BASEL III

PILLAR 3 ANNUAL DISCLOSURES
As at
31-December-2016

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B.1 - Table OVA:

Bank risk management approach

Overview – the Risk Governance Framework

The Bank has developed and documented a Risk Governance Framework (“RGF”). The RGF describes how the Bank is structured to manage its risks and to ensure that the outcomes of risk-taking activities are consistent with the Bank’s strategies and risk appetite.

The RGF also communicates to relevant stakeholders the core risk management techniques to be applied to specific risk-types and enterprise-wide risk management communications.

A key elemenet of the Bank’s RGF, is the concept or risk kernels. These are divided in to ‘enterprise risk management kernels’ and ‘risk-type kernels’. These ‘kernels’ contain the essence of the Bank’s intended approach to management of each of the risk types and enterprise risk management techniques, respectively. The risk-type kernels in particular, develop from the Bank’s risk appetite for each risk and expound the Bank’s core requirements for managing each risk. Together with the Bank-wide risk management principles and techniques referred to above, the Bank’s policies, procedures and other risk-management techniques must be aligned with the respective kernel. Additionally, they serve to provide guidance where specific policy has not yet been developed.

Risk ownership

Primary risk ownership resides with the originators of risk, primarily the Business Unit or units that may incur risk in the course of their activities.

As ‘secondary risk owner’, the Risk Management division oversees the management of risks in accordance with the Board approved risk appetite.

Risk appetite

On an annual basis, the Board reviews the Bank’s Risk Appetite Statement (RAS). The RAS describes the Bank’s approach to each material risk-type to which it is exposed to and sets out a corresponding risk appetite metric or metrics to be adhered to in the pursuit of the strategy and operating plan targets.

Following the establishment of risk-appetite levels, the Risk Strategy for each risk type is determined. This strategy defines the principal method(s) by which the Bank will maintain risk within the stated appetite and will seek to improve risk adjusted returns. The available strategies are:

- **Transfer** – this means passing the risk in whole or in part to another party for example by outsourcing an activity, or by insuring all or part of the risk;

- **Avoid** – this involves taking steps to withdraw from the activity causing the risk or to avoid situations that could trigger it;

- **Mitigate** – this means bearing the risk but reducing its likelihood (e.g. through obtaining multiple sources of repayment for a credit facility) and/or impact (e.g. through collateral or contingency planning) to keep the risk within an acceptable level; and

- **Tolerate** – this means taking no additional actions for the time being but keeping the risk under review from time to time.

In some cases a combination of strategies will be employed. The strategy(ies) intend to assist in determining the appropriate risk management techniques and allocating appropriate risk management resources. The Risk Strategy determines how excess risk will predominantly be tackled and the primary techniques for improving risk adjusted return.

Roles and responsibilities - The Board of Directors

The Board of Directors is responsible for approving strategies and risk appetite and directly, through its committees and by delegation to management, ensures that decision-making is aligned with the Bank's strategies and risk appetite. The Board, or its Committees, receives regular updates on exposure to the key risks run by the Bank, including risk-appetite metrics and key portfolio reports.

The Board, supported by the Executive and Board Risk Committees oversees and approves key risk policies, limits, strategies, and risk appetite. The Bank's Internal Audit department reports independently to the Board (through the Audit Committee) on the effectiveness of the risk governance structure.

Roles and responsibilities - Senior Management

Senior management, in particular the Managing Director ("MD") and the Chief Risk Officer ("CRO") are responsible for risk management with oversight from the Board and its Committees.

The CRO, who oversees the Risk Management structure of the Bank reports to the MD but also has direct access to the Board and its Committees. The MD, CRO, and other senior executives discharge part of their risk management function through participation in various committees which have been formed for this purpose.

Roles and responsibilities - Risk Management Division

Reporting to the CRO, the Risk Management division is responsible for the design and application of the Bank's RGF. It provides oversight of credit, market, liquidity, operational, information security and other risks including the models that support the management of these risks. The Risk Management division is independent of the Bank's Business Units.

Risk Management culture

Effective risk management requires a robust risk culture that promotes accountability and responsibility. Key to this is the "tone from the top" and hence the Board has a preeminent role in shaping risk culture.

The Bank's risk management culture promotes ownership, openness and responsibility. Business Units are the primary risk owners being responsible for the development and execution of business plans to be conducted in line with the Bank's strategy and within the parameters of the RGF.

Understanding and managing risk is a fundamental element of each business plan. Business Units work in partnership with Risk Management who, as secondary risk owners, ensure that risks arising from their business are thoroughly evaluated and appropriately addressed.

