Albilad Investment Company

Pillar III Disclosure - 2020

Issued : March 2020

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1 Background

AlBilad Investment Company **("the Company")** is authorized and regulated by the Capital Market Authority **("CMA")** as the investment entity of Bank AlBilad (an Islamic Sharia compliant bank). The Capital requirement for the firm is determined in accordance with the CMA regulations set out in Part 7 and Annex 10 of the Prudential Rules for Pillar III - Disclosure & Reporting. The Prudential Rules emphasize the requirements for authorized persons' financial prudence and the requirement to present a framework composed of three pillars:

- Pillar I: defines the minimum capital requirements, (the firm has to maintain at all times capital resource in excess or equivalent to the amount of the capital required).
- Pillar II: outlines the process for the assessment of all risks, capital adequacy once all risks are taken into consideration and the determination as to whether any additional capital should be assigned to cover the additional risks not covered in Pillar I. This process is conducted internally and shall be approved by the Board of Directors.
- Pillar III: provides the rules for the disclosure of capital and risk management information, and requires the firm to publish that information. The disclosure shall be reviewed and updated on an annual basis on website www.albilad-capital.com

The purpose of Pillar III is to ensure that authorized persons have assessed the key pieces of information which includes Capital, Risk exposure, Risk Assessment Process and the capital adequacy requirements. It shall therefore rearrange the disclosure requirements as set out in Annexure 10 of the Prudential Regulation as well as includes additional suggested disclosure requirements with illustrative forms to provide added quality for the Pillar III disclosures.

The current Pillar III Report is prepared for AlBilad Investment Company.

2 Scope of Application

Albilad Investment Company (the "Company") is a Saudi Closed Joint Stock company. The Company was registered as a limited liability company n the Kingdom of Saudi Arabia under Commercial Registration No. 1010240489 dated 11 Dhal Qaeda 1428H (corresponding to November 20, 2007) issued in Riyadh. The Company is the investment banking arm of Bank AlBilad, a full commercial bank authorized by the Saudi Arabian Monetary Agency **("SAMA")** and operating under Islamic Sharia principles. The Company was converted from a limited liability company to closed joint stock company on Shawwal 16,1438H (Corresponding to July 10, 2017) . The Company's statutory financial statements are prepared from January 1 and end on December 31 of each Gregorian calendar year .

The Company was formed in accordance with the CMA Resolution No. 2-38-2007 dated 8 Rajab 1428H (corresponding to July 22, 2007) .The Company is CMA licensed to offer investment services such as Asset Management, Brokerage, Margin Financing, Investment Banking , Arranging , underwriting , custody along with Research and Advisory services that comply with the Sharia rules. The main services offered are organized around brokerage, asset management , investment banking and Securities Custody Services . The Company offers only Islamic investment solutions based on Sharia principles and is backed by a team of professionals with wide experience in providing investment services and solutions to individual and institutional clients within the Kingdom of Saudi Arabia.

AlBilad Capital , based on the existing business model and the liquidity in overall business didn't suffer any material or legal impediment to the prompt transfer of capital or repayment of liabilities between AlBilad Capital and the related business partners/subsidiaries/associates.

3 Capital Structure

The capital of the Company comprises of 200,000 shares at a nominal value of SAR1,000 per share . The capital base of the Company consists of Tier-I capital elements such as capital shares, statutory reserve and retained earnings and related deductions. There is no components in Tier-2 capital after the transition to IFRS. The Company is required to transfer 10% of the net income every year to a statutory reserve until such reserve equals 30% of the paid up capital. Accordingly, the Company transferred 10% of the net profit to statutory reserves and is not available for distribution, detailed disclosure please refer Appendix I.

Components (In SAR 000)	2020 (Audited)
Tier 1 Capital	
Paid up Capital	200,000
Audited retained earnings	420,204
Share Premium	-
Reserves (Other than Revaluation Reserves)	51,036
Goodwill and Intangible assets	-1,501
Deductions from Tier-1 capital	
Total Tier 1 Capital	**669,739**
Tier 2 Capital	
Investment revaluation reserve	-
Total Tier 2 Capital	**-**
Total Capital Base	**669,739**

Table1 : Capital Structure as of 31-Dec-2020

4 Capital Adequacy

The Company has a positive capital ratio after taking into consideration risks which the Company is subject to, and applying appropriate capital charges. The Company monitors its capital positions and capital requirements to cover all kinds of risk under (Pillar 1) - credit, market and operational risk as per the Prudential Regulations. Moreover, it produces a monthly Capital Adequacy Model Report to the CMA. All new usages of capital are thoroughly considered in the context of their risk-return profile and capital impact. Furthermore, the Company considers it prudent to maintain a capital buffer above minimum capital requirements at all times. This is reflected in the risk appetite statement of the Company.

