



**ALAWWAL CAPITAL**  
**A SAUDI JOINT STOCK COMPANY**

**PILLAR III**  
**DISCLOSURES REPORT**

**As Of 31 December 2018**

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1)

## INTRODUCTION

### AND

#### PURPOSE OF THE PILLAR III ( DISCLOSURES REPORT )

- ✓ The Prudential rules issued by the Capital Market Authority of Saudi Arabia covers and consists of three pillars of Capital adequacy viz,
  - Pillar I (dealing with rules for capital requirements for Credit, market and operational risk)
  - Pillar II (dealing with assessment of all risks, ICAAP document covering capital assessment, risk management and governance)
- ✓ The purpose of Pillar II is to ensure that authorised persons have sufficient capital to support all material risks to which their business is exposed. It shall therefore reinforce the link between the risks and the capital, so that the Authorized Person's risk management strategy, approaches and systems are integrated with its capital planning.
- ✓ This disclosure requirement meets the minimum requirements of the annual market disclosure of information referred to as "Pillar III disclosure" to be published by the Authorized Persons (APs) licensed to dealing, managing and/or custodial activities
- ✓ The purpose of Pillar III disclosures is for the market participants to assess the key pieces of information on the scope of application, capital, risk exposure, risk assessment processes and the capital adequacy of the Authorized Persons.
- ✓ This document has been prepared in compliance to the guidelines issued by the Capital Market authority of Saudi Arabia.
- ✓ The Pillar III disclosure consists of both quantitative and qualitative disclosures. This Pillar III disclosure has been approved by the Board of directors of Alawwal capital company before its publication.



- ✓ The information contained in this Pillar III disclosure report has not been subjected to External audit, as the same is not a requirement.

## 2) ABOUT ALAWWAL CAPITAL

- ✓ **Alawwal CAPITAL is a Saudi closed joint stock company**

Registered with the CMA under license number 30 / 6022 dated 09 / 6 / 1427H

- AND license number 36 / 8095 dated 01 / 01 / 1429H

(corresponding to 10 / 1 / 2008 )

- AND license number 37 / 14178 dated 21 / 06 / 1435H

( corresponding to 21 / 04 / 2014 )

AND commercial registration number 4030170788 dated 19 / 06 / 1428H

( corresponding to 05 / 07 / 2007 )

- ✓ **The Company is licensed in**

1) Managing ( Funds – Portfolio )	2) Arranging
3) Advising	4) Custody of securities
5) Dealing as principal	

## 3) CAPITAL STRUCTURE

- ✓ The Company's authorised, issued and fully paid up share capital is 5,000,000 shares of SR 10 each
- ✓ The Company has not issued any capital instruments of innovative complex, or hybrid nature.
- ✓ The Capital of the Company as of December 31, 2018 consists of pillar 1 only as
  - i. Paid-up Capital SR 50 m
  - ii. Accumulated Reserves SR 3.6 m
  - iii. Accumulated Profit of SR 9.5 m.



#### 4) CAPITAL ADEQUACY

- ✓ The Prudential Rules are based on three pillars.

**Pillar 1** regulates the minimum capital requirements for

- credit risk
- market risk
- operational risk
- large and excess exposures
- liquidity requirements

**Pillar 2** regulates the authorized person's

- internal capital assessment
- risk management
- governance

**Pillar 3** regulates how information regarding

- risk management
- capital requirements
- capital adequacy etc . ( Should be made public )

- ✓ The total capital ratio shall not be allowed to be lower than 1. Whenever the ratio is lower than 1, the authorized person shall decrease its exposures or increase its capital base
- ✓ The Company will consistently maintain its capital adequacy ratio well above the regulatory minimum of 1%
- ✓ The audited capital base, minimum capital requirement and capital adequacy ratio



✓ **AL AWWAL CAPITAL COMPANY**

**As per the CMA's Prudential Rules are as follows**

**SAR ' 000**

<b>Description</b>	<b>2016 SR'000</b>	<b>2017 SR'000</b>	<b>2018 SR'000</b>
<b>Capital Base</b>			
Tier 1 Capital	74,982	72,513	63,053
Tier 2 Capital	0	0	0
<b>Total Capital Base</b>	<b>74,982</b>	<b>72,513</b>	<b>63,053</b>
<b>Minimum Capital Requirement</b>			
Market Risk	9,671	8,970	3,222
Credit Risk	12,731	13,838	25,979
Operational Risk	4,326	3,024	2,433
<b>Total Minimum Capital Required</b>	<b>26,728</b>	<b>25,832</b>	<b>31,634</b>
<b>Capital Adequacy Ratio</b>			
Total Capital Ratio ( Time )	2,81	2,81	1,99
Tier 1 Capital Ratio ( Time )	2,81	2,81	1,99
Surplus / ( Deficit ) in the capital	48,254	46,680	31,418