Risk Management employs a wide-range of techniques and do not place undue reliance on a single approach and ensure an appropriate contribution from experience-based judgment.

Supporting the effectiveness of primary and secondary risk owners is Internal Audit by providing independent assurance over the key risks to the organisation, which includes an assessment of the entire risk and control framework on an annual basis.

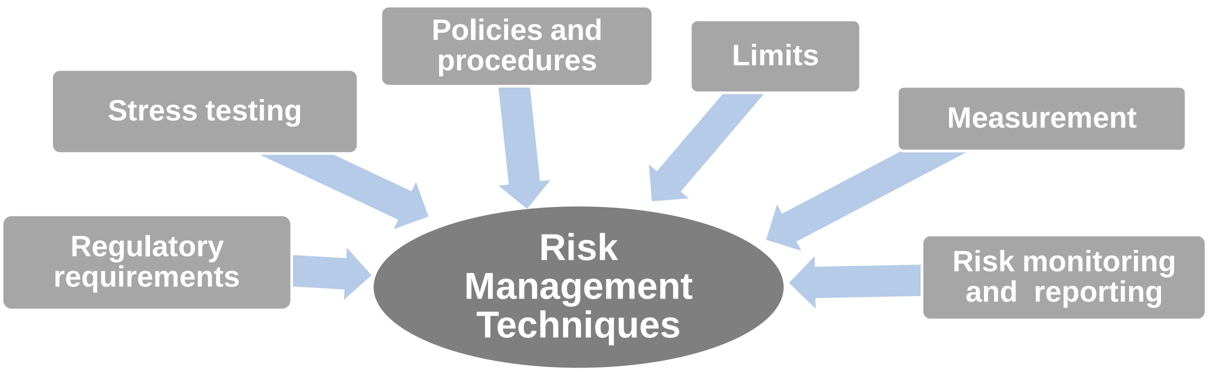
Documented policies and procedures are available to staff in the Business Units and Risk Management and Risk training programs are promoted to enhance awareness and understanding.

The membership of management committees responsible for the review, approval and monitoring of transactions and the related risk exposures includes Business Unit Heads and senior Risk Management officers. The flow of information and transactions to these committees keeps senior and executive management well informed of the risks the Bank faces, and ensures that transactions and risks are aligned with the Bank's risk appetite framework.

In general, decision-making on risk-management matters is centralized. The Bank's policy is that there will be a minimum of a "4-eyes" review on all risk-sanctioning and for material increases in risk profile this will require at least one representative from the relevant Business Unit and one from Risk Management with appropriate authority..

Risk Management techniques

The risk management techniques employed to meet the Bank's risk management objectives are summarized in the figure below:



Risk management techniques are regularly reviewed and updated to ensure consistency with risk-taking activities encompassing the business climate, the Bank's financial strategy and the regulatory environment - these techniques are described below.

Stress testing

The design and development of the Bank's stress-testing programme follows the guidelines set out by the Basel Committee, SAMA, and management judgment. The primary objectives of stress-testing are:

- to establish whether the Bank is adequately capitalised and liquid to absorb a stress-event and in particular would be able to restore its financial standing and operations to normal levels without undue reliance on external parties, and,

- to identify sensitivities and areas for enhancement around risk and control.

As such, stress-testing results are a major input into the oversight of the Bank's risks and the ongoing review and development of its risk management framework, appetite, policies, procedures and limits.

Limits

Limits control risk-taking activities within the tolerances established by the Board and senior management. Limits establish accountability for key tasks in the risk-taking process and establish the level or conditions under which transactions may be approved or executed. They commence at the enterprise level via the Risk Appetite Statement and are then set at the operational level through policies, procedures and specific risk-sanctioning decisions.

Measurement

Risk Management is responsible for developing and maintaining an appropriate suite of risk measurement techniques to support the operations of the various Business Units. The Bank uses models for a range of purposes including estimating the value of transactions, risk exposures, credit risk ratings and parameters, and return on risk-adjusted regulatory capital for its corporate transactions. The use of quantitative risk methodologies and models is balanced by the application of sound and experienced management judgment.

Risk monitoring and reporting

Regular monitoring ensures that business activities are within approved limits or guidelines, and are aligned with the Bank's strategies and risk appetite. Any breaches of these limits or guidelines are reported to senior management, policy committees, and/or the Board.

Risk reporting includes measures of risk and performance across products, businesses and portfolios. Any instances of non-compliance or breaches against policies, limits, guidelines, will be escalated to senior management and the Board or its committees if required. Accompanying information will be provided such as values, description of the breach, and any impact / sensitivity on the Bank's portfolios (or reputation).

