الأول كابيتال

ALAWWAL CAPITAL

PILLAR III DISCLOSURE
YEAR ENDED 31 DECEMBER 2021

ALAWWAL CAPITAL

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ALAWWAL CAPITAL

1) Overview

These discourses have been prepared by Alawwal Capital (“the Company “) a Saudi closed joint stock company with commercial Registration No. 4030170788 dated 19 / 06 /1428H (corresponding to 05 / 07 / 2007) Licensed By registered with the Saudi Capital Market Authority (“CMA or the Authority “) to conduct the business in:

- Dealing as principal,
- Managing funds
- Advisory
- Arranging
- Custody

2) Pillar III Disclosure

The company’s activities necessitate full compliance with the three “Pillars” of the Capital Requirements as defined in Prudential Rules (“PRs”). These are:

1. Pillar I, which sets out the minimum amount of capital that company needs in order to meet its basic regulatory obligations.
2. Pillar II, requires Alawwal Company to determine whether Pillar 1 capital is adequate to cover these risks and additional defined risks. This is achieved through the Alawwal company’s risk based Internal Capital Adequacy Assessment Process (“ICAAP”) and is subject to annual review.
3. Pillar III, which require Alawwal Company to disclose key information about the underlying risks, risk assessment, management, controls and capital position hence the adequacy of capital.

The purpose of this disclosure is to adhere to Pillar 3 requirements in compliance with the guidelines issued by the Capital Market authority of Saudi Arabia, Alwwal Company confirms that there are no actual or foreseen legal impediments or liability that may affect the capital or required provision, this report has been approved by the company’s Board of Directors of Alawwal Capital company and all disclosures hereunder were prepared based on the company’s financial period starting from 01.01.2021 up to 31.12.2021.

3) Capital Structure

Alawwal Company's capital structure includes the following elements which form the capital base:

- **Paid-up Capital:**

An authorized and issued paid up capital of SAR 50 Million fully paid.

- **An audited Retained Earnings:**

Represents retained earnings of SAR 14.12 Million as of December 31, 2021.

- **Statutory reserve**

Accumulated Reserves SR 4,08 Million as of December 31, 2021.

4) Capital Adequacy

To ensure that it is in compliance with the Prudential Rules, the company maintains its capital above the minimum level set by the regulatory body. In this respect, Alawwal Capital calculates its Capital Adequacy Ratio (CAR) considering the eligible proprietary investments and its risky activities as frequent as every month. Alawwal Company's CAR as of December 31st, 2021 was 2.02, which is above the minimum required ratio of 1 and the Company is keen to maintain a Capital Adequacy above the minimum requirements set in the Prudential Rules set by the CMA.

In addition, Alawwal Capital is adopted to the ICAAP (Internal Capital Adequacy Process) to measure, monitor and report all material risks and adopt an efficient capital planning process to ensure sufficient capital is available to meet the usual business activities and any unforeseen contingencies.

The three "Pillars" of the Capital Requirements as defined in Prudential Rules ("PRs") are:

Pillar 1

regulated the minimum capital requirements for:

a) credit risk.
b) market risk.
c) operational risk.
d) large and excess exposures.
e) liquidity requirements.

Pillar 2

regulated the authorized person's:

a) internal capital assessment.
b) risk management.
c) governance.

Pillar 3

To disclose key information about the company's:

a) risk management.
b) capital requirements.
c) capital adequacy etc.

Alawwal Capital's capital requirement is calculated based on CMA Prudential Rules. As of December 31, 2021.

The table below is a summary of the capital adequacy disclosure:

Description	2020 (SAR '000)	2021 (SAR '000)
Capital Base		
Tier 1 Capital	64,747	66,130
Tier 2 Capital	0	0
Total Capital Base	64,747	66,130
Minimum Capital Requirement		
Market Risk	1,841	2,509
Credit Risk	30,703	28,567
Operational Risk	1,769	2,039
Total Minimum Capital Required	34,313	33,115
Capital Adequacy Ratio		
Total Capital Ratio (Time)	**1.89**	**2.00**
Surplus / (Deficit) in the capital	**30,434**	**33,015**

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, in which The Company manages its capital base based on Pillar I and Pillar II of the Prudential Rules.