- ✓ The capital base consists of Tier 1 capital --which includes ( Paid-up Capital, Audited retained earnings and Accumulated Reserves )
- ✓ The company does not have Tier 2 capital as per article 4 and 5 of the Prudential Rules.
- ✓ The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in part 3 of the Prudential Rules.
- ✓ The Company manages its capital base in light of Pillar I and Pillar II of the Prudential
- ✓ The Company's business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA to safeguard the Company's ability to continue as a going concern, and to maintain a strong capital base.
- ✓ The Company's risk and capital assessment policies are designed to identify and quantify these risks , set appropriate limits in line with defined risk appetite, ensuring control and monitoring adherence to the limits



- ✓ The principal risks associated with the Company's business are credit risk, market risk, liquidity risk, operational risk and reputation risk.
- ✓ The table below describes the approaches the Company has adopted for determining

<b>Credit Risk</b>	<b>Standardized Approach</b>
<b>Market Risk</b>	<b>Standardized Approach</b>
<b>Operational Risk</b>	<b>Basic Indicator Approach</b>

- ✓ The Company aims to maximise shareholders' value through an optimal capital structure that protects the stakeholders' interests under extreme stress conditions, and provides sufficient capacity for growth whilst ensuring compliance with the regulatory requirements and meeting shareholders' expectations
- ✓ Each element of our risk control framework plays a key role in the decision-making processes within the firm.
- ✓ All material risks are reported to the respective authority holders at least monthly.
- ✓ Four basic pillars illustrate the company's efforts to reduce the risks
  1. Protecting the financial strength of ( AL AWWAL Capital ) by controlling our risk exposures and avoiding potential risk concentrations
  2. Protecting our reputation through a sound risk culture characterized by a holistic and integrated view of risk, performance and reward, and through full compliance with our standards and principles, particularly our Code of Business Conduct and Ethics.
  3. Ensuring management accountability, whereby business management, as opposed to Risk Control, owns all risks assumed throughout the firm and is responsible for the continuous and active management of all risk exposures to ensure that risk and return are balanced.



4. Disclosure of risks to

- Senior management
- Board of Directors
- All other stakeholders ( with an appropriate level of transparency )

## 5) RISK MANAGEMENT

### 5. 1 Strategies and processes for risk management and compliance function:

- ✓ Risk Management & Compliance functions in the company is an independent function reduce risk and provide balanced approach to achieve its reporting functionally to Risk & Compliance Committee which reporting to Board of Directors
- ✓ Corporate Governance frameworks are developed to strategic objectives.
- ✓ Transparency and accountability are focal points to business, ensuring that the necessary for effective risk management in all areas of risk including, ( Credit, Market and Operational Risk ) For the purposes of robust regulatory compliance
- ✓ Risk management is within Risk & Compliance department, performing risk reviews and risk assessments on any new product or process or change initiative documents and provides necessary sign off from the risk management perspective
- ✓ The Board is the highest level approval body that performs its functions in accordance with its terms of reference outlined in the Corporate Governance charter .

Also, there are four Board Committees (Risk & Compliance Committee, Executive Committee, Audit Committee and Nomination & Remuneration Committee) which have separate terms of reference approved by the Board.