B.2 - Template OV1: Overview of RWA

SAR '000

		a	b	c
		RWA		Minimum capital requirements
		T Dec--16	T-1 Sep-16	T Dec-16
1	Credit risk (excluding counterparty credit risk) (CCR)	88,648,251	94,077,571	7,091,860
2	Of which standardised approach (SA)	88,648,251	94,077,571	7,091,860
3	Of which internal rating-based (IRB) approach			-
4	Counterparty credit risk	1,566,145	2,009,813	125,292
5	Of which standardised approach for counterparty credit risk (SA-CCR)*	1,566,145	2,009,813	125,292
6	Of which internal model method (IMM)			-
7	Equity positions in banking book under market-based approach	-		-
8	Equity investments in funds – look-through approach			-
9	Equity investments in funds – mandate-based approach			-
10	Equity investments in funds – fall-back approach			-
11	Settlement risk			-
12	Securitisation exposures in banking book	-	-	-
13	Of which IRB ratings-based approach (RBA)			-
14	Of which IRB Supervisory Formula Approach (SFA)			-
15	Of which SA/simplified supervisory formula approach (SSFA)			-
16	Market risk	210,754	191,101	16,860
17	Of which standardised approach (SA)	210,754	191,101	16,860
18	Of which internal model approaches (IMM)	-		-
19	Operational risk	5,498,588	5,323,813	439,887
20	Of which Basic Indicator Approach			-
21	Of which Standardised Approach	5,498,588	5,323,813	439,887
22	Of which Advanced Measurement Approach			-
23	Amounts below the thresholds for deduction (subject to 250% risk weight)			-
24	Floor adjustment			-
25	Total (1+4+7+8+9+10+11+12+16+19+23+24)	95,923,737	101,602,298	7,673,899

* Alawwal Bank is using Current Exposure Methodology

B.3 - Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	a	b	c	d	e	f	g
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with SAMA	7,487,379	7,487,379	7,487,379				
Due from banks and other financial institutions	1,024,369	1,024,369	1,024,369				
Positive fair value of derivatives	393,779	393,779	-	673,528			
Investments, net	21,258,498	21,258,498	21,258,498				
Loans and advances, net	72,743,097	72,743,097	73,624,034				
Investment in an associates	35,697	35,697	35,697				
Property and equipment, net	1,281,023	1,281,023	1,281,023				
Other assets	846,658	846,658	1,177,931				
Total assets	**105,070,500**	**105,070,500**	**105,888,932**	**673,528**	**-**	**-**	**-**
Liabilities							
Due to banks and other financial institutions	1,347,732						1,347,732
Negative fair value derivatives	270,793						270,793
Customers' deposits	85,358,788						85,358,788
Subordinated debt	3,909,905						3,909,905
Other liabilities	1,320,488						1,320,488
Total liabilities	**92,207,706**	**-**	**-**	**-**	**-**	**-**	**92,207,706**

B.4 - Template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e
			Items subject to:			
		Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	105,070,500	105,888,932	-	673,528	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	105,070,500	105,888,932	-	673,528	-
4	Off-balance sheet amounts	28,901,656	14,103,433			
5	Differences in valuations					
6	Differences due to different netting rules, other than those already included in row 2					
7	Differences due to consideration of provisions					
8	Differences due to prudential filters					
9	Market risk on Foreign exchange					55,250
10	Derivatives (also subject to Credit valuation adjustment)	73,888,865			953,946	155,504
11	**Exposure amounts considered for regulatory purposes**	**207,861,022**	**119,992,364**	**-**	**1,627,474**	**210,754**

B5 – Table LIA: Explanations of differences between accounting and regulatory exposure amounts.

Alawwal Bank does not have any difference between 'Carrying values as reported in published financial statements' and 'Carrying values under scope of regulatory consolidation'

<u>On-Balance Sheet</u>

There are no differences between carrying values and amounts considered for regulatory purposes except certain provisions.

<u>Off Balance sheet / Derivatives</u>

Off Balance sheet and derivatives are reported at credit equivalent amount. Credit equivalent amounts reflect the amounts that result from translating the Group's contingent liabilities and commitments and derivatives into the risk equivalents using credit conversion factors prescribed by SAMA / Basel. Derivatives also include an add-on adjustments, being potential future exposure after applying the credit conversion factors.

<u>Valuation methodologies</u>

Please refer to note no. 2d & 33 of Annual published financial statements for the valuation methodologies adopted by Alawwal Bank.

B.6

General qualitative information about credit risk

The Bank has a long history of providing credit facilities to corporate customers and corporate banking remains a core business activity of the Bank. However, with recent growth in the retail segment, this sector now also represents a significant proportion of the Bank's credit risk assets.

