ALBILAD INVESTMENT COMPANY

Pillar III Disclosure - 2021

Issued: March 2022

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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 Company is determined in accordance with CMA regulations set out in Part 7 and Annex 10 of the Prudential Rules for Pillar III - Disclosure & Reporting. The Prudential Rules defined the requirements for Capital Market Institutions **("CMI")** financial prudence 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 of capital assessment and to determine weather any additional capital should be allocated to cover the additional risks that were not covered in Pillar I. This process is conducted internally and shall be approved by the Board of Directors.
- Pillar III: defines the rules for capital disclosure and risk management overview and requires the CMI to publish these disclosures. The disclosure is to be reviewed and updated annually on Albilad Capital website at www.albilad-capital.com

The purpose of Pillar III is to ensure that the CMI have assessed its capital, exposures, risk assessment process, and capital adequacy requirements. It will therefore publish its disclosures as set out in Annexure 10 of the Prudential Rules and to include additional suggested disclosures with illustrative figures to enhance the quality of its 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 in 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 Saudi Central Bank ("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 fiscal year starts from January 1 and ends on December 31 of every 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 licensed by the CMA to offer investment services including asset management, brokerage, margin financing, investment banking, arranging, underwriting, custody and advisory services. The Company offers only Islamic investment solutions based on Sharia principles and is backed by a team of professionals with outstanding 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, did not 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 or 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 are 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. For detailed disclosure, please refer Appendix I.

Components (In SAR 000)	2021 (Audited)
Tier 1 Capital	
Paid up Capital	200,000
Audited retained earnings	520,332
Share Premium	-
Reserves (Other than Revaluation Reserves)	58,145
Goodwill and Intangible assets	-1,012
Deductions from Tier-1 capital	
Total Tier 1 Capital	**777,465**
Tier 2 Capital	
Investment revaluation reserve	-
Total Tier 2 Capital	**-**
Total Capital Base	**777,465**

Table1: Capital Structure as of 31-Dec-2021

4 Capital Adequacy

The Company has a positive capital ratio after taking into consideration risks which the Company is exposed to and applying appropriate capital charges. The Company monitors its capital positions and capital requirements to cover all kinds of risks under (Pillar 1) - credit, market, and operational risk in line with CMA Prudential Rules and files 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 its prudent to maintain 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 regarding risk management, capital requirements, capital adequacy, etc. should be made to public.

The Company's approach in assessing its capital adequacy to support its business activities is guided by the following principles:

- The capital requirements for the new business model will be assessed in relation to its risk profile by performing 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 Company's approved risk appetite statement.
- Review of Internal Capital Adequacy Assessment Process (ICAAP), prepared by the Risk Management department, reviewed by the Internal Audit function, and the Governance, Risk and Compliance Board Committee and finally approved by the Board of Directors.
- The Company always maintains capital ratio above the minimum limit to ensure its continuity and to avoid interruptions while implementing new business products.
- The Company's capital projections represent 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 16% with adequate surplus capital to implement future business plans in line with regulations.

Also, the credit risk capital charge has been increased mainly due to increase 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)	2021	2020	Percentage
Total capital base	777,465	669,739	16%
Minimum capital requirement			
Market Risks			
Equity & Fund Risk	26,349	13,490	95%
Interest Rate Risk	-	-	-
Commodities Risk	-	-	-
FX Risk	-	-	-
Underwriting Risk	-	-	-
Excess Exposure Risk	-	-	-
Settlement Risk	-	-	-
Market Risk	**26349**	**13490**	**95%**
Credit Risks			
Credit Risk (including Prohibited Exposure Risk)	281,431	239,400	18%
Credit Risks	**281,431**	**239,400**	**18%**
Operational risks	29,963	26,350	**14%**
Total minimum capital requirement	**337,743**	**279,240**	**21%**
Total capital ratio (time)	**2.30**	**2.40**	**-4%**
Surplus/(Deficit) in Capital	**439,722**	**390,499**	**13%**

Table 2: A comparison of Capital Adequacy ratio of 2020 & 2021

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 insuring its independence from business lines. The Board of Directors of the Company is ultimately responsible for the risk assumed by the organization as well as overseeing risk management department framework and policies to insure its effectiveness. The board of directors' supervision of risk management is carried out through Governance, Risk and Compliance Committee ("GRC") where the members of the GRC are elected by the board of directors.

