ALBILAD INVESTMENT COMPANY

Pillar III Disclosure - 2019

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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 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)	2019 (Audited)
Tier 1 Capital	
Paid up Capital	200,000
Audited retained earnings	351,716
Share Premium	-
Reserves (Other than Revaluation Reserves)	44,343
Goodwill and Intangible assets	-2,592
Deductions from Tier-1 capital	
Total Tier 1 Capital	**593,467**
Tier 2 Capital	
Investment revaluation reserve	-
Total Tier 2 Capital	**-**
Total Capital Base	**593,467**

Table1 : Capital Structure as of 31-Dec-2019

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 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 exposure towards Investment Funds and subsequent increase in past due items.

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

Capital base (SAR '000)	2019	2018	Percentage
Total capital base	593,467	512,286	16%
Minimum capital requirement			
Market Risks			
Equity & Fund Risk	7,248	-	100%
Interest Rate Risk	-	-	-
Commodities Risk	-	-	-
FX Risk	-	-	-
Underwriting Risk	-	-	-
Excess Exposure Risk	-	-	-
Settlement Risk	-	-	-
Market Risk	**7248**	**-**	**100%**
Credit Risks			
Credit Risk (including Prohibited Exposure Risk)	243,515	221,297	10%
Credit Risks	**243,515**	**221,297**	**10%**
Operational risks	24,193	23,852	**1%**
Total minimum capital requirement	**274,956**	**245,149**	**12%**
Total capital ratio (time)	**2.16**	**2.09**	**3%**
Surplus/(Deficit) in Capital	**318,511**	**267,137**	**19%**

Table 2: A comparison of Capital Adequacy ratio of 2018 & 2019

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	284,387	100%
Total	**284,387**	**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 :

Albilad Investment Company - Residual Contractual Maturity						(FIGURES IN SAR '000)	
EXPOSURE Class	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 Balance Sheet Exposures							
Cash and Bank Balances	16,883	498	46,072	220,934	-	-	-
Margin Lending	-	-	-	76,699	29,135	42,520	-
Investments through FVSI	-	31,571	12,161	-	-	-	229,672
Investments through OCI	-	-	-	-	-	-	-
Investments held at Ammortized cost	-	-	-	-	-	-	3,285
Property & Equipments , net	-	-	-	-	-	-	6,075
Intangible Assets , net	-	-	-	-	-	-	2,592
Other Assets	-	5,230	69	9,572	1,212	49,343	15,141
Total Assets	**16,883**	**37,299**	**58,302**	**307,205**	**30,348**	**91,863**	**256,765**

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 four most common market-risk factors are interest rates, foreign-exchange rates, equity prices, and commodity prices. The Company exposure to market risk is zero. 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	2016	2017	2018	2019
1	Gross Income	101,492	138,221	166,479	179,164
2	(3) Year Average		105,751	135,611	161,288
3	Risk Capital Charge		15%	15%	15%
4	**BIA Capital Charge (2*3)**		**15,863**	**20,342**	**24,193**
	EXPENDITURE BASED APPROACH ("EBA")				
5	**Overhead Expenses (Year 1)**		76337	95406	90550
6	Risk Capital Charge		25%	25%	25%
7	**Capital Required (5*6)**		**19,084**	**23,852**	**22,637**
8	**Capital Required for Operation Risk (Max 4,7)**		**19,084**	**23,852**	**24,193**

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.

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 2019 the Company has borrowed SAR 20 Million from its Parent Bank to finance Margin Murabaha customers by settling an outstanding balances of SAR180 Million during the year 2019. The principals are expected to be re-paid based on the settlement of Margin Murabaha contracts that are due on varying maturities. As of December 2019, Company's current ratio was 2.16 (2018:2.09) , which reflects the comfort level of current assets in meeting the short-term payment liabilities.