According to the Prudential Rules, CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirements and its calculations. Prudential rules are based on Pillar I, Pillar II and Pillar III . Pillar III regulates how information's regarding risk management, capital requirements, capital adequacy etc. should be made to Public.

AlBilad' s approach in assessing its capital adequacy to support current as well as future business activities works around the following principles :

- The capital requirements for the new business model will be assessed in relation to its risk profile by doing a test analysis of the Risk before implementing any new business strategy to ensure that the

Company's revised capital ratio will be in line with the minimum capital requirements of CMA and the buffer required by the Board risk appetite statement .

- Review of Internal Capital Adequacy Assessment Process (ICAAP) , prepared by the Risk department, reviewed by the Internal Audit function, and the Governance, Risk and Compliance Board Committee and finally approval by the Board of Directors.
- The Company always maintains capital ratio above the minimum capital ratio to ensure the business continuity, which avoids interruptions while implementing new business policies .
- The Company's capital projections represents conservative levels of capital to support its projected activities, cover all material risks and are in line with its risk appetite and operating environment.

The above monitoring and control procedures are applied at an early stage to prevent capital from falling below the minimum levels as required to the Risk profile. The Company consistently maintains capital adequacy ratio above 1 as required by the Capital Market Authority . The total capital base has been increased by 13% with adequate surplus capital to implement future business plans in line with regulations .

Also, the credit risk capital charge has been decreased mainly due to decrease in overall exposure risk related to Margin Financing ,Investment in Funds and Prohibited risk charges .

For detailed disclosures, please refer **Appendix II, Capital Adequacy Calculation.**

Capital base (SAR '000)	2020	2019	Percentage
Total capital base	669,739	593,467	13%
Minimum capital requirement			
Market Risks			
Equity & Fund Risk	13,490	7,248	86%
Interest Rate Risk	-	-	-
Commodities Risk	-	-	-
FX Risk	-	-	-
Underwriting Risk	-	-	-
Excess Exposure Risk	-	-	-
Settlement Risk	-	-	-
Market Risk	**13490**	**7248**	**86%**
Credit Risks			
Credit Risk (including Prohibited Exposure Risk)	239,400	243,515	-2%
Credit Risks	**239,400**	**243,515**	**-2%**
Operational risks	26,350	24,193	**9%**
Total minimum capital requirement	**279,240**	**274,956**	**2%**
Total capital ratio (time)	**2.40**	**2.16**	**11%**
Surplus/(Deficit) in Capital	**390,499**	**318,511**	**23%**

Table 2: A comparison of Capital Adequacy ratio of 2019 & 2020

5 Risk Management

The Company understands that taking risks is an integral part of the nature of its business activities; Therefore, it has been continuously developing a risk management framework that is in line with the nature and complexity of its activities.

5.1 Risk Management Governance

The governance of risk management is organized around multiple layers of responsibilities and authorities as well as providing for a Risk Management Department that is independent from business lines. The Board of Directors of the Company is ultimately responsible for the risk assumed by the organization and the organization of the risk management systems and framework as well as ensuring that they are operating effectively. In order to best manage, its responsibilities a risk management strategy, systems and framework were set and supervised by the risk management committee and the Governance, Risk, and Compliance board committee.

The Risk Management Department reports directly to the CEO, and indirectly to the Governance, Risk, and Compliance Board Committee to promote its independence from business lines. The Department is responsible for the design and implementation of the independent risk management process and framework throughout the entire Company and its activities. All members of the senior management team are responsible for the risks run by their respective activities and for the adherence to and enforcement of the risk policies and procedures.

5.2 Pillar III Governance

The disclosure under the pillar III regulation is the responsibility of the Management of the Company. The process is managed by the Risk Management Department, in collaboration with the Finance Department under the supervision and authority of the CEO, who will review and approve pillar III disclosures .The Company discloses the information at www.albilad-capital.com in addition to including the related disclosures in the annual financial statements that are approved by the Board of Directors of the Company.

