Risk Management

Operating in a highly competitive and dynamic environment, the Bank focused on managing a range of risks during the year under review.

Credit risk

The most common risk for the Bank and the Group is financial loss due to a counterparty failing to meet the terms of an obligation to a transaction. Key sources of credit risk include credit facilities provided to customers, cash and deposits held with other banks, and some off balance sheet financial instruments such as guarantees relating to purchase and sale of foreign currencies or letters of credit. Using quantitative and qualitative aspects we systematically evaluate a customer's creditworthiness. This helps us to maintain a robust loan portfolio. The Bank is also able to take remedial measures by conducting periodic loan reviews that are geared to detect any weaknesses in the quality of the portfolio.

Liquidity risk

When the Bank is unable to meet its financial liabilities when they fall due or replace withdrawn funds without incurring unacceptable losses, this is termed liquidity risk. Such a risk would invariably strike a serious blow to the Bank's reputation and its ability to do business going forward. Since the ability to accurately forecast cash flows and cash equivalents is crucial to the Bank's ability to manage such a risk, they are carried out on the basis of practice and limits set by the Group and historical deposit movement.

The Bank's liquidity is also affected by market disruptions and credit downgrades. For this reason, assets are managed judiciously with a conservative balance of cash, cash equivalents and other assets maintained at all times. To further mitigate this risk the Bank focuses on diversifying its sources of funding.

Market risk

Risks related to currency, profit rate and price are classed as market risk. They occur when the fair value or future cash flows of a financial instrument fluctuate due to changes in market prices. Profit rate products, foreign currency, and mutual fund products are all exposed to general and specific market movements. As a result, changes in the level of volatility of market rates or prices such as profit rates, foreign exchange rates, and quoted market prices, can impact the performance of the Bank.

Being Sharia compliant means that the Bank is immune from risks resulting from speculative operations such as hedging, options, forward contracts, and derivatives. The Group is not immune to market risks such as profit rate risk, foreign currency risk, price risk and operational risk. Please refer Note 27.3 to the Consolidated Financial Statements for a detailed discussion.

Operational risk

Operational risk scenarios are more or less idiosyncratic in nature and generally attributed to inadequate or failed internal systems and processes, human actions and/or external events.

During the year under review, the aggregated results of such stresses indicated manageable levels of risk while high risk levels were never breached. This demonstrates the Bank's overall resilience and the success of its integrated approach to the identification, measurement and monitoring of operational risk.

Concentration risk

If the Bank's area of business was limited to one location or its customers to a single type, it would be at greater risk from the slightest shocks to its operating environment. Instead, the Bank is geographically diversified and counts on the loyalty and patronage of a varied customer base which spans industries, countries, and wallet-size. Such diversity mitigates concentration risk by providing greater stability in the face of external impacts.

Risk management practices →

The role of the Board Risk Management Committee (BRMC) is to support the Board of Directors in their role of overseeing the Bank's performance in line with the Bank's risk appetite. The risk management function operates within the regulatory framework set out by the Saudi Arabian Monetary Authority (SAMA).

The Bank's Internal Capital Adequacy Assessment Process (ICAAP) covers the Bank's risk management framework, detailing its risk appetite, risk management approach, and primary risk controls. Reviewed by the BRMC and approved by the Board, the ICAAP is submitted to SAMA on an annual basis. Similarly, the BRMC reviews and provides recommendations on the Internal Liquidity Adequacy Assessment Plan (ILAAP). These are

The Bank must manage risks with prudence combined with pragmatism in order to remain profitable. To do so it has to accurately identify potential risks and the impact of such risks on the Bank's value creation process. This involves establishing risk thresholds which are derived from the Bank's risk appetite. The policies and procedures set up by the Bank help identify and analyse relevant risks, manage its capital effectively and provide shareholders with sustainable returns.

submitted to the Board and, upon approval, are submitted to SAMA annually.

Crucial to the Bank's management of risk across its operations is the role of the Credit and Risk Group headed by the Chief Risk Officer. Covering credit risk management, operational risk management and enterprise risk management, this team works within the risk frameworks and policies approved by the Board of Directors. The Group's reports to the Board of Directors and related committees span credit risks and portfolio asset quality, operational risks, liquidity risks, market risks, reputational risks, and technology and cyber security risks among others.

The BRMC also reviews the Credit and Provisioning Policy, Operational Risk Policies, Risk Appetite Statements, Market and Liquidity Risk Policies and Information Security Policy. Its recommendations are submitted for the Board's approval.

The Bank's liquidity risk is monitored by the Asset and Liability Committee (ALCO). Their remit includes day-to-day management of funds to ensure that funds are available when necessary to meet commitments; monitoring liquidity ratios against benchmarks; and managing the concentration and profile of debt maturities.

Market risks are regularly monitored by the Credit Risk Department with reports being sent to ALCO each month for assessment. ALCO ensures that risks taken are appropriate but initiates mitigating action if they are not within the Bank's risk appetite.

The diversity of the customer base fortifies and strengthens the Bank. Having a keen understanding of different customer requirements, we segmented this stakeholder group into three primary segments:

- Retail banking customers
- Micro customers and Small and Medium Size Enterprises (MSME)
- Corporate banking

This type of segmentation also allows us to align our value proposition in terms of products, services, and delivery channels to better cater to customer needs. Our retail customer-oriented business model provides a diverse risk profile that is supplemented by our robust corporate banking customer base. Our extensive branch network endears us to our loyal customer base, generating for us a high level of stable demand deposits, which in turn has a positive impact on the Bank's liquidity.

Supporting our long-term value creation plans, our risk management practices regulate the entire customer journey from onboarding to issuing finances and providing reliable and relevant products and services.

In line with global standards, the Bank implemented credit provisioning framework IFRS 9 and Internal Liquidity Adequacy Assessment Plan (ILAAP) during the year under review. It also established Risk Appetite Statements at business line level, foreign branch level and subsidiary level. In 2019, the Bank will focus on enhancing its credit delivery and management processes and further improving the robustness of its information security and disaster recovery infrastructure.

Credit rating

Rating agency	Long term	Short term
S&P	BBB+	A-2
Fitch	A-	F1
Moody's	A1	P-1
Capital Intelligence	A+	A1

Receiving positive credit ratings from international rating agencies over consecutive years has been favourable for the Bank's reputation. The year under review was no different (except for one notch downgrading of Fitch's rating from A to A-. Moody's and S&P maintained their ratings at A1 and BBB+ respectively).

Looking ahead

Expanding its core customer segments of retail, corporate, and SME in line with world-class risk management practices, regulatory standards, international standards, and best practices continues to be a core focus for the Bank.