بلوم للإستثمار السعودية
BLOMINVEST SAUDI ARABIA
(Licensed by Capital Market Authority)

BLOMINVEST SAUDI ARABIA

PILLAR 3- DISCLOSURES

31 DECEMBER 2016

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1. Scope of Application:

In July 27 2008, BLOM Bank Group and its strategic regional partners in Saudi Arabia (Al-Fozan Holding, Al-Muhaidib Holding, Abdulaziz Al-Saghyir Commercial Investment Co. and Mr. Abdul Salam A. Al-Agil) were granted by the Capital Market Authority (CMA) a license (no 37/08094) to open and operate an investment firm in Saudi Arabia under the name of BLOMINVEST Saudi Arabia (**"BSA"**).

The PILLAR III disclosures contained herein relate to the audited financials of **"BSA"** for the period ended December 31,2016. These are compiled in accordance with CMA's minimum requirements for the annual market disclosure of information as referred to by Part 7 "Pillar III-Disclosure and Reporting'' of the Prudential Rules.

1.1 Pillar I- Minimum Capital Requirements:

Pillar I sets minimum capital requirements to meet credit, market, and operational risk as contained in chapter 4 to 16 of the Prudential Rules.

""BSA"" uses the base case approach in the calculation of the capital requirement for Credit Risk, Market Risk, and Operational Risk.

1.2 Pillar II –ICAAP

The Internal Capital Adequacy Assessment Process is introduced under Pillar II of the prudential Rules, which is contained in Part 6 (Article 66) and Annex 9 of the Prudential Rules.

Pillar II requires AP's to perform a though review of all materials risks, extensive stress testing, strategic capital planning , the internal control framework and the roles and responsibilities of departments that are critical to the implementation of framework .

The purpose and objective of the ICAAP is to ensure that the methodology to calculate the internal capital requirements takes into account all the material risks faced by **"BSA"** and is reflective of the actual risk profile of **"BSA"**.

The ICAAP process was jointly conducted by **"BSA"** Risk and Finance Department and Group Risk Management Division of BLOM Bank S.A.L.

1.3 Pillar III –Market Discipline

Pillar III aims to provide a detailed and transparent reporting framework that enhances market discipline to operate as sharing of information facilitates assessment of the AP by others, including investors, analysts, customers, and rating agencies, which leads to an improved corporate governance.

The information provided here has been reviewed and validated by the Management and is in accordance with the rules in force at the time of publication, covering both the qualitative and quantitative items. **"BSA"** shall publish the Pillar III disclosures at its website www.blom.sa.

2. Capital Structure:

"BSA" capital base is formed of Tier I and Tier II. Tier I includes: share capital, proposed share capital increase, audited retained earnings as well as deduction of intangibles. Tier II includes: subordinated loan, revaluation reserves and any deductions needed to meet tier II capital limit (Tier II should be at a maximum of 50% of Tier I).

"BSA" had a subordinated loan of SAR 37,500 thousands from BLOM Bank S.A.L. (Parent Bank) in 2011 which has been settled in June 2016. In 2013, **"BSA"** had another subordinated loan of SAR 55,000 thousands from its Parent Bank as well, and having a five years maturity which will be settled by end of year 2018.

Changes in fair value of available for sale financial investments (where negative) are translated into revaluation reserves and are included in Tier II capital.

As of December 2016, Tier I constitutes 91.4% of total capital base and Tier II forms the rest (8.60%). Along with the three projected years, Tier I is expected to increase and Tier II to decrease with the expected growth in net income and the settlement of the subordinated loan. By December 2019, Tier I is expected to constitute 95% of capital base and Tier II 5%, indicating the strength and quality of capital that **"BSA"** is expecting.

All amounts in '000

Tier 1- Capital	Dec-16	Dec-15
Paid-up capital	245,000	245,000
Reserves (other than revaluation reserves)	4,859	2,152
Audited retained earnings	56,216	35,500
Goodwill, intangible assets & Zakat (-)	-5,607	-276
Total Tier 1 capital	**300,468**	**282,376**

Tier-2 capital	Dec-16	Dec-15
Subordinated loans	18,686	33,414
Cumulative preference shares		
Revaluation reserves	9,571	7,124
Other deductions from tier 2 (-)		
Deduction to meet Tier-2 capital limit (-)		
Total Tier-2 capital	28,257	40,538

Total capital base	**328,725**	**322,914**

Please refer to Appendix 1 for the detailed disclosure on capital base.

