The Role of the Compliance and Combatting Financial Crime Department

Compliance is an independent function that is charged with identifying, evaluating, providing advice and counsel, and following up and preparing reports on the risks of the bank's non-compliance with regulations and instructions. The objective is to shield the bank and its representatives from potential regulatory or administrative penalties, as well as any actions that could damage the bank's reputation due to its failure to follow rules, regulations, controls, or good organizational and behavioural standards and professional practices.

The Compliance and Combating Financial Crimes Department at the Bank plays a key role in ensuring that all of the Bank's policies, manuals, and procedures are in line with the regulations and instructions set by regulatory and supervisory bodies. They also ensure that these guidelines are effectively implemented by the Bank. The department is responsible for a variety of tasks and responsibilities that are categorized into specific functions, such as:

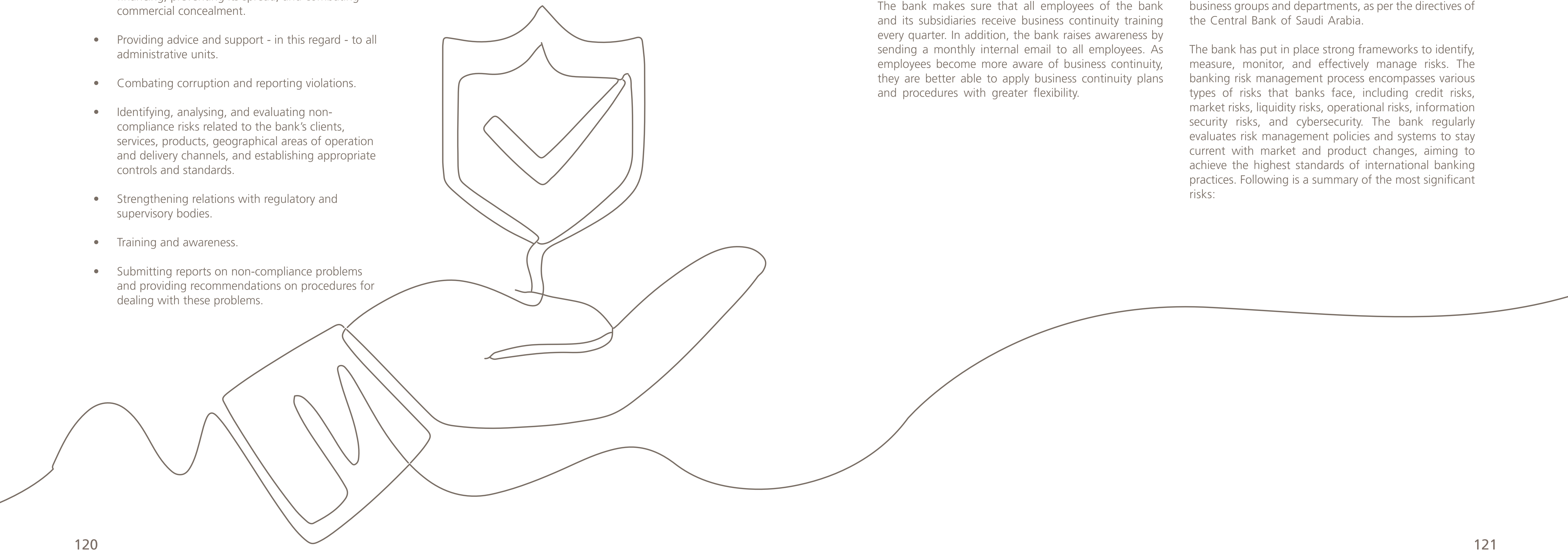
- Combating money laundering and terrorist financing, preventing its spread, and combating commercial concealment.
- Providing advice and support - in this regard - to all administrative units.
- Combating corruption and reporting violations.
- Identifying, analysing, and evaluating non-compliance risks related to the bank's clients, services, products, geographical areas of operation and delivery channels, and establishing appropriate controls and standards.
- Strengthening relations with regulatory and supervisory bodies.
- Training and awareness.
- Submitting reports on non-compliance problems and providing recommendations on procedures for dealing with these problems.