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	351,716
Share premium	
Reserves (other than revaluation reserves)	44,343
Tier-1 capital contribution	
Deductions from Tier-1 capital	-2,592
Total Tier-1 capital	**593,467**
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	**593,467**

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	-	-	-	-
Authorized Persons and Banks	284,387	284,387	56,877	7,963
Margin Financing	148,354	148,354	222,531	31,154
Corporates	14,731	14,731	105,182	14,726
High risk investments	-	-	-	-
Investment Funds	246,584	246,584	739,749	103,565
Investment Funds - Listed shares	-	-	-	-
Retail & Other Assets	62,370	62,370	382,570	53,560
Total On-Balance sheet Exposures	**756,426**	**756,426**	**1,506,910**	**210,967**
Off-balance Sheet Exposures	-	-	-	-
OTC/Credit Derivatives	-	-	-	-
Repurchase agreements	-	-	-	-
Securities borrowing/lending	-	-	-	-
Commitments	-	-	-	-
Other off-balance sheet exposures	-	-	-	-
Total Off-Balance sheet Exposures	-	-	-	-
Total On and Off-Balance sheet Exposures	**756,426**	**756,426**	**1,506,910**	**210,967**
Prohibited Exposure Risk Requirement	**0**	**0**	**232,484**	**32,548**
Total Credit Risk Exposures	**756,426**	**756,426**	**1,739,395**	**243,515**
Market Risk	**Long Position**	**Short Position**		
Interest rate risks				
Equity price risks	12565	-		**2262**
Risks related to investment funds	31167	-		**4986**
Securitization/ resecuritisation positions	-	-		-
Excess exposure risks	-	-		-
Settlement risks and counterparty risks	-	-		-
Foreign exchange rate risks	-	-		-
Commodities risks.	-	-		-
Total Market Risk Exposures	-	-		**7248**
Operational Risk				**24,193**
Minimum Capital Requirements				**274,956**
Surplus/(Deficit) in capital				**318,511**
Total Capital ratio (time)				**2.16**

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	High Risk Investments	Probibited exposures	Investment Funds	Investment Funds - Listed shares	Retail & Other assets	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	284,387	-	-	-	-	-	-	-	-	284,387	56,877
50%	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	148,354	-	-	-	-	-	-	-	148,354	222,532
200%	-	-	-	-	-	-	-	-	-	-	-	-	-
300%	-	-	-	-	-	-	-	246,583	-	8,113	-	254,697	764,090
314%	-	-	-	-	-	-	-	-	-	-	-	-	-
400%	-	-	-	-	-	-	58,121	-	-	-	-	58,121	232,484
500%	-	-	-	-	-	-	-	-	-	-	-	-	-
714%	-	-	-	-	14,731	-	-	-	-	50,172	-	64,904	463,412
Average Risk Weight	-	-	20%	150%	714%	0%	400%	300%	-	656%	-	215%	1,739,395
Deduction from Capital Base	**-**	**-**	**7,963**	**31,154**	**14,726**	**-**	**32,548**	**103,565**	**-**	**53,560**	**-**	**243,515**	**-**

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	-	-	-	-	-	-	-	-
Authorized Persons and Banks	-	284,387	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-	-	148,354
Corporates	-	-	-	-	-	-	-	14,731
High Risk Investments	-	-	-	-	-	-	-	-
Investment Funds	-	-	-	-	-	-	-	246,583
Market Risk -Asset Components	-	-	-	-	-	-	-	43,732
Investment Funds - Listed shares	-	-	-	-	-	-	-	-
Retail & Other Assets	-	-	-	-	-	-	-	60,878
Total		**284,387**	**-**	**-**	**-**	**-**	**-**	**514,278**

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						
Authorized Persons 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	-	-	-	-	-	-
Authorized Persons and Banks	284,387	-	-	-	-	284,387
Margin Financing	148,354	-	148,354	-	-	-
Corporates	14,731	-	-	-	-	14,731
High Risk Investments	0	-	-	-	-	-
Investment Funds	246,583	-	-	-	-	246,583
Investment Funds – Listed shares	0	-	-	-	-	-
Retail & Other Assets	60,878	-	-	-	-	60,878
Market Risk						
Equity price risks	12,565					12,565
Risks related to investment funds	31,167					31,167
Total On-Balance sheet Exposures	**798,665**	**-**	**148,354**	**-**	**-**	**650,311**
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	**798,665**	**-**	**148,354**	**-**	**-**	**650,311**