3. Capital Adequacy:

"BSA" defines "Minimum Capital" as the resource necessary to cover unexpected losses and thus the Firm, maintains adequate level of capital to cover risks inherent in its business operations and to support current & future activities.

3.1 Capital Adequacy Ratio and Minimum Capital Requirements:

The Firm is adequately capitalized with a Tier I capital ratio of 0.91 and a total capital ratio of 2.88 which is above CMA's minimum regulatory requirement of 1.00.

Following table provides the Firm's capital adequacy ratio:

Particulars	Dec-16	Dec-15
Tier-1 Capital Ratio	0.91	0.87
Total Capital Ratio	2.88	2.48

The following table reflects the comparative analysis of capital numbers in 2016 & 2015.

All amounts in '000

Particulars	Dec-16	Dec-15
Tier 1- Capital	300,468	282,376
Tier-2 capital	28,257	40,538
Total capital base	328,725	322,914
Minimum Capital Requirement		
Credit Risk	105,198	123,045
Market Risk	663	1,210
Operational Risk	8,381	6,050
Total	114,242	130,305
Capital Adequacy Ratio	2.88	2.48
Surplus (Deficit) in Capital Base	214,483	192,609

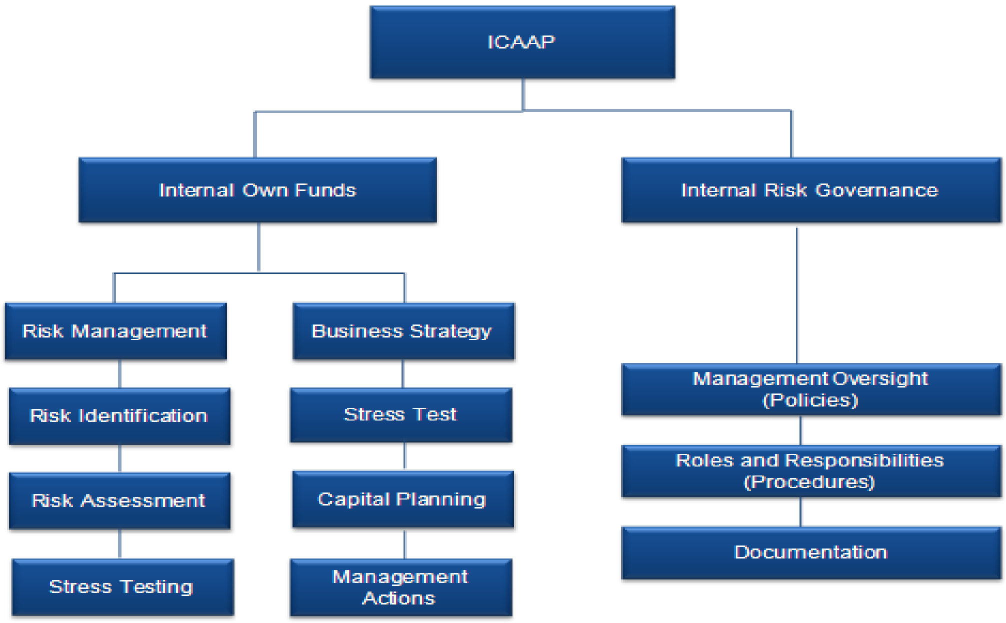
Please Refer to Appendix 2 for the detailed disclosure on capital Adequacy.

3.2 ICAAP:

"BSA" capital management philosophy is aimed at maintaining an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always meeting minimum regulatory capital and sufficient liquidity requirements. **"BSA"** has established an ICAAP framework (as illustrated in Figure below). The framework entails:

- The formulation of business plan over a 3 year horizon (2017-2019) in line with **"BSA"**'s strategy;

- The assessment and measurement of the material risks in **"BSA"**'s exposures;
- The assessment of **"BSA"** governance, organization, policies and procedures and documentation;
- Stress testing of **"BSA"**'s risks to assess its impact on capital requirements and the set financial targets in cases of stress events and scenarios; and
- Regular reporting of the ICAAP results to Executive Committee, BOD and CMA.



