in order to comply with regulatory requirements on the transfer of liquid assets.

The Bank has implemented a interest rate hedging policy in compliance with the International Accounting Standards. Interest rate derivatives, mainly interest rate swaps and futures are used to hedge specific exposures with the aim to keep the interest rate risks within limits. The Bank also uses currency swap to hedge specific positions in foreign currencies, when necessary. Effectiveness of all hedges is regularly monitored throughout their term.

Structure and organisation of the market risk management function

Market risk and Liquidity risk are overseen by two management committees – Asset Liability Committee (ALCO) and Market Risk Policy Committee (MRPC). ALCO deals with Bank-wide market risk issues while MRPC deals with Treasury specific issues. ALCO meets on a regular basis to discuss the risk exposures vis-à-vis the prevailing market conditions and sets guidelines to manage these risks within the risk appetite set by the Board. MRPC acts as a sub-committee of ALCO with authority to monitor and control Treasury-related activities. MRPC has the authority to restrict utilization of the ALCO-approved limits. Market Risk Department, which is independent of the business function, monitors all limits and provides periodic market risk reports to ALCO and MRPC members.

Treasury Middle Office is an independent unit reporting to MRD and is responsible for ensuring that all Treasury related internal controls are functioning effectively and all non-adherences are brought to management's attention on a timely basis.

Scope and nature of risk reporting and/or measurement systems.

Daily Report is provided to Senior Management that covers the trading activity and liquidity ratios. Stress testing for interest rate risk, foreign exchange risk and liquidity risk is conducted on a regular basis and results are presented to ALCO for review. Market Risk Department submits the following reports to ALCO, MRPC and Board on regular basis

- VaR analysis
- Interest rate gap Analysis
- Liquidity Risk Ratios
- Interest rate stress testing

Detailed market risk reviews are submitted to the Board, Excom, Risk Committee and Audit Committee, on a quarterly or semi-annual basis, as appropriate. The reviews highlight major changes in the Bank's market and liquidity risk profiles as well as compositions of the investments portfolio.

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

(Figures in SR 000's)

		a
		RWA
	Outright products	**922,946**
1	Interest rate risk (general and specific)	208,987
2	Equity risk (general and specific)	
3	Foreign exchange risk	630,695
4	Commodity risk	83,264
	Options	11,036
5	Simplified approach	11,036
6	Delta-plus method	
7	Scenario approach	
8	Securitisation	
9	**Total**	**933,982**

B.41 - Operational risk

Qualitative disclosure for Bank’s operational risk capital approach

The Bank calculates Operational Risk capital charge under Alternative Standardized Approach (ASA), which uses Gross Income and Loans/Advances as proxy indicator for estimating capital charge (i.e. loans/advances are used for Basel business lines ‘Retail Banking’ and ‘Commercial Banking’ whereas gross income is used for remaining Basel business lines).

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

Qualitative disclosure requirement on IRRBB

The effect of interest rate exposure on reported net income is imperative as interest rate risk represents one of the Bank's significant market risks. Interest rate risk arises not only from trading activities but also from the Bank's traditional banking activities, which include extension of loans and credit facilities, taking deposits and issuing debt. Structural interest rate risk can occur due to a variety of factors, including:

- Differences in the timing among the maturity or re-pricing of assets, liabilities and off-balance sheet instruments.
- Differences in the amounts of assets, liabilities and off-balance sheet instruments that are re-priced at the same time.
- Differences in the amounts by which short-term and long-term market interest rates change (for example, changes in the slope of the yield curve).
- The impact of changes in the maturity of various assets, liabilities or off-balance sheet instruments as interest rates change.

The Bank manages interest rate exposure related to its assets and liabilities on a consolidated basis through investment securities and related derivatives. The interest sensitive elements include asset and liability balances and contractual rates of interest, contractual principal payment schedules, interest rate reset dates and maturities, and rate indices used for re-pricing.

The Bank evaluates its structural interest rate risk exposure through earnings-at-risk, which measures the extent to which changes in interest rates will affect the Bank's core net interest income over the following 12 months, utilizing multiple scenarios and assumptions. These scenarios and assumptions highlight exposures to changes in interest rates, pricing sensitivities on assets and liabilities, and other factors which are updated periodically.

The Board approves the acceptable level of interest rate risk in the banking book by setting a limit on interest rate gaps by maturity buckets together with other limits. Treasury Group is responsible for day-to-day management of interest rate risk under the guidance provided by ALCO. Treasury Group monitors the changes in financial markets leading to interest rate movements. Based on future outlook, Treasury takes appropriate interest rate exposures or hedges the existing exposures, if needed. Interest rate derivatives (mainly interest rate swaps) are used to hedge interest rate exposure of the Bank. Interest rate limits are independently monitored by Market Risk Department of Risk Management Group and reported to ALCO.

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

The Bank use Earnings at Risk (EaR) to measure IRRBB for major currencies, following are EaR results based on 200 bps change in interest rates.

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB) - December 2016	
200bp Interest Rate Shocks	**(Figures in 000'S)**
Rate Shocks	**Change in NII**
Upward rate shocks:	
SAR	719,134
USD	59,906
OTHERS	13,531
Downward rate shocks:	
SAR	(719,134)
USD	(59,906)
OTHERS	(13,531)