## **5. 2 Credit Risk Disclosue**

- ✓ The Credit risk is defined as the risk of loss resulting from a drop in credit worthiness of issuers of securities, and any debtors to which authorized persons are exposed.  
Also It is the potential risk of a counterparty failing to meet its obligations in accordance with agreed terms.
- ✓ AL awwal Capital Company Credit Risk Policy aims to identify the sources of Credit Risk and establishes the standards for defining, measuring, monitoring, and reporting such risk .
- ✓ So , the company carries out regular stress tests to effectively monitor, measure and manage the credit risk that the company is exposed
- ✓ In compliance with CMA, al awwal capital uses credit quality steps to determine appropriate risk weight for credit risk exposures To identify the credit quality as prescribed by CMA.
- ✓ AL awwal Capital Company uses ratings from credit rating agencies (CRA) mentioned in the Prudential Rules

## **5. 3 Market Risk Disclosue**

- ✓ Market risk is the risk of loss resulting from adverse movements in the level and in the volatility of market prices of assets, liabilities and financial instrument
- ✓ The stress scenarios are reviewed regularly by UBS in the context of the macroeconomic and geopolitical environment by a committee comprised of representatives from the business divisions and Risk Control
- ✓ Apart from that , the Company did not undertake significant transactions in currencies other than Saudi Riyals or US Dollars during the last years.
- ✓ The monitoring and control of market risk is handled by the risk management function which is responsible for ensuring market risk exposures are measured in accordance with defined policies and reported monthly



#### **5. 4 Operational Risk Disclosue**

- ✓ Operational Risk is defined as loss resulting from inadequate or failed internal processes, people, systems and / or external events and legal risk
- ✓ It may also arise from potential disruptions of business processes associated with the delivery of products or services to customers
- ✓ Operational Risk is managed through ensuring that adequate internal processes, systems and people are in place in the respective business areas
- ✓ Policy & procedure documents are maintained with each business / support units of the company for necessary compliance
- ✓ Business Continuity Plan is designed to ensure that the processes are in place for continued effective delivery of all Products & Services at all times

#### **5. 5 Liquidity Risk Disclosure ,Strategies , guidelines for managing**

- ✓ Liquidity risk is the risk that the company will be unable to meet its obligation as they become due, without adversely affecting on financial conditions
- ✓ Liquidity requirements are monitored on a monthly basis
- ✓ the management ensures that sufficient liquid funds are available to meet any commitments as they arise

#### **5. 6 BUSINESS AND ECONOMIC RISK**

- ✓ Business risks implies uncertainty in profits or danger of loss and the events that could pose a risk due to some unforeseen events in future, which causes businesses to fail , could arise due to
  - a. Internal risks – risks arising from events that may happen within the company;
  - b. External risks – risks arising from events that happen out of the company
- ✓ Economic risk is somewhat related to Business risk, as the former is a key External risk that is prone to happen which may impact the running of the company.



- ✓ economic risk can be described as the likelihood that the company will be affected by macroeconomic conditions such as government regulation, exchange rates, or political stability, most commonly in a foreign country
- ✓ In terms of economic risk, the risk management department does a regular stress testing which takes into account some distressed macro-economic conditions in order to assess the impact on the net income of the company
- ✓ Also the key potential business risks are identified as part of the budgeting and forecasting process
- ✓ Business risk is covered by the budgeted income. Moreover, the company usually does an ongoing review of its performance against the budget and in addition also takes into account the current market conditions

### **5. 7 STRATEGIC RISK**

- ✓ The profitability of the company could be adversely impacted by the failure implement the following factors
  - a. The correct strategy
  - b. Not being able to meet its business objectives, targets
  - c. Losing the support from its shareholders
- ✓ Competition risk could be one of the primary causes of strategic risk
- ✓ The Company in an effort to have a clear direction had developed a medium term strategic plan ranging over the next 5 years, which identifies clearly the objectives of the company and how it intends to achieve them.



## 5. 8 REPUTATION RISK

- ✓ Reputational risk is not a stand-alone risk and is inherent and derived from any of the other risks that have been detailed above. As these are not stand alone risks, proper and efficient management of the underlying risks which are prone to result in these risks is critical to avoid reputation risk
- ✓ Some important sources for reputation risk
  - a. Failure to meet market expectations
  - b. Ineffective Business Continuity Plans
  - c. Failure to deliver minimum standards of service
  - d. Unethical practice by company employee

## 5. 9 COMPLIANCE RISK

- ✓ Mean , risk of non-conformance with ( laws, rules and regulations ) set forth by the CMA and other governmental and supervising agencies within the Kingdom of Saudi Arabia
- ✓ These risks also arise in situations where the laws or rules governing the company's products and activities of its clients may be ambiguous
- ✓ Also , these risks my be expose the company to fines, civil money penalties, payment of damages