The Company's business objectives of 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 each type of risk:

Credit Risk	**Standardized Approach**
Market Risk	**Standardized Approach**
Operational Risk	**Expenditure-based approach**

All material risks are reported to the respective authority on monthly basis.

There are 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, reward.
   b. Full compliance with our standards, and principles.
   c. Full compliance with company's code of 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:
   a. Senior management.
   b. Board of Directors.
   c. All other stakeholders (with an appropriate level of transparency).

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5) Risk Management

a. Risk Management Purpose

The purpose of the company's Risk Management is to develop effective risk management policies and procedures to adhere to regulatory requirements. Through the efficient implementation of these policies, the company can identify the risks relating to its activities, processes and systems. In addition, the risk management strategies and processes currently are considered adequate to cover the level of risks to which it might be exposed.

b. Risk Management Policy

This risk management policy is set and defined directly by the Board of Directors who has the full responsibility of updating it. The Board is also responsible for overseeing and approving the risk management strategy and policies, internal compliance and internal controls. Risk governing and supervision are carried out at the Board level who has direct oversight on all risk issues. Audit committee conducts annual review for the risk management policy taking into consideration various changes in internal and external business environment and possible impacts on the company's businesses and accordingly updates the policy. Senior Management of the company assesses risk, associated internal compliance, control procedures and report on the efficiency and effectiveness of risk management practices. The process of risk management and internal compliance and control includes:

- Identifying and assessing significant risks that might impact the achievement of the company's objectives through preventive controls.
- Developing risk management strategies to manage identified risks, designing, and implementing appropriate risk management policies and procedures.
- Monitoring the performance and improving the effectiveness of risk management procedures.

5. 1 Credit Risk Disclosure

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, it is the potential risk of a counterparty failing to meet its obligations in accordance with agreed terms.

Alawwal 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. In addition to that, 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, Alawwal Capital uses credit quality steps to determine appropriate risk weight for credit risk exposures to identify the credit quality as prescribed by CMA, using ratings from credit rating agencies (CRA) mentioned in the Prudential Rules.

The following controls are adopted to manage the credit risk:

- Assess and reviews overall investment quality.
- Monitors and improves credit risk management techniques in order to implement the internal risk-based approaches on counter parties.
- Concentration Limits are in place, reviewed and monitored.

5. 2 Market Risk Disclosure

Market risk is the risk that the value of an investment decreases due to fluctuations in market prices " in particular" due to changes in interest rates, foreign exchange rates and equity and commodity prices. The associated market risk factors are the interest rate risk, the currency risk, the equity risk and the commodity risk.

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 previous years.

The monitoring and control of market risk is handled by the risk management unit which is responsible for ensuring market risk exposures are measured in accordance with defined policies and reported monthly.

5. 3 Operational Risk Disclosure

Operational risk is the loss resulting from the failure or inadequate internal control procedures of the human element and regulations for companies or as a result of external events negatively affect its operations, in this context, the company was able to build an internal control system as well as a system for control of operational risk are designed to maintain the correct internal control environment within the company, anticipating any operational risks and prevent them before it occurs in line with the company's strategy and shareholders and board of director's vision.

Operational Risk is managed through the following:

- ensuring that adequate internal processes, systems and people are in place in the respective business areas.
- ensuring the regular backup of its data and the maintenance, monitoring and update of its servers and networks and effectively built disaster recovery site that will be available online for its alternate recovery requirements.
- Business Continuity policy is maintained and updated regularly to be used in case of business interruption, enables the preservation or at least the timely recovery and continuation of essential operations and functions.

5. 4 Liquidity Risk Disclosure

Liquidity is defined as the company's ability to cover all the liabilities owed to it on time, and on the other hand, the ability to meet the capital needs, so the lack of providing liquidity when needed may lead to financial losses and many other problems, it is possible to affect the company's reputation (reputational risk). Therefore, the company is working on liquidity management through policies that is monitored by top management with updated periodical reports to ensure adequate liquidity over time to meet all expected or unexpected obligations.

The company is applying policies to control liquidity in the short, medium, and long term to ensure availability of liquidity according to the needs in a timely manner and in accordance with the following:

Short-term liabilities

That the availability of liquidity on a daily and weekly basis by providing the necessary funds to meet the needs of that short period.