Monitoring and assessing the effectiveness of implementing regulations and instructions

The Compliance and Combating Financial Crimes Department is responsible for assessing and supervising the bank's compliance with rules, regulations, and instructions established by regulatory and legislative authorities. This involves ensuring that the bank adheres to its own policies, guidelines, processes, products, and services.

HR Policies

The bank's commitment to adhering to regulations, laws, and policies is crucial for its success, reputation, and credibility. It was essential for all the bank's ambassadors to understand and follow all necessary regulations, instructions, and policies related to their work and assigned tasks, without any transgressions or negligence.



Business Continuity

The bank is dedicated to thoroughly reviewing, updating, and developing the concept of business continuity to assess the bank's readiness in the unfortunate event of crises, God forbid. In 2023, the bank successfully obtained the ISO 22301 standard certificate.

This is an international standard that focuses on identifying and implementing the most effective practices for business continuity management. This standard is designed to assist organizations in identifying and assessing the risks related to halting operations or being exposed to crises and disasters. Acquiring the certificate and adopting the international standard for business continuity management demonstrates the bank's readiness to maintain uninterrupted business operations and services, regardless of any crises or challenges that may arise.

The bank conducted a comprehensive crisis management test, assuming a cyber-attack. All systems were smoothly transferred to the backup data centre, and employees were relocated to the business continuity centre for a period of seven days. All tests were successfully completed, praise be to God.

The bank makes sure that all employees of the bank and its subsidiaries receive business continuity training every quarter. In addition, the bank raises awareness by sending a monthly internal email to all employees. As employees become more aware of business continuity, they are better able to apply business continuity plans and procedures with greater flexibility.

Current and Future Risks

Exposure to risks is related to the nature of the bank's business; however, the bank monitors and manages these risks through the risk management group responsible for managing credit risks, market risks, operations risks, information security, and supervising the follow-up and collection of distressed debts. The bank strictly adheres to the requirements of the Saudi Central Bank and the Basel Committee. The risks are thoroughly detailed in the notes accompanying the consolidated financial statements from page 31 to 36, serving as a supplement to the Board of Directors' report. Here are the most important ones:
In 2023, the Risk Management Group remained dedicated to enhancing the effectiveness of the risk management system and implementing the best practices and systems. Their goal was to ensure that the bank's banking activities achieve the right balance between return and expected risks.

The risk management group's framework is built upon three key pillars: solid risk management principles, a well-defined organizational structure, and effective risk measurement and control processes. These pillars work together to maintain an acceptable level of risk in line with the bank's activities. The risk management group operates autonomously and is independent of the bank's business groups and departments, as per the directives of the Central Bank of Saudi Arabia.

The bank has put in place strong frameworks to identify, measure, monitor, and effectively manage risks. The banking risk management process encompasses various types of risks that banks face, including credit risks, market risks, liquidity risks, operational risks, information security risks, and cybersecurity. The bank regularly evaluates risk management policies and systems to stay current with market and product changes, aiming to achieve the highest standards of international banking practices. Following is a summary of the most significant risks:

Credit Risks

Credit risks are a significant concern for the bank due to its involvement in financing and investment activities. In compliance with authorized credit rules and procedures, credit risk work is organized into several divisions that function as a single system.

Assessing credit risk:

The bank carefully assesses the level of credit risk in order to obtain a comprehensive understanding of the potential risks associated with granting credit facilities. The bank utilizes a sophisticated assessment system to internally evaluate the credit risk level for various types of clients, including corporate clients, small and medium enterprises (SMEs), retail clients, and financial institutions. This system helps measure the likelihood of default, the potential default amounts, and the resulting losses. The bank is constantly striving to enhance its internal risk assessment methods for customers and regularly reviews them. The bank also has a system in place to evaluate the level of risk associated with retail customers who are granted approval for financing through accredited programs.

