



ALAWWAL CAPITAL

A SAUDI JOINT STOCK COMPANY

PILLAR III

DISCLOSURES REPORT

As Of 31 December 2019

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❖ TABLE OF CONTENTS

NO	DESCRIPTION	PAGE
1	INTRODUCTION AND PURPOSE OF THE REPORT	2
2	ABOUT ALAWWAL CAPITAL	3
3	ALAWWAL CAPITAL STRUCTURE	3
4	CAPITAL ADEQUACY	7.6.5.4
5	RISK MANAGEMENT	
5.1	Strategies and processes for risk management and compliance function	8.7
5.2	Credit Risk Disclosure	8
5.3	Market Risk Disclosure	9.8
5.4	Operational Risk Disclosure	9
5.5	Liquidity Risk Disclosure , Strategies , guidelines for managing	9
5.6	Business And Economic Risk	10
5.7	Strategic Risk	11
5.8	Reputation Risk	11
5.9	Compliance Risk	12.11

❖ APPENDICES

1	Appendix I: Illustrative Disclosure on Capital Base
2	Appendix II: Illustrative Disclosure on Capital Adequacy
3	Appendix III: Illustrative Disclosure on Credit Risk's (Risk Weight)
4	Appendix IV: Illustrative Disclosure on Credit Risk Mitigation
5	Appendix IIV: Illustrative Disclosure on Credit Risk's (Rated Exposure)



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, 2019 consists of pillar 1 only as
 - i. Paid-up Capital SR 50 m
 - ii. Accumulated Reserves SR 3,7 m
 - iii. Accumulated Profit of SR 11,2 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



✓ **ALAWWAL CAPITAL COMPANY**

As per the CMA's Prudential Rules are as follows

SAR' 000

Description	2017 SR'000	2018 SR'000	2019 SR'000
Capital Base			
Tier 1 Capital	72,513	63,053	64,209
Tier 2 Capital	0	0	0
Total Capital Base	72,513	63,053	64,209
Minimum Capital Requirement			
Market Risk	8,970	3,222	2,028
Credit Risk	13,838	25,979	29,090
Operational Risk	3,024	2,433	2,099
Total Minimum Capital Required	25,832	31,634	33,216
Capital Adequacy Ratio			
Total Capital Ratio (Time)	2,81	1,99	1,93
Tier 1 Capital Ratio (Time)	2,81	1,99	1,93
Surplus / (Deficit) in the capital	46,680	31,418	30,993

- ✓ 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

Credit Risk	Standardized Approach
Market Risk	Standardized Approach
Operational Risk	Basic Indicator Approach

- ✓ 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 (ALawwal 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	
Tier-1 Capital	
Paid-up capital	50,000
Share premium	0
Reserves	3,001
Audited retained earnings	11,208
Verified previous year profit/(loss)	0
Verified interim profit/(loss)	0
Loss offsetting against capital reduction	0
Tier-1 adjustment *	1,032
Unverified interim loss (-)	0
Unverified previous year loss (-)	0
Goodwill and intangible assets (-)	-1,032
Unrealised losses from FVTOCI investments (-)	0
Deferred zakah assets (-)	0
Dividend expense from retained earnings (-)	0
Zakah expense from retained earnings (-)	0
Other negative equity items (-)	0
Other deductions from Tier-1 (-)	0
Deductions (-)	-1,032
Tier-1 capital	64,209
Tier-2 Capital	
Subordinated loans	0
Tier 2 debt securities	0
Cumulative preference shares	0
Revaluation reserves	0
Tier-2 adjustment *	0
Other deductions from Tier-2 (-)	0
Deduction to meet Tier-2 capital limit (-)	0
Tier-2 capital	0
CAPITAL BASE	64,209
MINIMUM CAPITAL REQUIREMENT	
Market Risks	
Equity Risk	42
Fund Risk	1,979
Interest Rate Risk	0
Commodities Risk	0
FX Risk	7
Underwriting Risk	0
Excess Exposure Risk	0
Settlement Risk	0
Total Market Risk	2,028
Credit Risks	
Exposures to government, central banks	0
Exposures to corporates, admin bodies, NPO	224
Exposures to APs, banks	263
Listed shares	0
Investment funds	11,913
High risk investments	1,179
Securitisations, resecuritisations	0
Margin financing	0
Prohibited risks	2,473
Other on-balance sheet exposures	11,157
Off-balance sheet commitments	1,881
Total Credit Risk	29,090
Operational Risks	
Total Operational Risk	2,099
MINIMUM CAPITAL REQUIREMENTS	33,216
CAPITAL RATIO (time)	1.93
SURPLUS / (DEFICIT)	30,993