"BSA" ICAAP framework consists of the following building blocks:

1- Internal own funds adequacy: calculating **"BSA"**'s capital adequacy by taking into consideration Pillar I risks (market, credit and operational) and Pillar II risks (concentration, interest rate risk, other risks…) through the application of internal methods of risk assessment and buffer calculations.

 To be able to reach this stage, **"BSA"** shall:

 a- Follow sound risk management practices;
 b- Identify the risks it is exposed to or might be exposed to in the future;
 c- Assess those risks;
 d- Apply stress test scenarios in order to assess the ability of **"BSA"** to weather such scenarios.

 This would be reflected in the ICAAP by:

 a- Orienting **"BSA"**'s business plan into a risk-forward looking perspective;
 b- Setting risk appetite limits in accordance with the **"BSA"** strategy and its risk-taking capacity;
 c- Developing a capital plan under normal business conditions and stressful situations;
 d- Elaborating contingency plans entailing management actions to be undertaken under severe business conditions to ensure alignment and restoration within **"BSA"** acceptable levels and regulatory limits.

2- Internal risk governance which consists of:

a- BOD and Senior Management oversight;

b- Assess risk governance organization and all related policies and procedures; and

c- Documentation of the ICAAP throughout its phases.

"BSA" Senior Management will be responsible for monitoring the ICAAP framework through:

a. Overseeing the capital requirements (both regulatory and internal) of **"BSA"**,
b. Monitoring the capital adequacy level on a periodic basis and escalate through the CEO to the Executive Committee and BOD, if necessary;
c. Evaluating the level and trend of material risks and their effect on capital levels;
d. Evaluating the key assumptions used in the capital assessment measurement process; and
e. Assessing the future capital requirements based on **"BSA"** reported risk profile and recommending the necessary adjustments to **"BSA"**'s strategic plan, if required.

4. Risk Management:

"BSA" has been applying a risk management framework which is a composite of policies, procedures, guidelines, risk limits and effective risk governance structure.

"BSA" has its own policies and procedures concerning risk management (Risk Management Manual).

These policies and procedures outline the risk management control framework that allows the **"BSA"** to identify, assess, monitor, manage, mitigate and control exposure to all major risks inherent in its business activities. The purpose of the policies and procedures is to establish and communicate risk policy guidelines and control parameters related to risk and to direct activities conducted on behalf of **"BSA"**.

The risk management policies and procedures were formulated to assist **"BSA"**'s Senior Management in the overall monitoring and control of the major risks arising from **"BSA"**'s business activities. **"BSA"** risk management framework is based upon the premise that business managers understand the risks inherent in their activities, each department implements its own risk management controls. The risk management policies and procedures have provided the basis for the creation of a risk management infrastructure, thus facilitating the optimisation of stakeholder value, as well as meeting the emerging regulatory compliance and industry best practice standards.

4.1 Risk Management practice at BLOMINVEST Saudi Arabia

4.1.1 Risk Management Strategies and processes:

"BSA" has maintained the following minimum risk management standards in its risk management policies and procedures:

- Risks are well defined;
- Adequate and appropriate assessment of risks are done where relevant and feasible;
- Controls are effective and active throughout the relevant business periods;
- Measures are accurate; and
- Management of risks is proactive and integrated.

4.1.2 Structure and Organization of Risk Management and Compliance function:

Senior Officer Risk shall prepare periodic reports to **"BSA"** General Management and send copies to BLOM Group Chief Risk Officer. Senior Officer Risk will report annually or as the need arises to the Board and the Excom on risk profile of **"BSA"** and on major risks affecting the Company.

Senior Officer Risk shall conduct general risk assessments to **"BSA"**'s different departments and report its findings to Executive Committee, copies of the report should be forwarded to BLOM Group Chief Risk Officer as well as BLOM Group Head of Audit.

Business line managers at **"BSA"** will be responsible for the day to day operational risk management at their departments and informing Senior Officer Risk & Financial Reporting of significant and/or emerging risks in their business activities.