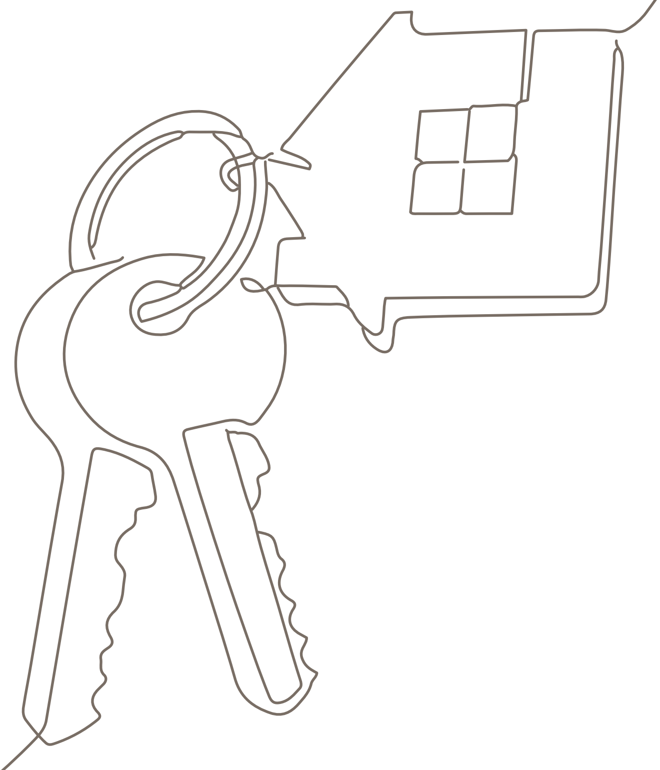
Credit risk mitigators and controls:

The bank employs various strategies to mitigate credit risks and maintain them within acceptable levels. One important approach involves conducting thorough analytical studies on future data and cash flows. These studies help determine the likelihood of customers being able to fulfil their financing obligations. Credit approval goes through multiple levels of approvals and credit committees consisting of executive members of the bank or board of directors. The level of approval is determined based on the credit risk, potential loss, and size of credit facilities for each client, as per the authorized credit authority matrix. Furthermore, the bank requires appropriate guarantees for the credit facilities when necessary. These guarantees can take various forms, such as cash cover, mortgages on investments and assets, or mortgages on commercial and residential real estate. Additionally, in certain cases, project returns may be waived as a form of support for financing specific projects. Moreover, the bank may also require financial, personal, or third-party guarantees in exchange for the facilities. Financing for the Kafalah Program, which supports small and medium enterprises, is provided as long as the program's conditions and standards are met. Retail customers can access financing through approved programs that have specific credit standards. The bank also emphasizes the importance of avoiding credit concentration in the credit portfolio and maintaining a consistent credit exposure size. This involves monitoring exposure to specific entities or sectors and implementing internal limits to manage credit concentrations in the financing portfolio.

Monitoring and reports:

The bank conducts an annual credit review to thoroughly assess the financial and credit status of all customers who obtain commercial financing through corporate and retail banking. This helps ensure the ongoing viability of the customer's business, understand their financing requirements, and maintain a healthy credit relationship. Additionally, the bank carries out review work that includes reports of repeated visits to customers throughout the year. The bank regularly assesses and tracks early warning indicators for its customers to ensure the stability of their credit standing.

Corporate clients with high credit risk rates are carefully evaluated and categorized as clients who require special monitoring. Their credit exposure is closely monitored and regularly reviewed to effectively mitigate this risk on a semi-annual basis. The bank closely monitors the portfolio of retail clients who have credit facilities for consumer purposes, credit cards, or real estate financing. This involves evaluating the standards set for this portfolio for each segment separately. The bank also implements insurance measures to protect the retail financing portfolio in case of unfortunate events, such as the death of the customer.