Medium-term liabilities

liquidity position is monitored on a regular monthly and quarterly basis for a period ranging from three to six months to meet all planned, unplanned or unexpected liabilities by keeping sufficient quick liquidity ratio at the appropriate possible level , and as per company’s liquidity policy to insure that it is always has sufficient liquidity to be able to meet its obligations as they fall due, to achieve that goal, company seeks to maintain cash balances to meet projected requirements for period of at least 30 days .

Long-term liabilities

The liquidity position is monitored on a regular monthly basis for a period of 12 months to meet all planned, unplanned, or unexpected liabilities.

The liquidity has been provided through the following sources:

- Assess planned or expected inflow of cash from operational activities.
- Any other available liquid sources of cash without affecting the company's performance or current investments.
- Credit facilities through sister companies or banking loans (in case of urgent needs only).

Liquidity Early Warning Indicators (EWI):

Early warning indicators help in identifying increased risk or vulnerabilities in the Company’s liquidity risk position or potential funding needs.

The company has developed the following Early Warning Indicators through:

1. Unutilized banking limits
2. Adherence to regulatory limits

According to the audited financial statements as of 31st December 2021 the quick ratio available to cover the company liabilities represent more than the required liquidity in the short and medium term, this ratio is higher than the required percentage according to the company policy, this shows that there is sufficient liquidity to cover the company’s planned and unexpected needs.

5. 5 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:

- Internal risks – risks arising from events that may occur within the company.
- 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 considers some distressed macro-economic conditions in order to assess the impact on the net income of the company.

In addition, 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 considers the current market conditions.

5. 6 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.

The Company in an effort to have a clear direction, it 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. 7 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 of reputation risk:

a. Failure to meet market expectations.
b. Ineffective Business Continuity Plans.
c. Failure to deliver minimum standards of clients' service.
d. Unethical practices by company's employee.

Due to limitation of data and any other measure in the absence of the Company's market capitalization the following steps are used to qualitatively keep the risk mitigated:

- Detailed Anti-Money Laundering policy and procedures.
- Effective communication with stakeholders; and
- Enforcement of controls on governance, business and legal compliance.
- Promoting high standards

5. 8 Compliance Risk.

The 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 activities of its clients may be ambiguous.

The risk mitigation for all these risks is through:

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 are monitoring any risks related to the process of compliance and submit periodical reports to the Board of Directors.

Appendix I: Illustrative Disclosure on Capital Base

CAPITAL BASE	SAR '000
Tier-1 Capital	
Paid-up capital	50,000
Share premium	0
Reserves	2,501
Audited retained earnings	14,130
Verified previous year profit/(loss)	0
Verified interim profit/(loss)	0
Loss offsetting against capital reduction	0
Tier-1 adjustment *	0
Unverified interim loss (-)	*0*
Unverified previous year loss (-)	*0*
Goodwill and intangible assets (-)	*(501)*
Unrealised losses from FVTOCI 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 (-)	
Deductions (-)	(501)
Tier-1 capital	66,130
Tier-2 Capital	
Subordinated loans	0
Tier 2 debt securities	0
Cumulative preference shares	0
Revaluation reserves	0
Tier-2 adjustment *	
Other deductions from Tier-2 (-)	
Deduction to meet Tier-2 capital limit (-)	0
Tier-2 capital	0
CAPITAL BASE	**66,130**
MINIMUM CAPITAL REQUIREMENT	**SAR '000**
Market Risks	**2,509**
Equity Risk	*399*
Fund Risk	*2,104*
Option Risk	*0*
Interest Rate Risk	*0*
Commodities Risk	*0*
FX Risk	*6*
Underwriting Risk	*0*
Excess Exposure Risk	*0*
Settlement Risk	*0*
Credit Risks	**28,567**
Exposures to governments, central banks	*0*
Exposures to corporates, administrative bodies, NPOs	*7.479*
Exposures to CMIs and banks	*641*
Listed shares	*0*
Investment funds	*11,588*
High risk investments	*2,587*
Securitisations, resecuritisations	*0*
Margin financing	*0*
Derivatives trades - counterparty credit risk	*0*
CCP - default fund contribution	*0*
CCP - margin	*0*
Prohibited risks	*0*
Other on-balance sheet exposures	*6,271*
Off-balance sheet commitments	*0*
Operational Risks	**2,039**
MINIMUM CAPITAL REQUIREMENTS	**33,115**
Capital adequacy ratio (time)	**2.00**
SURPLUS	**33,015**