Business units originating credit are the primary owners of credit risk. The Bank's risk management division provides oversight of credits originated through analysing and recommending individual credit decisions and through portfolio analysis, monitoring and reporting.

Further assessment of the quality of the credit portfolio is provided through stress testing and portfolio reviews. The principal risk functions that provide this independent oversight are Corporate and SME Risk Management, Risk Administration Department, Retail Risk and Enterprise Risk Management.

Responsibility for approving credit risk is vested with the Board. The Board has delegated to Head Office Credit Committee ("HOCC") approval authorities which are defined by obligor credit rating and the nature of the facility offered, its tenor and security.

The Board and its committees receive regular and detailed updates of how management see the credit risk environment evolving, in addition to portfolio reporting and detailed reporting on larger and higher risk exposures. The Board is also kept informed of developments in the Bank's approach to credit risk management.

Corporate and SME Risk Management (CRM)

CRM is the function within the Bank that independently analyses all SME, corporate and institutional banking credit proposals. The unit is managed by the Head of CRM, who reports directly to the CRO.

The main responsibilities of Corporate Risk Management are summarized as follows:

- Analysing credit applications and preparing recommendations for approval by Head Office Credit Committee and/or the Executive Committee;
- Communicating all decisions and approval conditions to relationship managers;
- Coaching regional Corporate Banking teams;
- Monitoring Corporate Banking exception reports and escalating excesses to senior management / Board;

- To visit client whenever necessary at the request of Senior Management or the business. Visit also conducted by CRM team where client/client's project are judged to be of significant risk to the customer and the bank;

- Conducting Rapid Portfolio Reviews and contributing to stress-testing;

- Preparing credit policy amendments as appropriate and reviewing the Credit Policy and Procedures Manual and recommending it for approval by HOCC, BRC and the Board.

Corporate obligor risk ratings

All corporate obligors are assigned a credit rating. These ratings are calculated through the use of the Bank's vendor-supplied rating model and are subject to review and approval by the sanctioning authority. The rating model includes both quantitative and qualitative inputs, including factors relating to industry-risk and the operating environment. The model's effectiveness is confirmed periodically by validation work conducted by the Bank or through third parties engaged by the Bank for this purpose.

Credit Risk Management reporting

Enterprise Risk Management produces credit portfolio reporting that is distributed to various layers of management including HOCC, ALCO, EC, BRC and Board. Commentaries and recommendations include Risk Dashboards, material exposure changes, granting of material new facilities and repayments, changes in internal ratings, excesses, a review of Watch-List clients and portfolio and macro-economic trends.

Retail Risk

The Retail Risk division manages and controls the Credit Risk associated with all consumer credit. The unit is managed by the Head of Retail Credit Risk who reports directly to the CRO.

The main functions of Retail Risk are as follows:

- Reviewing all consumer credit product programs annually, or earlier in the event of any program or market changes or adverse trends in the product portfolio;
- Reviewing all new products and / or new credit changes before obtaining management approval;
- Monitoring the risk profile of the Consumer portfolios, including concentrations, delinquencies and excess positions;
- Preparing consumer portfolio review reports for CRO, Retail Risk Committee, HOCC, BRC, and EC.

Financial Restructuring & Recovery Department (FR&R)

The key purpose of FR&R is to manage directly (or indirectly by providing support to the business) weak credit relationships, with the objectives of proactively improving the quality of the Bank's lending portfolio, preventing deterioration of relationships to the Non-Performing category, and minimising losses to the Bank from such relationships. Whenever possible, FR&R seeks to resolve issues with customers to allow their reclassification 'as good' and return to relationship manager control.

Risk Administration Department (RAD)

RAD performs a range of activities that ensure appropriate control, monitoring, and documentation of all credit transactions related to Institutional Banking Group (IBG), Corporate Banking Group (CBG), SME, and Financial Restructuring & Recovery Department (FR&R).

The main responsibilities of Risk Administration Department are:

- Preparing and reviewing all facility agreements and support letters;
- Custody of all original collateral and security documents related to borrowing customers, maintaining security files, and confirming the effectiveness of both;
- Uploading, monitoring, and maintaining all credit limits and facilities in the bank's core system;
- Preparation and communication of daily, weekly and monthly reports including past due and excesses reports and missing security reports to all concerned departments and bank's management;
- Preparation of SAMA returns in coordination with Finance Control Department.

Internal Audit and Compliance

Supporting the effectiveness of primary and secondary risk owners are Internal Audit who provide independent assurance that the management of key risks – including credit risk - is conducted in line with the Bank's Risk Governance Framework and relevant policies and procedures.