Real Estate Finance Risk

The Bank's total outstanding residential real estate finance portfolio as of 31 December 2023 was SAR 37,959,432 (in thousands). The Bank has developed adequate policies and procedures to ensure that the appropriate insurance coverage is in place to hedge against potential financial losses associated with residential real estate portfolio. However, risk elements which are not part of the insurance coverage are dealt with according to the Bank's internal risk management framework.

Following are the different types of insurance covers that the Bank has utilized to hedge various risks associated with its residential real estate finance portfolio.

(i) Life Insurance:

The life insurance provides financial protection in the event of death resulting from natural or accidental events or specified cause as per the real estate financing regulations issued by The Saudi Central Bank.

(ii) Disability Insurance:

The disability insurance provides financial protection to recover the outstanding financing amount in the event that the customer becomes fully and permanently disabled and is unable to work or engage in an income earning activity.

(iii) Property Insurance:

Property insurance provides coverage for physical damage or loss to the property caused by events such as fire, flood, or natural disasters etc. This is aimed to mitigate the financial impact of property damage, allowing the Bank to recover the costs due to unexpected / unforeseen events.

The bank follows internationally recognized financial standards to determine credit allocations in its financial records and statements. These allocations are made when there are indications of potential losses and may impact the expected cash flows from these assets or investments. The bank carefully evaluates the inputs and assumptions utilized to calculate projected credit losses. This includes making necessary adjustments to the macroeconomic factors and inputs employed in the credit loss model, such as default rates, to account for any economic fluctuations that may arise.

In addition, the bank compiles a comprehensive monthly report that provides an in-depth analysis of the bank's portfolio. This report includes an evaluation of credit concentrations and compares them to the approved ratios. It is then reviewed and supervised by the bank's senior management.

Market Risks:

Market risks pose a significant threat to the bank's activities, as they can result in unfavourable outcomes and potential losses. Fluctuations in prices, profit margin rates, and currencies are key factors contributing to these risks. Furthermore, any abrupt and significant fluctuations in these prices could have an impact on the bank's liquidity and its ability to secure financing. The bank is exposed to various types of market risks, including:

Profit Rate Risk:

Profit rate risk refers to the potential impact on a bank's profitability due to fluctuations in market interest rates. Price fluctuations can be attributed to various factors, such as market dynamics and economic conditions, or specific adjustments made in response to client financing needs.

Foreign currency risk:

This risk arises from the volatility of currency exchange rates affecting the bank's currency positions.

The bank's market risk management typically focuses on efficiently managing and monitoring market risk exposure to maximize returns while adhering to approved policies and acceptable risk levels. The bank's market risk exposure is categorized into various sources:

Trading portfolios:

Market risks can arise in the foreign currency trading portfolio when meeting the foreign currency requirements of the bank and its clients.

Portfolios for non-trading purposes:

The exposure to market risks in portfolios for non-trading purposes is mainly caused by the mismatch between the assets and liabilities' maturity dates, as well as the impact of price changes when reinvestment operations are implemented.

Liquidity risk

This risk, which includes the possibility that the bank may not be able to meet financing needs at a reasonable cost (known as liquidity financing risks) or may not able to liquidate its investments quickly enough to keep the right price (known as market liquidity risk), is regarded as one of the most significant threats to the banking industry as a whole or to a specific bank in particular.

Governance of market risks and liquidity risks

The effective management of corporate and market risks involves establishing and enforcing policies and limits that are approved by the Board of Directors. The Assets and Liabilities Committee has the important role of strategically managing market and liquidity risks, in line with its assigned tasks and responsibilities. Limits are established for credit portfolios, products, and risk types, taking into account the volume of liquidity available in the market and the associated credit risks.

The Market Risk Department functions as an independent supervisory division with the important responsibility of effectively implementing market risk policies. It is tasked with developing strategies to manage market and investment risks within the bank, as well as creating measurement mechanisms and behavioural models to monitor liquidity. The department promptly reports any violations of established limits to senior management, in accordance with approved mechanisms and procedures set by the Board of Directors. Additionally, it reports market risk exposure and instances of exceeding limits to the Assets and Liabilities Committee and the Board of Directors.