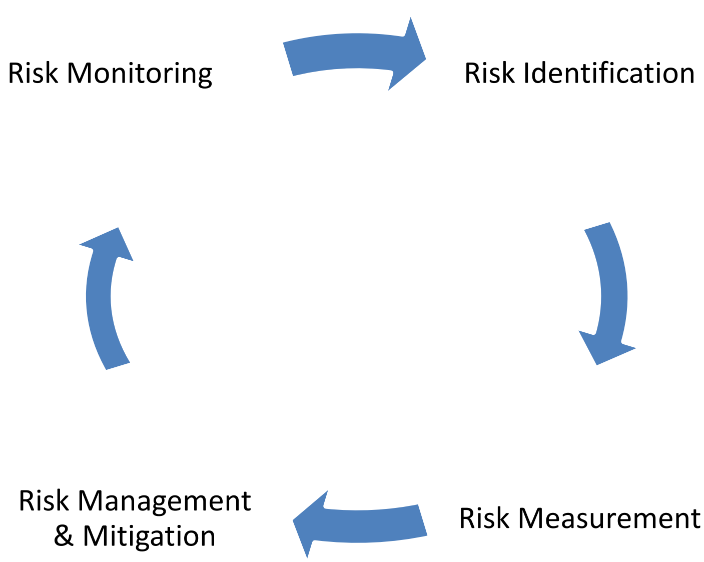
The Internal Audit shall periodically review the risk management function at **"BSA"**.

4.1.3 Scope and nature of risk reporting and measurement Systems

Risk management seeks to monitor the business risks and to keep risks within acceptable limits. Effective risk management will allow **"BSA"** greater control in achieving an appropriate balance between risks **"BSA"** wishes to accept (at a price that is appropriate to that risk) and risks **"BSA"** wishes to mitigate. When risks are properly managed, the benefits to be gained from those risks can be maximized, by accepting, reducing, eliminating, mitigating, or transferring the risk associated with any activity.

The primary goal of risk management is to ensure that **"BSA"**'s asset and liability profile, its trading positions, its credit and operational activities do not expose it to losses that could threaten the viability of **"BSA"**. Risk management helps ensure that risk exposures do not become excessive relative to **"BSA"**'s capital position and its financial position.

In all circumstances, all activities giving rise to risk must be identified, measured, managed and monitored. Thus, risk management may be viewed as a "continuous cycle" which includes the following four cycles:



Risk Identification	Risk Measurement	Risk Management & Mitigation	Risk Monitoring
• Risks and sources of risks to which **"BSA"** is exposed should be identified & defined.	• Measurement process should be comprehensive enough to cover all significant sources of risk exposure.	• Risk limits should be consistent with **"BSA"** policies and authorized exposures.	• Reports should provide relevant, accurate and timely information about risk exposures to management.
• **"BSA"**'s "appetite" for risk should be described based on **"BSA"** business objectives.	• Measurement process should be responsive to the needs of the users of the information.	• Risk management should ensure that operational activities do not expose **"BSA"** to losses that could threaten its viability.	• Individuals monitoring risks should be independent of those taking positions (incurring risks).
		• Risk management should ensure that risks are mitigated to **"BSA"**'s risk tolerance levels.	

"BSA"'s risk management is focused along 4 core steps, these are defined as follows:

Effective **risk identification** considers both internal factors (such as **"BSA"** the nature of activities, and quality of human resources, organizational changes and employee's turnover) and external factors (such as changes in the industry and technological advances) that could adversely affect the achievement of **"BSA"**'s objectives.

The risk identification falls under the responsibility of the line managers, e.g. Human Resources Manager, who is responsible for the Human Resource function, is responsible for identifying human resource risks, the Directors of relevant business units for competitive risk in their area and so on.

Effective **risk measurement** will allow **"BSA"** to better understand its risk profile and most effectively target risk management resources.

Regular **risk management and mitigation** activities will offer **"BSA"** the advantages of quickly detecting and correcting deficiencies in the policies, processes and procedures for managing and mitigating risks. The frequency of monitoring must reflect the risks involved and the frequency and nature of changes in the operating environment.

"BSA"'s **risk monitoring** will contain internal financial, operational, and compliance data, as well as external market information about events and conditions that are relevant for decision making. **"BSA"**'s reports will be distributed to appropriate levels of management and to all areas of **"BSA"** on which areas of concern may have an impact. The reports will fully reflect any identified problem area and will motivate timely corrective action on outstanding issues. The reports will be analyzed with a view to improve existing risk management performance as well as to develop new risk management policies and practices.