✓ To treatment and avoiding all this risks

- a) The Compliance department carries out a regular compliance monitoring program to identify the key compliance issues relating to different business and activities in the company.
- b) The Compliance Committee and the Internal Audit Committee to monitoring any risks related to the process of compliance and prepare detailed reports to the Board of Directors



## Appendix I

### Illustrative Disclosure on Capital Base

CAPITAL BASE	SAR '000
<b>Tier-1 Capital</b>	
Paid-up capital	50,000
Share premium	0
Reserves	3,594
Audited retained earnings	9,458
Verified previous year profit/(loss)	0
Verified interim profit/(loss)	0
Loss offsetting against capital reduction	0
<b>Tier-1 adjustment *</b>	<b>3,587</b>
Unverified interim loss (-)	0
Unverified previous year loss (-)	0
Goodwill and intangible assets (-)	(1,373)
Unrealised losses from HFT investments (-)	(2,215)
Unrealised losses from AFS investments (-)	0
Deferred zakah assets (-)	0
Dividend expense from retained earnings (-)	0
Zakah expense from retained earning (-)	0
Other negative equity items (-)	0
Other deductions from Tier-1 (-)	(3,587)
<b>Deductions (-)</b>	<b>(3,587)</b>
<b>Tier-1 capital</b>	<b>63,053</b>
<b>Tier-2 Capital</b>	
Subordinated loans	0
Tier 2 debt securities	0
Cumulative preference shares	0
Revaluation reserves	0
<b>Tier-2 adjustment *</b>	<b>0</b>
Other deductions from Tier-2 (-)	0
<b>Deduction to meet Tier-2 capital limit (-)</b>	<b>0</b>
<b>Tier-2 capital</b>	<b>0</b>
<b>CAPITAL BASE</b>	<b>63,053</b>
* A prior consultation with the MIC Department is required for any figures reported in this cell	
<b>MINIMUM CAPITAL REQUIREMENT</b>	<b>SAR '000</b>
<b>Market Risks</b>	<b>3,222</b>
Equity Risk	230
Fund Risk	2,970
Interest Rate Risk	0
Commodities Risk	0
FX Risk	23
Underwriting Risk	0
Excess Exposure Risk	0
Settlement Risk	0
<b>Credit Risks</b>	<b>25,979</b>
Exposures to government, central banks	0
Exposures to corporates, admin bodies, NPO	195
Exposures to APs, banks	263
Listed shares	0
Investment funds	3,401
High risk investments	10,834
Securitisations, resecuritisations	0
Margin financing	0
Prohibited risks	1,158
Other on-balance sheet exposures	8,247
Off-balance sheet commitments	1,881
<b>Operational Risks</b>	<b>2,433</b>
<b>MINIMUM CAPITAL REQUIREMENTS</b>	<b>31,634</b>
<b>CAPITAL RATIO (time)</b>	<b>1.99</b>
<b>SURPLUS / (DEFICIT) (SAR '000)</b>	<b>31,418</b>