5.3 Credit Risk and Counterparty Credit Risk

The commonly accepted definition of credit risk is the risk of economic loss from the failure of an obligor to perform according to the terms and conditions of a contract or agreement. This is the main capital risk for the Company as most of its assets are short term murabaha placements with financial institutions. However, this risk is mitigated by the short term nature of the placements as well as by the Company's counterparty selection process.

There is currently no usage of derivatives and the Company does not have off-balance -sheet exposures. (Details : **Appendix III)**

AlBilad Investment Company uses credit rating agencies as per CMA regulations to determine the credit exposures by using credit quality steps. Credit rating of the related exposure are determined from the below mentioned credit rating agencies, mapped to the exposure assigning a risk weight according to the table below (Details Appendix IV):

	1	2	3	4	5	6
Standards & Poors	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below
Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below
Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below
Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below

Table 3: Credit Quality Steps and CRA mapping

The Company has exposures with Local Banks in connection with placement of Murabaha deposits and current account balances . Accordingly cash and cash equivalents are placed within the Kingdom as on the reporting date as below:

Balance in Deposit and Current Accounts	Equivalent (SAR " 000")	% age Exposure
Local Commercial Banks, KSA	325,371	100%
Total	325,371	100%

Table 4: Geographic Distribution of Exposures

The Company has segregated all of its assets both short term and long terms in a different maturity buckets as shown in the table below :

Exposure Class	AlBilad Investment Co. - Residual Contractual Maturity (SAR '000')						
	1 Day	> 1 day to 1 week	>1 week to 1 month	>1 month to 3 months	>3 months to 6 months	> 6 months to 1 year	> 1 year
On and Off-balance-sheet Exposures							
Cash and Bank Balances	34,507	25,965	264,899	-	-	-	-
Margin Lending	-	3,028	5,223	28,350	28,281	50,395	-
Investments through FVSI	-	24,580	59,729	-	-	-	223,564
Investments held at Ammortized cost	-	-	-	-	-	-	30,661
Property & Equipments , net	-	-	-	-	-	-	5,121
Intangible Assets , net	-	-	-	-	-	-	1,502
ROU Asset - Operating Lease	-	-	-	-	-	-	6,326
Other Assets	-	3,218	163	13,361	16,672	1,122	48,065
Total	34,507	56,792	330,015	41,711	44,952	51,517	315,238

Table 5: Residual Contractual Maturity Profile

The present contractual maturity brought in higher degree of comfort in meeting the short term and long term obligations of the Company which reflects sound liquidity positions based on the existing level of operations.

5.4 Credit Risk mitigation

The Company has taken adequate steps to mitigate the risk by applying proper policies and procedures. This supports the organization to assess counterparty credit worthiness to reduce the risk by implementing a proper risk frame work associated with each products and services. All proprietary investments are monitored through the investment committee on a monthly basis in line with approved investment policy of the Company .

Detail in Appendix V.

5.5 Market Risk

Broadly defined, market risk is the risk of economic loss from the devaluation of an investment due to moves in market factors. The most common market-risk factors are interest rates, foreign-exchange rates, equity prices, Fund Risk , Underwriting , settlement risk and commodity price risks. The Company exposure to market risk is is mainly associated with Fund Risk having exposure to money market ,ETF and Equity linked Investment Funds . The computation of the market risk capital requirement is managed in line with the methods defined in the CMA guidelines for capital computation for different components of trading portfolio of the firm.

5.6 Operational Risk

The definition of operational risk used is the one adopted by the Basel regulations. This definition states that operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is an important factor for a financial institution. The Company continuously considers these risks and has adopted the conservative methodology of Pillar I to adequately cover these risks in terms of capital requirements.

5.7 Operational Risk Assessment

AlBilad Investment Company follows Expenditure approach for the assessment of operational risk. In this approach Company computes the risk capital at 15% of the average gross income for the last 3 years or 25% of the total overhead expenses whichever is higher. The resultant figures for the last three years are below:

No.	Items	2017	2018	2019	2020
1	Gross Income	138,221	166,479	179,164	181,356
2	(3) Year Average		135,611	161,288	175,666
3	Risk Capital Charge		15%	15%	15%
4	**BIA Capital Charge (2*3)**		**20,342**	**24,193**	**26,350**
	EXPENDITURE BASED APPROACH ("EBA")				
5	**Overhead Expenses (Year 1)**		95,406	90,550	96802
6	Risk Capital Charge		25%	25%	25%
7	**Capital Required (5*6)**		**23,852**	**22,637**	**24,200**
8	Capital Required for Operation Risk (Max 4,7)		23,852	24,193	26,350