Appendix II - Illustrative Disclosure on Capital Adequacy

Exposure Class	Exposures before CRM	Net Exposures after CRM	Risk Weighted Assets	Capital Requirement Percentage	Capital Requirement
Credit Risk					
On-balance Sheet Exposures					
Governments and Central Banks	0	0	0	0	0
Authorized Persons and Banks	4,000	4,000	100%	14%	560
Corporates	7,482	7,482	714%	14%	7,479
Investment funds	27,591	27,591	300%	14%	11,588
Deposits with local banks - current	2,902	2,902	20%	14%	81
Retail exposures	0	0	0%	0%	0
Past due items	422	422	714%	14%	422
Securitization	0	0	0	0	0
Margin Financing	0	0	0	0	0
Tangible assets	293	293	300%	14%	123
Deferred expenditure / accrued income	13,636	13,636	300%	14%	5,727
High risk investments	4,619	4,619	400%	14%	2,587
High risk investments	0	0	500%	14%	0
Total On-Balance sheet Exposures	**60,944**	**60,944**			**28,567**
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	0	0	714%	14%	0
Total Off-Balance sheet Exposures	**0**	**0**			**0**
Total on and Off-Balance sheet Exposures	**60,944**	**60,944**			**28,567**
Prohibited Exposure Risk Requirement	0	0	414%	14%	0
Total Credit Risk Exposures					**28,567**
Market Risk	**LONG POSITION**	**SHORT POSITION**			
Interest rate risks	0	0			0
Equity price risks	2,216	0		18%	399
Risks related to investment funds	13,151	0		16%	2,104
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	296	0		2%	6
Commodities risks.	0	0			0
Total Market Risk Exposures	**15,663**	**0**			**2,509**
Operational Risk					**2,039**
Minimum Capital Requirement					**33,115**
Surplus/ (Deficit) in Capital					**33,015**
Total Capital Ratio (time)					**2.00**

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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
Credit Risk						
On-Balance sheet Exposures						
Governments and Central Banks	0					0
Authorized Persons and Banks	6,902					6,902
Corporates	7,482					7,482
Retail	0					0
Past-Due	422					422
Investments funds	27,591					27,591
Securitization	0					0
Margin Financing	0					0
High risk Investments	4,619					4,619
Other Assets	13,928					13,928
Total On-Balance Sheet Exposures	**60,944**	**0**	**0**	**0**	**0**	**60,944**
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	**0**	**0**	**0**	**0**	**0**	**0**
Total on and Off-Balance Sheet Exposures	**60,944**	**0**	**0**	**0**	**0**	**60,944**

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

Risk weight	Exposures after netting and credit risk mitigation											
	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	Total Risk Weighted Assets
20%	2,902										2,902	580
100%	4,000										4,000	4,000
150%											0	0
300%				27,591	293	13,636					41,519	124,557
400%			4,619								4,619	18,475
500%											0	0
414%											0	0
714%		7,482					422				7,904	56,435
Average Risk Weight	66%	714%	469%	300%	300%	300%	714%	414%	0%	714%	335%	
Capital Requirement	641	7,479	2,587	11,588	123	5,727	422	0	0	0	28,567	

Appendix IIV - Illustrative Disclosure on Credit Risk's (Rated Exposure)

Exposure Class	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	Baa1To 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								
Corporates								
Retail								
Investments Funds								
Securitization								
Margin Financing								
Other Assets								
Total		**0**	**0**	**0**	**0**	**0**	**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		6,902				
Corporates						7,482
Retail						422
Investments Funds						27,591
Securitization						
Margin Financing						
High Risk Investments						4,619
Off-balance Sheet Commitments						
Prohibited Exposure						
Other Assets						13,928
Total		6,902	0	0	0	54,042