4.1.4 Policies and guidelines for monitoring and mitigating risks

The Risk Management function will be responsible for the implementation of risk management within **"BSA"**, and for responding to and on significant risks that may emerge from time to time and is responsible for all risk management activities within **"BSA"**. The Risk Management function has the mandate to:

- Define **"BSA"**'s risk appetite in a manner that is consistent with our overall business strategies;
- Draft risk policies, procedures and methodologies that are consistent with the Company's risk appetite;
- Manage the portfolio of risks throughout the organization;
- Ensure that the business conducted within **"BSA"** is consistent with the risk appetite of the Company;
- Propose credit risk, market risk and operational risk limits to the Excom for approval;
- Develop and implement risk management infrastructures and systems.
- Ensure that control and support functions operate independently from the business generating functions.

"BSA" risk appetite statement constitutes both quantitative and qualitative parameters. Defined metrics were set to monitor capital, employee turnover and ethical behaviour, internal controls and risk governance, regulatory compliance and reputational impact. **"BSA"** strives to keep its risk exposure within its risk appetite thresholds.

The below table represents **""BSA""** risk appetite metrics for the year 2017:

Risk Metrics	Description	Targets / KRIs
Capital	Capital to be maintained in line with regulatory requirements	• Capital Ratio: Min 140% • Internal Capital Ratio: Min 120%
Employee turnover	**"BSA"** aims to retain the best human resources and to ensure that turnover is kept at the lowest possible level	• Employee turnover equal to or less than 20%
Internal controls and risk governance	**"BSA"** will ensure that adequate/sufficient controls are in place to detect errors/discrepancies in day-to-day operations, and that policies and procedures are developed. This in return will ensure that risk governance is well maintained within **"BSA"**.	• Low tolerance
Employee ethical behaviour	**"BSA"** aims to maintain the highest ethical and professional standard for its employees.	• Zero tolerance
Regulatory compliance	No regulatory compliance breaches	• Zero tolerance
Reputational impact	**"BSA"** will strive to maintain/enhance its reputation in the marketplace	• Low tolerance

4.2 Credit Risks

Credit risk is the risk that counterparties and clients fail to fulfill their obligations towards **"BSA"**. It arises from all transactions that give rise to actual, contingent or potential claims against any counterparty, obligor or borrower (which we refer to collectively as "counterparties").

"BSA" will mainly be exposed to credit risk when providing leverage (margin trading) for clients and/or investing with counterparties in form of placements or fixed income investments. These investments will expose **"BSA"** to the following credit risks:

- Default risk is the risk that counterparties fail to meet contractual payment obligations.
- Country risk is the risk that counterparties are unable to fulfill their payment obligations as a result of government measures or country-specific economic factors.
- Settlement risk is the risk that the settlement or clearance of transactions will fail. It arises whenever the exchange of cash, securities and/or other assets is not simultaneous.

Credit risk management at **"BSA"** follows these principles:

- The approval of credit limits for counterparties and the management of individual credit exposures must fit within **"BSA"** portfolio guidelines and credit strategies, and each decision must also be justified on a risk-versus-return basis.

- The Excom has the authority to approve credit limits at **"BSA"**. The risk management function is responsible for monitoring the adherence to the credit limits and informing senior management of any material changes to credit exposures.

In order to mitigate credit risks, the use of investments in unregulated markets and OTC shall be limited and limits of such transactions shall be approved by the BOD.

Prior to setting counterparty limits, the risk management function shall conduct a pre-trade risk assessment and due diligence on proposed counterparties.

The risk management function shall continuously monitor the counterparty risk ratings and changes in market condition in order to detect potential changes in counterparty credit worthiness. This early detection of adverse changes in counterparties is used to mitigate credit risk exposures. Material changes to counterparty credit exposures shall be presented to the Excom in order to approve or take corrective action.

The credit risk is defined as the risk of loss resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which authorized persons are exposed.

"BSA" calculates the capital requirement for credit risk as stipulated by the regulatory body Capital Market Authority "CMA".

"BSA" calculated capital required against the following credit exposures:

- Authorized persons and banks - deposits/receivable;
- Authorized persons and banks – bonds;
- Private equity investments/unlisted shares;
- Real estate investments;

- Holdings of listed shares;
- High risk investment funds;
- Investment funds;
- Tangible assets;
- Other assets;
- Prohibited exposure; and
- Deferred expenditure / accrued income.

4.2.1 External Ratings:

"BSA" uses ratings from Credit ratings agencies (CRA) mentioned in the Prudential Rules.