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
Credit Risk					
On-balance Sheet Exposures					
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	224	224	714%	14%	224
High risk investments	2,105	2,105	400%	14%	1,179
Securitization and re securitization	0	0	0	0	0
Investment funds	10,957	10,957	150%	14%	2,301
Investment funds	22,886	22,886	300%	14%	9,612
Listed Shares	0	0	0	0	0
Other Exposures					
Cash or gold	512	512			
Tangible assets	536	536	300%	14%	225
Deferred expenditure / accrued income	20,319	20,319	300%	14%	8,534
Retail exposures	0	0	300%	14%	0
Past due items	2,399	2,399	714%	14%	2,398
Other Assets	0	0	0	0	0
Total On-Balance sheet Exposures	61,819	61,819			24,736
Off-balance Sheet Exposures					
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
Total Off-Balance sheet Exposures	1,882	1,882			1,881
Total On and Off-Balance sheet Exposures	63,701	63,701			26,617
Prohibited Exposure Risk Requirement	4,267	4,267	414%	14%	2,473
Total Credit Risk Exposures					29,090
Market Risk	LONG POSITION	SHORT POSITION			
Interest rate risks	0	0			0
Equity price risks	232	0		18%	42
Risks related to investment funds	12,368	0		16%	1,979
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	352	0		2%	7
Commodities risks.	0	0			0
Total Market Risk Exposures	12,952	0			2,028
Operational Risk					2,099
Minimum Capital Requirement					33,216
Surplus/ (Deficit) in Capital					30,992
Total Capital Ratio (time)					1.93



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 Agreements	Exposures Covered by other Eligible Collaterals	Exposures After CRM
Credit Risk On-Balance sheet Exposures						
Governments and Central Banks	0					0
Authorized Persons and Banks	1,882					1,882
Corporates	224					224
Retail	0					0
High risk Investments	2,105					2,105
Investments funds	22,886					22,886
Securitization	0					0
Margin Financing	0					0
Other Assets	34,723					34,723
Total On-Balance Sheet Exposures	61,819	0	0	0	0	61,819
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	1,882					1,882
Total Off-Balance Sheet Exposures	1,882	0	0	0	0	1,882
Total On and Off-Balance Sheet Exposures	63,701	0	0	0	0	63,701



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

Risk weight	Exposures after netting and credit risk mitigation										
	As of 31/12/2019										
	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%									512		512
100%	1,882										1,882
150%				10,957							10,957
300%				22,886	536	20,319					43,741
400%			2,105								2,105
414%											0
714%		224					2,399	2,473		1,882	6,978
Average Risk Weight	1,882	1,596	8,420	85,093	1,607	60,958	17,129	17,657	0	13,435	66,175



Appendix IIV

Illustrative Disclosure on Credit Risk's (Rated Exposure)

Exposure Class	Illustrative Disclosure on Credit Risk's Rated Exposure As of 31/12/2019							
	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	
On and Off balance-sheet Exposure								
Governments and Central Banks								
Authorized Persons and Banks					1,882			
Corporates								
Retail								
Investments Funds								
Securitization								
Margin Financing								
Other Assets								
Total	0	0	0	0	1,882	0	0	
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		
On and Off balance-sheet Exposure								
Governments and Central Banks								
Authorized Persons and Banks								
Corporates					224			
past due items					2,399			
Investments Funds					10,957			
Securitization								
Margin Financing								
Other Assets								
Total	0	0	0	0	13,579			