The Compliance function's remit includes: monitoring regulatory changes, conducting compliance risk assessments, implementing policies and procedures, training and reporting on the status of compliance and compliance controls to the Bank's Audit Committee and regulators.

B.7 - Template CR1: Credit quality of assets

		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
1	**Loans**	1,655,536	73,239,801	2,152,240	72,743,097
2	**Debt Securities**	-	20,964,861	-	20,964,861
3	**Off-balance sheet exposures**		28,901,656	-	28,901,656
4	**Total**	**1,655,536**	**123,106,318**	**2,152,240**	**122,609,614**

B.8 - Template CR2: Changes in stock of defaulted loans and debt securities

		a
1	**Defaulted loans and debt securities at end of the previous reporting period**	**824,221**
2	Loans and debt securities that have defaulted since the last reporting period	1,223,187
3	Returned to non-defaulted status	-
4	Amounts written off	(391,872)
5	Other changes	-
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**1,655,536**

B.9 – Table CRB: Additional disclosure related to the credit quality of assets.

Impairment Assessment Methodology

A financial asset is considered past due when counterparty has failed to make a payment when that payment was contractually due.

An assessment is made at each reporting date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the net present value of future anticipated cash flows from that asset is determined and any impairment loss is recognised for changes in its carrying amounts. The bank considers evidence of impairment for loans and advances and held to maturity investments at both a specific asset and collective level.

In determining whether an impairment loss should be recorded, management applies judgment when assessing whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group.

Management uses estimates based on historical loss experience for financial assets with similar credit risk characteristics where objective evidence of impairment exists. The methodology and assumptions used for estimating both the amount and the timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The bank’s credit policy outlines certain parameters based on past due days which can trigger change of risk ratings; exceptions to which are subject to additional reviews and approvals.

Loans are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the bank offers a revised rate of special commission to genuinely distressed borrowers. The loans continue to be subject to an individual or collective impairment assessment in line with the Bank’s policy.

The following tables sets out the details of Breakdown of Exposures by Geographical Areas as at 31 December 2016.

Breakdown of Exposures by Geographical Areas as at 31 December 2016 (Figures in SAR '000s)							
Portfolios	Geographic area						
	Saudi Arabia	Other GCC & Middle East	Europe	Americas	South East Asia	Others countries	Total
Sovereigns and central banks:	**24,548,948**	**155,165**	**-**	**-**	**-**	**-**	**24,704,113**
SAMA and Saudi Government	24,548,948	-	-	-	-	-	24,548,948
Others	-	155,165	-	-	-	-	155,165
Multilateral Development Banks (MDBs)	-	-	-	377,508	-	-	377,508
Public Sector Entities (PSEs)	-	-	-	-	-	-	-
Banks and securities firms	1,080,585	735,264	989,887	409,936	177	251,414	3,467,263
Corporates	63,593,383	466,387	-	347,910	5,504	3,500	64,416,683
Retail non-mortgages	10,684,064	-	-	-	-	-	10,684,064
Mortgages	**10,824,099**	**-**	**-**	**-**	**-**	**-**	**10,824,099**
Residential	*10,824,099*	-	-	-	-	-	10,824,099
Commercial	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-
Equity	329,334	-	-	-	-	-	329,334
Others	3,514,097	28,759	81,580	-	-	-	3,624,436
Total	**114,574,510**	**1,385,575**	**1,071,467**	**1,135,353**	**5,681**	**254,914**	**118,427,500**

Breakdown of Exposures by Industry Sector as at 31 December 2016.

Breakdown of Exposures by Industry Sector as at 31 December 2016 (Figures in SAR '000s)													
Portfolios	Industry sector												
	Government and quasi government	Banks and other financial institutions	Agriculture and fishing	Manufacturing	Mining and quarrying	Electricity, water, gas and health services	Building and construction	Commerce	Transportation and communication	Services	Consumer loans and credit cards	Others	Total
Sovereigns and central banks:	24,704,113	-	-	-	-	-	-	-	-	-	-	-	24,704,113
SAMA and Saudi Government	24,548,948	-	-	-	-	-	-	-	-	-	-	-	24,548,948
Others	155,165	-	-	-	-	-	-	-	-	-	-	-	155,165
Multilateral Development Banks (MDBs)	-	377,508	-	-	-	-	-	-	-	-	-	-	377,508
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-	-	-	-	-
Banks and securities firms	-	3,467,263	-	-	-	-	-	-	-	-	-	-	3,467,263
Corporates	-	1,875,033	742,363	15,803,728	272,424	2,560,345	19,691,281	14,176,022	3,341,635	4,366,452	-	1,587,400	64,416,683
Retail non-mortgages	-	-	-	-	-	-	-	-	-	-	10,684,064	-	10,684,064
Mortgages	-	-	-	-	-	-	-	-	-	-	10,824,099	-	10,824,099
Residential	-	-	-	-	-	-	-	-	-	-	10,824,099	-	10,824,099
Commercial	-	-	-	-	-	-	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	-	-	-	-	329,334	329,334
Others	-	-	-	-	-	-	-	-	-	-	-	3,624,436	3,624,436
Total	**24,704,113**	**5,719,804**	**742,363**	**15,803,728**	**272,424**	**2,560,345**	**19,691,281**	**14,176,022**	**3,341,635**	**4,366,452**	**21,508,163**	**5,541,170**	**118,427,500**