4.2.2 Credit Quality Steps:

Credit risk forms the prominent part of the Firm's risk exposures. It arises due to the exposures in listed equity kept under available for sale investments, and investments in mutual funds. The deposits placed with banks also have some credit risk, though minimal.

4.2.3 Credit risk Exposure:

"BSA" has complied with CMA regulations and used the Standardized Approach in the calculation of the capital required for Credit risk. The 31-Dec-2016 numbers represents the risk positions of **"BSA"** during the period.
The major types of credit exposures are detailed in Appendix 3

4.2.4 Impairment, past due and provisions:

An impaired exposure is an outstanding sum of money owed to **"BSA"** that has not been paid, despite repeated efforts to collect. On 31St December 2016 **"BSA"** had no unsettled transactions in the trading book.

4.2.5 Risk Concentrations:

"BSA" internally calculates a capital charge for concentration risk based on:

- Geographic concentration, and
- Real estate investments concentration.

Regional Concentration	
Local	94.23%
GCC	0.00%
Non-GCC	5.77%
	100%
Limit on Regional Concentration	
Local	100%
GCC	20%
Non-GCC	5%
Excess on Regional Concentration	
Local	0.00%
GCC	0.00%
Non-GCC	0.77%
Excess on Regional Concentration	
Local	-
GCC	-
Non-GCC	3,006
Total	**3,006**
RWA for excess funding	400%
Additional RWAs	**12,023**

Real Estate Concentration	
% of Total Assets	27.83%
Limit on Real Estate concentration	20.00%
Excess over Limit	7.83%
Excess Amount	30,551%
RWA for Excess Real Estate Exp.	414.00%
Additional RWAs	126,481%

4.2.6 Credit Risk Exposures by credit Quality:

Please refer to Appendix 4 for the details.

4.3 Credit Risk Mitigation

Collaterals are securities, cash or assets that are offered to secure a financing or a credit sales transaction. Collateral becomes subject to seizure on default. It is a form of security to the financier/seller in case the purchaser fails to pay back the finance amount. **"BSA"** does not deal in margin lending and as such has no eligible or non-eligible financial collaterals user for credit risk mitigation purposes. **"BSA"** has controls in place to ensure that reporting and meaningful risk-reducing action take place when limits are exceeded. Some of the common ways of reducing exposures consist of: assigning transactions to other counterparties for diversification, and restructuring transactions to limit potential exposure and manage their sensitivity to market volatility.

Credit risk mitigations are managed by each of the relevant business as follows:

Open ended funds

A detailed study is undertaken to verify new product feasibility and risks are assessed through a due diligence exercise. New product ideas are presented to the CEO, product commitment committee and further to the risk and compliance before being introduced to the market. The risk limits of all equity based funds are monitored against approved benchmarks on a regular basis.

Holdings in Listed Stock

"BSA"'s proprietary investments in stock involve meticulous fundamental analysis of stock prices and are spread across fundamentally sound, highly liquid stocks as outlined in the proprietary charter.

Exposures to Authorized Persons and Banks

"BSA" places deposits with highly rated banks limiting the Firm's credit risk in deposits and current account balances considerably. In order to mitigate credit risk, **"BSA"** employs the following broad principles:

- The limits for exposures in each of the asset class is pre-established
- Every exposure to any counterparty requires approvals at the appropriate (pre-established) seniority level
- Credit ratings of the Banks where **"BSA"** places its deposits are constantly monitored.

4.4 Market Risk

Market risk is the risk of losses in on-and off-balance sheet trading book positions arising from movements in market rates or prices such as profits rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices resulting in a loss to earnings and capital.

4.4.1 Market Risk Management

"BSA" calculates the capital requirement for market risk as stipulated by the regulatory body "CMA**".**

"BSA" has a net position in USD resulting from USD denominated subordinated loan that is mostly invested in non-USD denominated investments that **"BSA"** has from its Parent Bank BLOM Bank Lebanon. This net position is expected to change in line with the settlement of the subordinated loan.

4.4.1 Market Risk – Capital

Market Risk Capital requirement is as indicated below:

Risk	Capital Required
Excess exposure risks	-
Settlement risks and counterparty risks	-
Foreign exchange rate risks	663
Commodities risks.	-
Total Market Risk Exposures	663

4.6 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, this will include legal risks covering, but not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

4.6.1 Operational Risk Management

"BSA" calculates the capital requirement for operational risk as stipulated by the regulatory body "CMA".
Operational risk charge is based on the highest capital charge of the two following approaches:

- Overhead expenses,
- Basic Indicator Approach as per Basel II.