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 risk management process and framework across the Company and its activities. All members of the senior management team are responsible for the risks originated from their respective activities and to adhere to risk policies and procedures.

5.2 Pillar III Governance

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

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 no investment in derivatives and the Company does not have off-balance -sheet exposures. (Details: **Appendix III)**

AlBilad Investment Company depends on credit ratings that are provided by credit rating agencies as per CMA regulations to determine the credit quality steps. Credit rating of the related exposure is determined from the below mentioned credit rating agencies, mapped to the exposure and 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 a form of Murabaha placements and cash deposits. Accordingly, cash and cash equivalents placed within the Kingdom as of the reporting date are shown below:

Balance in Deposit and Current Accounts	Equivalent (SAR " 000")	% age Exposure
Local Commercial Banks, KSA	179,227	100%
Total	179,227	100%

Table 4: Geographic Distribution of Exposures

The Company divided its receivables in multiple 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	63,128	41,130	74,969	-	-	-	-
Margin Lending	-	1,380	45,971	28,455	76,124	330,784	-
Investments through FVSI	-	28,081	111,171	-	-	-	245,578
Investments held at Ammortized cost	-	-	-	-	-	-	83,654
Property & Equipments , net	-	-	-	-	-	-	3,811
Intangible Assets , net	-	-	-	-	-	-	1,012
ROU Assets	-	-	-	-	-	-	4,217
Other Assets	-	2,848	917	28,606	-	14,788	19,937
Total	63,128	73,440	233,027	57,061	76,124	345,572	358,210

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 took 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 framework associated with each products and services. All proprietary investments are monitored through the investment committee on monthly basis in line with approved investment policy of the Company.

Detail in Appendix V.

5.5 Market Risk

Market risk is broadly defined as 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 prices risk. The Company exposure to market risk is mainly associated with its exposure to money market, ETF and Equity through its proprietary investments. The calculation of capital requirements for market risk is guided by CMA Prudential Rules.

5.6 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events according to Basel. 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 the Expenditure approach for operational risk assessment which calculate the risk charge at 15% of the average gross income for the last 3 years or 25% of the total overhead expenses whichever is higher as illustrated below:

No.	Items	2018	2019	2020	2021
1	Gross Income	166,479	179,164	181,356	238,738
2	(3) Year Average		161,288	175,666	199,752
3	Risk Capital Charge		15%	15%	15%
4	**BIA Capital Charge (2*3)**		**24,193**	**26,350**	**29,963**
	EXPENDITURE BASED APPROACH ("EBA")				
5	**Overhead Expenses (Year 1)**		90,550	96,802	119,198
6	Risk Capital Charge		25%	25%	25%
7	**Capital Required (5*6)**		**22,637**	**24,200**	**29,800**
8	Capital Required for Operation Risk (Max 4,7)		22,637	26,350	29,963

Table 6: Operational Risk Capital

5.8 Liquidity Risk

Liquidity risk is the risk of inability to meet contractual obligations by an institution. The Company manages this risk by monitoring its cash flow projections and liquidity ratios. The liquidity profile of the Company is sufficient to cover for its current and future liquidity needs since most of its receivables are within one year as illustrated in the contractual maturity profile.

The Company prepares liquidity profile statement of expected cash flow from its receivables where they are allocated them in multiple maturity buckets inline with CMA Prudential Rules 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

The Company's financial resources are sufficient to meet its obligations in addition to a facility line obtained from Bank Albilad in 2021 enhancing the liquidity ratio to cover its working capital requirement. As of December 2021, the Company's current ratio stood at 2.30 (2020:2.40), which is sufficient to meet its short-term liabilities.