Table 6: Operational Risk Capital

5.8 Liquidity Risk

Liquidity risk is the risk of financial loss to an institution, arising from its inability to have enough funds to meet its contractual obligations. The Company manages this risk by monitoring its cash flow projections as well as its liquidity ratios. The Company has the vast majority of its assets with maturities that are distributed between immediate availability to one year maturities. The short term liabilities are limited in size and are of an operational nature. These liabilities are a portion of the short term assets. Overall the liquidity profile of the Company is strong with sufficient funds to cover for its current and future liquidity needs.

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The Company prepares a liquidity profile statement of expected cash flows arising at the time of settlement of its assets and liabilities and allocates them in a different time intervals in which they are expected to occur. The time intervals have been defined as per the CMA prudential regulations as below :

Particulars	1 Day	> 1 day to 1 week	>1 week to 1 month	>1 month to 3 months	>3 months to 6 months	> 6 months to 1 year	> 1 year

Table 7: Liquidity Risk Bucketing

Presently the Company has sufficient financial resources to meet its obligations when they fall due and at the same time during the year 2020 the Company has not borrowed from its Parent Bank during the year 2020 which has reflected an increase in liquidity ratio as the existing cashflow support the working capital requirement of the Company for the year 2020. As of December 2020, Company's current ratio was 2.40 (2019:2.16) , which reflects the comfort level of current assets in meeting the short-term payment liabilities with an increase in surplus compared to 2019.

6. ANNEXURES :

Appendix I – Illustrative disclosure on Capital Base

Capital Base	Amount (SAR '000)
Tier-1 capital	
Paid-up capital	200,000
Audited retained earnings	420,204
Share premium	
Reserves (other than revaluation reserves)	51,036
Tier-1 capital contribution	
Deductions from Tier-1 capital	-1,501
Total Tier-1 capital	**669,739**
Tier-2 capital	
Subordinated loans	
Cumulative preference shares	
Revaluation reserves	-
Other deductions from Tier-2 (-)	
Deduction to meet Tier-2 capital limit (-)	
Total Tier-2 capital	-
TOTAL CAPITAL BASE	**669,739**

Appendix II – Illustrative Disclosure on Capital Adequacy

Exposure Class	Exposures before CRM SAR '000	Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
Credit Risk				
On-balance Sheet Exposures	-	-	-	-
Governments and Central Banks	3,813	3,813	5,718.91	801
Capital Market Insitutions and Banks	349,944	349,944	101,935	14,271
Margin Financing	115,277	115,277	172,915	24,208
Corporates	9,314	9,314	66,504	9,311
High risk investments	-	-	-	-
Investment Funds	233,846	233,846	698,912	97,848
Investment Funds - Listed shares	-	-	-	-
Retail & Other Assets	76,727	76,727	510,475	71,466
Total On-Balance sheet Exposures	**788,921**	**788,921**	**1,556,460**	**217,904**
Off-balance Sheet Exposures	-	-	-	-
OTC/Credit Derivatives	-	-	-	-
Repurchase agreements	-	-	-	-
Securities borrow ing/lending	-	-	-	-
Commitments	-	-	-	-
Other off-balance sheet exposures	-	-	-	-
Total Off-Balance sheet Exposures	**-**	**-**	**-**	**-**
Total On and Off-Balance sheet Exposures	**788,921**	**788,921**	**1,556,460**	**217,904**
Prohibited Exposure Risk Requirement	**0**	**0**	**153,543**	**21,496**
Total Credit Risk Exposures	**788,921**	**788,921**	**1,710,003**	**239,400**
Market Risk	**Long Position**	**Short Position**		
Interest rate risks				
Equity price risks		-		
Risks related to investment funds	84310	-		**13490**
Securitization/ resecuritisation positions	-	-		-
Excess exposure risks	-	-		-
Settlement risks and counterparty risks	-	-		-
Foreign exchange rate risks	-	-		-
Commodities risks.	-	-		-
Total Market Risk Exposures	-	-		**13490**
Operational Risk				**26,350**
Minimum Capital Requirements				**279,240**
Surplus/(Deficit) in capital				**390,499**
Total Capital ratio (time)				**2.40**