4.6.2 Operational Risk Mitigation

The Firm maintains a risk register which follows a structured method to identify and mitigate risk. The high level steps involved in the creation of the risk register are identification, quantification and mapping of risks.
"BSA" has taken a Professional Indemnity Insurance policy (PII) from a reputed insurance company, which insures the Firm for a reasonable sum.
The Firm has in place a documented Business Continuity Planning (BCP), which comes under the oversight of the Risk Management Department and serves to ensure that the Firm has in place resources to manage unexpected crises and ensure continued effective operations.

4.6.3 Operational Risk Capital Charge

SAR' 000

Approach 1	YEAR	Gross Income	Average Income	Risk Capital Charge (%)	Capital Requirement
Basic Indicator Approach (BIA)	2013	49,748	53,672	15%	8,051
	2014	53,552			
	2015	57,716			
Approach2	**YEAR**	**Expenses**	**Risk Capital Charge (%)**		**Capital Requirement**
Expenditure Based Approach	2015	31,485		25%	7,871
Capital requirement For Operational Risk					8,051

4.7 Liquidity Risk:

Liquidity risk is the volatility in the economic value of, or in the income derived from, **"BSA"**'s positions due to inability to meet obligations out of readily available liquid resources or to execute a transaction in the market at the prevailing prices. Such an inability may force **"BSA"** to borrow at unattractive conditions or to liquidate assets at unattractive prices when it would be better to avoid such liquidations. It is the risk to the earnings and capital arising from potential inability to meet obligations when they are due without incurring unacceptable losses.

The main objective of liquidity risk management is to ensure that **"BSA"** can always meet its payment obligations punctually and in full.

4.7.1 Liquidity Risk Management:

The risk management function shall ensure that limits compliance is continuous monitored and that **"BSA"** maintains sufficient liquidity in order to meet on and off balance sheet obligations.

Liquidity risk management is a key function and integral part of the asset and liabilities management process. Liquidity refers to the condition where the financial institution has ability to fund on an on-going basis, any decreases in its liabilities or increases in its assets by either obtaining new liabilities or selling or leveraging on existing assets.

Additional capital allocation for liquidity risks do not serve as a cushion in times of liquidity crises.

"BSA" pursues a policy of high levels of liquidity through active and prudent management of assets and liabilities.

"BSA" monitors the following for a better management of liquidity risk:

- Cash inflows and outflows (cash management)
- Expected liabilities from **"BSA"** contracts and agreements
- Maturity date for any of **"BSA"**'s loans, in case they existed
- Placement of excess cash in Murabaha or money market fund with a view of gaining income and preserving capital. In case **"BSA"**'s Executive Committee decided to enter into an unexpected deal, the units' redemption of Murabaha or money market fund takes four business days indicating the liquidity and security of such investments.

4.7.2 Stress Testing and Capital Planning

Stress testing is an integral part of **"BSA"**'s risk management systems and is used to evaluate the potential vulnerability to some unlikely but plausible events or movements in financial variables.

"BSA" will stress relevant parameters at three levels of increasing adversity –mild, medium, and severe – with reference to the normal situation and estimate the financial resources needed by it under each of the circumstances to:

- Meet the risk as it arises and for mitigating the impact of manifestation of that risk;
- Meet the liabilities as they fall due; and
- Meet the regulatory and risk appetite limits.

"BSA" has built-in two types of stress testing in its ICAAP model, namely Individual and Overall.

Under individual stress testing, **"BSA"** assesses the effect of a particular stress event in isolation (without taking other stress events into consideration).

Under overall stress testing, **"BSA"** assumes an economic downturn situation which impacts several factors at the same time.

Under both, individual and overall, three levels of severity are assumed (mild, medium and severe).

"BSA" has assumed that all the relevant stress events take place as of 31 December 2016.

Any breaches resulting from the stress test are rectified through appropriate and feasible remedial management actions.