## Appendix II

### Illustrative Disclosure on Capital Adequacy

Exposure Class	Exposures before CRM	Net Exposures after CRM	Risk Weighted Assets	Capital Requirement Percentage	The Amount Of Capital Requirement
<b>Credit Risk</b>					
<b>On-balance Sheet Exposures</b>					
Governments and Central Banks	0	0	0	0	0
Administrative Bodies And NPO	0	0	0	0	0
Authorized Persons and Banks (including cash)	1,882	1,882	100%	14%	263
Margin Financing	0	0	0	0	0
Corporates	195	195	714%	14%	195
High risk investments	19,346	19,346	400%	14%	10,834
Securitization and re securitization	0	0	0	0	0
Investment funds	10,883	10,883	150%	14%	2,285
Investment funds	2,657	2,657	300%	14%	1,116
Listed Shares	0	0	0	0	0
<b>Other Exposures</b>					
Cash or gold	813	813			
Tangible assets	778	778	300%	14%	327
Deferred expenditure / accrued income	17,761	17,761	300%	14%	7,459
Retail exposures	0	0	300%	14%	0
Past due items	461	461	714%	14%	460
Other Assets	0	0	0	0	0
<b>Total On-Balance sheet Exposures</b>	<b>54,774</b>	<b>54,774</b>			<b>22,940</b>
<b>Off-balance Sheet Exposures</b>					
OTC/Credit Derivatives	0	0	0	0	0
Repurchase agreements	0	0	0	0	0
Securities borrowing/lending	0	0	0	0	0
Commitments	0	0	0	0	0
Other off-balance sheet exposures	1,882	1,882	714%	14%	1,881
<b>Total Off-Balance sheet Exposures</b>	<b>1,882</b>	<b>1,882</b>			<b>1,881</b>
<b>Total On and Off-Balance sheet Exposures</b>	<b>56,656</b>	<b>56,656</b>			<b>24,821</b>
<b>Prohibited Exposure Risk Requirement</b>	<b>1,997</b>	<b>1,997</b>			<b>1,158</b>
<b>Total Credit Risk Exposures</b>					<b>25,979</b>
<b>Market Risk</b>					
	<b>LONG POSITION</b>	<b>SHORT POSITION</b>			
Interest rate risks	0	0			0
Equity price risks	1,276	0		18%	230
Risks related to investment funds	18,564	0		16%	2,970
Securitization/ re-securitization positions	0	0			0
Excess exposure risks	0	0			0
Settlement risks and counterparty risks	0	0			0
Foreign exchange rate risks	1,129	0		2%	23
Commodities risks.	0	0			0
<b>Total Market Risk Exposures</b>	<b>20,968</b>	<b>0</b>			<b>3,222</b>
<b>Operational Risk</b>					<b>2,433</b>
<b>Minimum Capital Requirement</b>					<b>31,634</b>
<b>Surplus/ (Deficit) in Capital</b>					<b>31,418</b>
<b>Total Capital Ratio (time)</b>					<b>1.99</b>



### Appendix III

#### Illustrative Disclosure on Credit Risk Mitigation

Exposure Class	Illustrative Disclosure on Credit Risk Mitigation					
	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
<b>Credit Risk</b>						
<b>On-Balance sheet Exposures</b>						
Governments and Central Banks	0					0
Authorized Persons and Banks	1,882					1,882
Corporates	195					195
Retail	0					0
High risk Investments	19,346					19,346
Investments funds	13,540					13,540
Securitization	0					0
Margin Financing	0					0
Other Assets	19,812					19,812
<b>Total On-Balance Sheet Exposures</b>	<b>54,774</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>54,774</b>
<b>Off-Balance sheet Exposures</b>						
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	1,882					1,882
<b>Total Off-Balance Sheet Exposures</b>	<b>1,882</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,882</b>
<b>Total On and Off-Balance Sheet Exposures</b>	<b>56,656</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>56,656</b>



**Appendix IV**  
**Illustrative Disclosure on Credit Risk's ( Risk Weight )**

Risk weight	Exposures after netting and credit risk mitigation										
	As of 31/12/2018										
	APs and banks	Corporates	High risk investments	Investment funds	Tangible assets	Deferred expenditure / accrued income	Past due items	Prohibited risks	Other Assets	Off Balance sheet commitments	Total Exposure after netting and credit Risk mitigation
0%									813		813
100%	1,882										1,882
150%				10,883							10,883
300%				2,657	778	17,761					21,195
400%			19,346								19,346
414%											0
714%		195					461	1,158		1,882	3,696
<b>Average Risk Weight</b>	1,882	1,391	77,385	24,295	2,333	53,282	3,289	8,270	0	13,436	57,815



## Appendix IIV

### Illustrative Disclosure on Credit Risk's ( Rated Exposure )

Exposure Class	Illustrative Disclosure on Credit Risk's Rated Exposure As of 31/12/2018							
	Long term Rating of counterparties							
	Credit Quality Step	1	2	3	4	5	6	Unrated
	S & P	AAA TO AA-	A+ TO A-	BBB+BBB-	BB+ To BB-	B+ TO B-	CCC + and Below	Unrated
	Fitch	AAA TO AA-	A+ TO A-	BBB+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	
<b>On and Off balance-sheet Exposure</b>								
Governments and Central Banks								
Authorized Persons and Banks					1,882			
Corporates								
Retail								
Investments Funds								
Securitization								
Margin Financing								
Other Assets								
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,882</b>	<b>0</b>	<b>0</b>	
Exposure Class	Short term Rating 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			
<b>On and Off balance-sheet Exposure</b>								
Governments and Central Banks								
Authorized Persons and Banks								
Corporates					195			
past due items					461			
Investments Funds					13,540			
Securitization								
Margin Financing								
Other Assets								
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14,195</b>			