6. ANNEXURES:

Appendix I – Illustrative disclosure on Capital Base

Components (In SAR 000)	2021 (Audited)
Tier 1 Capital	
Paid up Capital	200,000
Audited retained earnings	520,332
Share Premium	-
Reserves (Other than Revaluation Reserves)	58,145
Goodwill and Intangible assets	-1,012
Deductions from Tier-1 capital	
Total Tier 1 Capital	**777,465**
Tier 2 Capital	
Investment revaluation reserve	-
Total Tier 2 Capital	-
Total Capital Base	**777,465**

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	24,398	24,398	1,878.24	263
Capital Market Insitutions and Banks	215,873	215,873	72,491	10,149
Margin Financing	482,713	482,713	686,502	96,110
Corporates	29,412	29,412	118,695	16,617
High risk investments	-	-	-	-
Investment Funds	263,887	263,887	791,437	110,801
Listed shares	-	-	-	-
Retail & Other Assets	50,012	50,012	297,172	41,604
Total On-Balance sheet Exposures	**1,066,296**	**1,066,296**	**1,968,176**	**275,545**
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	**1,066,296**	**1,066,296**	**1,968,176**	**275,545**
Prohibited Exposure Risk Requirement	**0**	**0**	**42,047**	**5,887**
Total Credit Risk Exposures	**1,066,296**	**1,066,296**	**2,010,223**	**281,431**
Market Risk	**Long Position**	**Short Position**		
Interest rate risks				
Equity price risks	4664	-		839
Risks related to investment funds	134588	-		21534
Securitization/ resecuritisation positions	-	-		-
Excess exposure risks	-	-		-
Settlement risks and counterparty risks	-	-		-
Foreign exchange rate risks	47320	-		3976
Commodities risks.	-	-		-
Total Market Risk Exposures	-	-		**26349**
Operational Risk				**29,963**
Minimum Capital Requirements				**337,743**
Surplus/(Deficit) in capital				**439,722**
Total Capital ratio (time)				**2.30**

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	Probibited exposures	Investment Funds	Retail & Other assets	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	20,642	-	-	25,045	-	-	-	-	45,687	-
20%	-	-	179,227	-	-	-	-	-	179,227	35,845
50%	3,756	-	-	-	-	-	-	-	3,756	1,878
100%	-	-	36,646	-	7,507	-	-	-	44,153	44,153
150%	-	-	-	457,668	-	-	150	-	457,818	686,727
200%	-	-	-	-	8,797	-	-	-	8,797	17,594
300%	-	-	-	-	-	-	263,737	14,472	278,209	834,627
314%	-	-	-	-	-	13,391	-	-	13,391	42,047
400%	-	-	-	-	-	-	-	-	-	-
500%	-	-	-	-	-	-	-	-	-	-
714%	-	-	-	-	13,108	-	-	35,540	48,648	347,350
Average Risk Weight	8%		34%	142%	404%	314%	300%	594%	186%	2,010,221
Deduction from Capital Base	**263**	**-**	**10,149**	**96,110**	**16,617**	**5,887**	**110,801**	**41,604**	**281,431**	**-**

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	-	20,642		3,756	-	-	-	-
Capital Market Insitutions and Banks	-	179,227		36,646	-	-	-	-
Margin Financing	-	-	-	-	-	-	-	482,713
Corporates	-	-	-	7,507	8,797	-	-	13,109
High Risk Investments	-	-	-	-	-	-	-	-
Investment Funds	-	-	-	-	-	-	-	263,887
Market Risk -Asset Components	-	-	-	-	-	-	-	139,252
Listed shares	-	-	-	-	-	-	-	
Other Exposures	-	-	-	-	-	-	-	51,024
Total		**199,869**	**0**	**47,909**	**8,797**	**0**	**0**	**949,985**

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						

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	24,398	-	-	-	-	24,398
Capital Market Insitutions and Banks	215,873	-	-	-	-	215,873
Margin Financing	482,713	-	482,713	-	-	-
Corporates	29,412	-	-	-	-	29,412
High Risk Investments	-	-	-	-	-	-
Investment Funds	263,887	-	-	-	-	263,887
Listed shares	-	-	-	-	-	-
Retail & Other Assets	51,024	-	-	-	-	51,024
Market Risk						
Equity price risks	4,664					4,664
Risks related to investment funds	134,588					134,588
Total On-Balance sheet Exposures	**1,206,561**	**-**	**482,713**	**-**	**-**	**723,847**
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	**1,206,561**	**-**	**482,713**	**-**	**-**	**723,847**