Breakdown of Exposures by Residual Contractual Maturity as at 31 December 2016

Breakdown of Exposures by Residual Contractual Maturity as at 31 December 2016 (Figures in SAR '000s)									
Portfolios	Maturity breakdown								
	Less than 8 days	8-30 days	30-90 days	90-180 days	180-360 days	1-3 years	3-5 years	Over 5 years	Total
Sovereigns and central banks:	10,796,314	473,517	1,015,263	1,002,069	698	76,217	4,618,580	6,721,456	24,704,113
SAMA and Saudi Government	10,796,314	471,622	1,015,263	1,001,491	698	-	4,618,580	6,644,981	24,548,948
Others	-	1,895	-	578	-	76,217	-	76,475	155,165
Multilateral Development Banks (MDBs)	2,508	-	-	-	-	375,000	-	-	377,508
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-	-
Banks and securities firms	1,347,019	39,770	158,008	217,143	264,725	715,029	389,029	336,539	3,467,263
Corporates	7,776,905	7,608,526	11,639,096	11,968,792	7,373,561	10,150,379	5,454,593	2,444,832	64,416,683
Retail non-mortgages	2,494,386	172,444	406,065	557,275	631,333	3,990,848	2,251,745	179,966	10,684,064
Mortgages	939	31,940	67,989	102,251	99,140	881,648	936,317	8,703,873	10,824,099
Residential	939	31,940	67,989	102,251	99,140	881,648	936,317	8,703,873	10,824,099
Commercial	-	-	-	-	-	-	-	-	-
Securitized assets	-	-	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-	329,334	329,334
Others	890,895	-	-	-	-	-	-	2,733,541	3,624,436
Total	**23,308,966**	**8,326,198**	**13,286,421**	**13,847,530**	**8,369,457**	**16,189,121**	**13,650,264**	**21,449,543**	**118,427,500**

Impaired Loans, Past Due Loans and Allowances as at 31 December 2016.

Impaired Loans, Past Due Loans and Allowances as at 31 December 2016 (Figures in SAR '000s)											
Industry sector	Impaired loans	Defaulted	Aging of Past Due Loans (days)				Specific allowances				General allowances
			Less than 90	90-180	180-360	Over 360	Balance at the beginning of the period	Charges (net of recoveries) during the period	Charge-offs during the period	Balance at the end of the period	
Government and quasi government	-	-	-	-	-	-	-	-	-	-	-
Banks and other financial institutions	-	-	-	-	-	-	-	-	-	-	-
Agriculture and fishing	654	44,561	98	44,462	-	-	331	323	-	654	-
Manufacturing	285,590	125,441	77,893	47,548	-	-	265,411	153,995	(148,816)	270,590	-
Mining and quarrying	-	35	-	35	-	-	-	-	-	-	-
Electricity, water, gas and health services	92,957	6,060	6,060	-	-	-	-	92,957	-	92,957	-
Building and construction	709,891	121,942	98,365	23,576	-	-	193,020	282,103	(63,414)	411,709	-
Commerce	308,781	323,140	174,059	149,080	-	-	285,437	38,387	(15,043)	308,781	-
Transportation and communication	6,737	53,421	51,032	2,389	-	-	6,907	(170)	-	6,737	-
Services	69,552	33,287	33,175	112	-	-	12,917	56,635	-	69,552	-
Consumer loans and credit cards	181,374	810,952	810,952	-	-	-	32,243	242,227	(164,147)	110,323	237,752
Others	-	39,947	39,947	-	-	-	-	452	(452)	-	643,185
Total	**1,655,536**	**1,558,786**	**1,291,583**	**267,203**	**-**	**-**	**796,266**	**866,909**	**(391,872)**	**1,271,303**	**880,937**