The bank focused on diversifying funding sources to minimize liquidity risks and maintain a healthy level of liquid assets. It implemented various policies and standards to effectively manage liquidity risks and developed an emergency plan in accordance with the best practices recommended by the Basel Committee for liquidity risk management. The review of policies and procedures for managing liquidity risk is conducted periodically and requires approval from the Assets and Liabilities Committee and the Board of Directors.

Measuring and monitoring market risks is essential for maintaining a balanced exposure to market risks, especially in the face of unforeseen events. Conducting stress tests is an important part of this measurement. By regularly obtaining the results of stress tests, the bank can assess how changes in profit rates, foreign exchange rates, and other risk factors affect the bank's profitability, capital adequacy, and liquidity rates. The stress test results are regularly shared with the executive management and the Board of Directors to assess the potential financial impact in case of unforeseen events.

In 2023, the Risk Management Group achieved substantial advancements in improving and fine-tuning the technical systems for measuring liquidity and market risks, managing assets and liabilities, and conduct related studies, reports, and stress tests. These efforts are part of an ongoing initiative to improve the measurement systems for liquidity and market risks.

Operations risk:

Operations risks refer to the potential losses that can occur due to deficiencies or failures in internal processes, individuals, technical systems, or external events. This definition covers legal risks while excluding strategic and reputational risks. Operations risks are inherent in all products, activities, operations, and the bank's technical systems. These risks arise from internal factors and are separate from credit risks and market risks, which are influenced by external factors. Considering this, the bank has implemented a strategy that emphasizes the active involvement of executive management in handling this kind of risk. This is due to the significant influence it has on the bank's various operations. The bank consistently strives to minimize the impact of operational risks in order to accomplish its strategic goals by:

- Thoroughly analyzing and evaluating goals and activities to minimize exposure to operations risks.
- Assessing potential operational risks in current and new products and services, as well as information technology activities, processes, and systems. Utilizing operational risk management tools to identify any gaps that could result in operational losses. Developing corrective measures to prevent these losses from happening in the future. Evaluating the risks associated with the bank's different activities and implementing measures to mitigate these risks. Collecting data on key risk indicators to proactively monitor the level of exposure to operations risks as an early warning system.
- The bank's management takes a proactive approach to addressing operational risks.
- Conducting regular and comprehensive assessments of the bank's policies, procedures, and performance.
- Ensuring complete compliance to instructions from regulatory authorities and international standards when managing operations risks.
- Providing regular reports to the executive management and the Board of Directors regarding the assessment of operations risks and losses faced by the bank, along with the necessary corrective actions.

Information security risks

The bank's information security department is committed to minimizing the risks associated with information networks and security. As technology continues to advance, the department works diligently to ensure the highest standards of information security are upheld, including availability, integrity, and confidentiality. This is crucial in supporting the growth of the bank's technical services and safeguarding against cyber threats. The bank is always assessing cyber risks in order to guarantee the security of the technology or services it uses to give its customers the services they require. Here are the key points covered in this information security risk assessment:

- Assessment of services, technical projects, and new initiatives implemented by the bank to enhance its electronic services.
- Regularly assess the response to cybersecurity incidents to ensure the procedure's effectiveness
- Assessing the security level of technical services through rigorous security vulnerability assessments and breach tests on highly sensitive systems.
- Regular risk assessment focused on the business and IT departments to identify any potential security risks in the procedures or controls of security systems.
- Supervising the compliance process with regulatory guidelines and laws, and ensuring the enforcement of cybersecurity controls.

Key business sectors and activities of the Bank and its subsidiaries:

The Bank and its subsidiaries practice the following activities:

Retail banking:	Services and products to individuals, including deposits, financing, remittances and currency exchange.
Corporate banking:	Services and products to corporate customers including deposits, financing and trade services.
Treasury:	Money market and treasury services.
Investment banking and brokerage:	Investment management services and asset management activities related to dealing, managing, arranging, advising and custody of securities.