Appendix 1: Illustrative Disclosure on Capital Base

Capital Base	SAR '000
Tier-1 capital	
Paid-up capital	245,000
Audited retained earnings	56,216
Share premium	-
Reserves (other than revaluation reserves)	4,859
Tier-1 capital contribution	-
Deductions from Tier-1 capital	(5,607)
Total Tier-1 capital	**300,468**
Tier-2 capital	
Subordinated loans	18,686
Cumulative preference shares	-
Revaluation reserves	9,571
Other deductions from Tier-2 (-)	-
Deduction to meet Tier-2 capital limit (-)	-
Total Tier-2 capital	**28,257**
TOTAL CAPITAL BASE	**328,725**

Appendix 2: 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	-	-	-	-
Authorised Persons and Banks	178,484	178,484	45,398	6,356
Corporates	-	-	-	-
Retail	-	-	-	-
Investments	194,999	194,999	601,879	84,263
Securitisation	-	-	-	-
Margin Financing	-	-	-	-
Other Assets	16,743	16,743	104,141	14,580
Total On-Balance sheet Exposures	390,226	390,226	751,418	105,198
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	390,226	390,226	751,418	105,198
Prohibited Exposure Risk Requirement	0	0	0	0
Total Credit Risk Exposures	390,226	390,226	751,418	105,198

Market Risk	Long Position	Short Position	Capital Requirement SAR '000
Interest rate risks	-	-	-
Equity price risks	-	-	-
Risks related to investment funds	-	-	-
Securitisation/re-securitisation positions	-	-	-
Excess exposure risks	-	-	-
Settlement risks and counterparty risks	-	-	-
Foreign exchange rate risks		33,164	663
Commodities risks.	-	-	-
Total Market Risk Exposures	-	33,164	663

Operational Risk	8,381
Minimum Capital Requirements	**114,242**
Surplus/(Deficit) in capital	**214,483**
Total Capital ratio (time)	**2.88**

Appendix 3: Illustrative Disclosure on Credit Risk's Risk Weight

Risk Weights	Exposures after netting and credit risk mitigation										
	Governments and central banks	**Administrative bodies and NPO**	**Authorised persons and banks**	**Margin Financing**	**Corporates**	**Retail**	**Investments**	**Other assets**	**Off-balance sheet commitments**	**Total Exposure after netting and Credit Risk Mitigation**	**Total Risk Weighted Assets**
0%	-	-	-	-	-	-	-	1	-	1	-
20%	-	-	164,578	-	-	-	-	-	-	164,578	32,915.6
50%	-	-	3,229	-	-	-	-	-	-	3,229	1,614.5
100%	-	-	10,296	-	-	-	-	-	-	10,296	10,296
150%	-	-	381	-	-	-	28,083	-	-	28,464	4,269.6
200%	-	-	-	-	-	-	-	-	-	-	-
300%	-	-	-	-	-	-	107,910	3,719	-	111,629	334,887
400%	-	-	-	-	-	-	59,006	-	-	59,006	236,024
500%	-	-	-	-	-	-	-	-	-	-	-
714% (include prohibited exposure)	-	-	-	-	-	-	-	13,023	-	13,023	92,984
Average Risk Weight	-	-	25.4%	-	-	-	309%	622%	-	-	-
Deduction from Capital Base	-	-	6,356	-	-	-	84,263	14,580	-	-	-

Appendix 4: Illustrative Disclosure on Credit Risk's 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	-	-	-	-	-	-	-	-
Authorised Persons and Banks	-				-	-	-	-
Corporates	-	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	-
Investments	-	-	3,229	10,296	-	-	-	27,678
Securitisation	-	-	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	49,619
Total	**-**	**-**	**3,229**	**10,296**	**-**	**-**	**-**	**77,297**

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	-	-	-	-	-	-
Authorised Persons and Banks	-	163,923	-	-	-	381
Corporates	-	-	-	-	-	-
Retail	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Securitisation	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	-	-	-	-	-	58,696
Total	-	**163,923**	-	-	-	**59,077**

Appendix 5: Illustrative 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	-	-	-	-	-	-
Authorised Persons and Banks	178,484	-	-	-	-	178,484
Corporates	-	-	-	-	-	-
Retail	-	-	-	-	-	-
Investments	194,999	-	-	-	-	194,999
Securitisation	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	16,742	-	-	-	-	16,742
Total On-Balance sheet Exposures	**390,225**					**390,225**
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	**390,225**	**-**	**-**	**-**	**-**	**390,225**