Impaired Loans, Past Due Loans And Allowances by Geographic area - 31 December 2016							
(Figures in SAR '000s)							
Geographic area	Impaired loans	Aging of Past Due Loans (days)				Specific allowances	General allowances
		Less than 90	90-180	180-360	Over 360		
Saudi Arabia	1,655,536	1,291,583	267,203	-	-	1,271,303	880,937
Total	1,655,536	1,291,583	267,203	-	-	1,271,303	880,937

Reconciliation Of Changes In The Allowances For Loan Impairment		
(Figures in SAR '000s)		
Particulars	Specific allowances	General allowances
Balance, beginning of the year	796,266	578,774
Charge-offs taken against the allowances during the period	(391,872)	-
Amounts set aside (or reversed) during the period	866,909	302,163
Transfers between allowances	-	-
Balance, end of the period	1,271,303	880,937

B.10

Qualitative disclosure requirements related to credit risk mitigation techniques

Credit sanctioning takes into account factors such as: security, seniority of claim, structure, term and any other forms of credit risk mitigation that affect the amount of potential loss in the event of a default. The Bank distinguishes between tangible and support collateral and credit approval authorities may differ depending on the type and extent of collateral available. However, credit limits for all on-balance sheet and contingent facilities are approved and considered on a gross basis.

For derivative transactions, where enforceable netting documentation is in place, the Bank considers its credit exposure on a net basis.

The types of acceptable collateral, and related valuation processes and reporting requirements are documented in risk management policies and manuals. The Bank's stress testing framework includes a consideration of the potential for deterioration in value of certain classes of collateral.

B.11 - Template CR3: Credit risk mitigation techniques – overview

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	73,624,034	8,156	8,156	-	-	-	-
2	Debt securities	20,964,861	-	-	-	-	-	-
3	Total	94,588,895	8,156	8,156	-	-	-	-
4	Of which defaulted							

B.12

Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

For credit portfolios under the standardized approach, External Credit Assessment Institutions (ECAI) risk assessments are used by Alawwal bank as part of the determination of risk weightings.

Ratings have been sourced from Standard and Poor's Ratings Group, Fitch Group and Moody's. There have been no changes on sourcing the ratings over the reporting period.

Credit ratings of all exposures are individually determined from the above credit rating agencies and mapped to the exposures assigning a risk weight according to the supervisory tables.

Where there is only one assessment by an ECAI chosen by a bank for a particular claim, that assessment is used to determine the risk weight of the claim. If there are two assessments by ECAIs which map into different risk weights, the higher risk weight will be applied. If there are three or more assessments with different risk weight, the assessment corresponding to the two lowest risk weights is referred and the higher of those two risk weights is applied.

Where the obligors have not obtained such a rating, the exposure is taken as unrated and appropriate risk weights applied. The Group has not adopted any of the IRB approaches.

The alignment of alphanumeric scales of each agency to risk buckets:

Alphanumeric scales:

Moody's	Standard and Poor's	Fitch
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-

A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Ba1	BB+	BB+
Ba2	BB	BB
Ba3	BB-	BB-
B1	B+	B+
B2	B	B
B3	B-	B-
Caa1	CCC+	CCC+
Caa2	CCC	CCC
Caa3		CCC-
Ca		CC
C		C
WR		D
NR		

Claims on sovereigns and their central banks

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Risk Weight	0%	20%	50%	100%	150%	100%

Claims on Banks and Securities Firms

SAMA requires banks operating in Saudi Arabia to use Option 2 for risk-weighting claims on banks and securities firms.

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to	BB+ to B-	Below B-	Unrated

			BBB-			
Risk Weight under Option 2	20%	50%	50%	100 %	150%	50%
Risk weight for short-term claims under Option - 2	20%	20%	20%	50%	150%	20%

Multilateral Development Banks

A 0% risk weight has been applied for the MDB's approved by SAMA.

Claims on public sector entities (PSEs)

As per Option 2.

Claims included in the regulatory non-mortgage retail portfolios

A 75% risk weight has been assigned to such exposures.

Claims on corporate

Credit Assessment	AAA to AA-	A+ to A-	BBB+ to BB-	Below BB-	Unrated
Risk Weight	20%	50%	100%	150%	100%

Claims secured by Residential Mortgages

A 100% risk weight has been applied to such claims.

Claims secured by Commercial Real Estate

A 100% risk weight has been applied to such claims.

Past due loans

The unsecured portion of any loan that is past due for more than 90 days or rescheduled, net of specific provisions (including partial write-offs), have been risk weighted as follows:

Level of Provisioning	Risk weight%
Up to 20%	150
Above 20%	100

Other assets

The standard risk weight for all other assets is 100% except cash & cash equivalents which are risk weighted at 0%. Other assets include various transmission accounts, accrued receivables, cash and cash equivalents and fixed assets.