Appendix III – Illustrative Disclosure on Credit Risk Weight

Risk Weights	Exposures after netting and credit risk mitigation									
	Governments and central banks	Administrative bodies and NPO	Authorized persons and banks	Margin Financing	Corporates	Prohibited exposures	Investment Funds	Retail & Other assets	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	325,371	-	-	-	-	-	-	325,371	65,074
50%	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-
150%	3,813	-	24,574	115,277	-	-	1,749	-	-	145,412	218,118
200%	-	-	-	-	-	-	-	-	-	-	-
300%	-	-	-	-	-	-	232,096	9,023	-	241,119	723,358
314%	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	38,386	-	-	-	38,386	153,543
500%	-	-	-	-	-	-	-	-	-	-	-
714%	-	-	-	-	9,314	-	-	67,704	-	77,018	549,910
Average Risk Weight	3,813	-	29%	150%	714%	400%	299%	665%	-	207%	1,710,003
Deduction from Capital Base	801	-	14,271	24,208	9,311	21,496	97,848	71,466	-	239,400	-

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Appendix IV – Illustrative disclosure on Credit Rated Exposure

Exposure Class	Long term Ratings of counterparties							
	Credit quality step	1	2	3	4	5	6	Unrated
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below	Unrated
	Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below	Unrated
On and Off-balance-sheet Exposures								
Governments and Central Banks	-	-	-	3,813	-	-	-	-
Capital Market Insitutions and Banks	-	325,371	-	24,574	-	-	-	-
Margin Financing	-	-	-	-	-	-	-	115,277
Corporates	-	-	-	-	-	-	-	9,314
High Risk Investments	-	-	-	-	-	-	-	-
Investment Funds	-	-	-	-	-	-	-	233,845
Market Risk -Asset Components	-	-	-	-	-	-	-	84,310
Investment Funds - Listed shares	-	-	-	-	-	-	-	-
Retail & Other Assets	-	-	-	-	-	-	-	78,228
Total		**325,371**	**0**	**28,387**	**0**	**0**	**0**	**520,973**

Exposure Class	Short term Ratings of counterparties					
	Credit quality step	1	2	3	4	Unrated
	S & P	A-1+, A-1	A-2	A-3	Below A-3	Unrated
	Fitch	F1+, F1	F2	F3	Below F3	Unrated
	Moody's	P-1	P-2	P-3	Not Prime	Unrated
	Capital Intelligence	A1	A2	A3	Below A3	Unrated
On and Off-balance-sheet Exposures						
Governments and Central Banks						
Capital Market Insitutions and Banks						
Margin Financing						
Corporates						
High Risk Investments						
Market Risk -Asset Components						
Investment Funds						
Investment Funds - Listed shares						
Retail & Other Assets						
Total						

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Appendix V – Illustrated Disclosure on Credit Risk Mitigation (CRM)

Exposure Class	Exposures before CRM	Exposures covered by Guarantees/ Credit derivatives	Exposures covered by Financial Collateral	Exposures covered by Netting Agreement	Exposures covered by other eligible collaterals	Exposures after CRM
Credit Risk						
On-balance Sheet Exposures	-	-	-	-	-	-
Governments and Central Banks	3813	-	-	-	-	3,813
Capital Market Insitutions and Banks	349,944	-	-	-	-	349,944
Margin Financing	115,277	-	115,277	-	-	-
Corporates	9,314	-	-	-	-	9,314
High Risk Investments	0	-	-	-	-	-
Investment Funds	233,845	-	-	-	-	233,845
Investment Funds – Listed shares	0	-	-	-	-	-
Retail & Other Assets	78,228	-	-	-	-	78,228
Market Risk						
Equity price risks	0					0
Risks related to investment funds	84,310					84,310
Total On-Balance sheet Exposures	**874,731**	**-**	**115,277**	**-**	**-**	**759,454**
Off-balance Sheet Exposures						
OTC/Credit Derivatives	-	-	-	-	-	-
Exposure in the form of repurchase agreements	-	-	-	-	-	-
Exposure in the form of securities lending	-	-	-	-	-	-
Exposure in the form of commitments	-	-	-	-	-	-
*Other Off-Balance sheet Exposures	-	-	-	-	-	-
Total Off-Balance sheet Exposures	**-**	**-**	**-**	**-**	**-**	**-**
Total On and Off-Balance sheet Exposures	**874,731**	**-**	**115,277**	**-**	**-**	**759,454**