B.13 - Template CR4: Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	24,691,771	-	24,704,113	-	-	0.00%
2	Non-central government public sector entities	-	-	-	-	-	
3	Multilateral development banks	377,508	-	377,508	-	-	0.00%
4	Banks	2,139,470	3,130,996	2,139,180	1,307,487	1,906,261	55.31%
5	Securities firms	1,881	37,429	1,881	18,714	10,418	50.58%
6	Corporates	53,204,478	25,733,232	53,196,160	11,220,523	64,087,921	99.49%
7	Regulatory retail portfolios	10,684,064	-	10,684,064	-	8,421,465	78.82%
8	Secured by residential property	10,824,099	-	10,824,099	-	10,824,099	100.00%
9	Secured by commercial real estate	-	-	-	-	-	
10	Equity	241,311	-	329,334	-	382,880	116.26%
11	Past-due loans	1,922,737	-	651,434	-	809,568	124.27%
12	Higher-risk categories	-	-	-	-	-	
13	Other assets	2,973,002	-	2,973,002	-	2,205,639	74.19%
14	**Total**	**107,060,321**	**28,901,656**	**105,880,775**	**12,546,725**	**88,648,251**	**74.85%**

B.14 - Template CR5: Standardised approach – exposures by asset classes and risk weights

CR5: Standardised approach – exposures by asset classes and risk weights
AS AT 31 DECEMBER 2016
(SAR '000s)

		a	b	c	d	e	f	g	h	i	j
	Asset classes/ Risk weight*	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	24,704,113									24,704,113
2	Non-central government public sector entities (PSEs)										-
3	Multilateral development banks (MDBs)	377,508									377,508
4	Banks	-		1,084,635		1,350,763		1,005,901	5,368		3,446,668
5	Securities firms			1,088		18,614		893	-		20,596
6	Corporates	-		41,143		591,694		63,783,846			64,416,683
7	Regulatory retail portfolios						9,050,398	1,633,666			10,684,064
8	Secured by residential property							10,824,099			10,824,099
9	Secured by commercial real estate										-
10	Equity							293,637		35,697	329,334
11	Past-due loans							335,166	316,268		651,434
12	Higher-risk categories										-
13	Other assets	767,363						2,205,639			2,973,002
14	**Total**	**25,848,984**	**-**	**1,126,867**	**-**	**1,961,072**	**9,050,398**	**80,082,846**	**321,636**	**35,697**	**118,427,500**

B.21

Qualitative disclosure related to counterparty credit risk

The Bank has approved processes in place for transacting via clearing brokers with central counterparties as well as for bilateral, over the counter derivative activity. Credit risk associated with traded products is managed within the same credit sanctioning process as the lending business. Limits are set and monitored based on the Bank's internally developed potential future exposure models. Models are independently validated prior to implementation and are subject to formal periodic review in line with the Bank's model validation policy.

In order to reduce counterparty risk, the Bank enters in to ISDA master netting agreements with corporate and interbank derivative counterparties and has bilateral margining arrangements in place with its major interbank counterparties. These margining agreements are structured such that any credit rating downgrade experienced by the bank would not result in a material increase in collateral requirements.

The Bank considers wrong way risk in its credit and customer suitability assessments and places restrictions on the types of transaction that particular counterparty may enter as well as to the size, tenor and other risk attributes of transactions.

B.22 - Template CCR1: Analysis of counterparty credit risk (CCR)[1] exposure by approach

		a	b	c	d	e	f
		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	673,528	953,946			1,627,474	1,095,354
2	Internal Model Method (for derivatives and SFTs)						
3	Simple Approach for credit risk mitigation (for SFTs)						
4	Comprehensive Approach for credit risk mitigation (for SFTs)						
5	VaR for SFTs						
6	Total						1,095,354

B.23 - Template CCR2: Credit valuation adjustment (CVA) capital charge

		a	b
		EAD post-CRM	RWA
	Total portfolios subject to the Advanced CVA capital charge		
1	(i) VaR component (including the 3×multiplier)		
2	(ii) Stressed VaR component (including the 3×multiplier)		
3	All portfolios subject to the Standardised CVA capital charge	1,627,474	470,791
4	Total subject to the CVA capital charge	**1,627,474**	**470,791**

B.24 - Template CCR3: Standardised approach – CCR exposures by regulatory portfolio and risk weights

	a	b	c	d	e	f	g	h	i
Regulatory portfolio*/ Risk weight***	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposures
Sovereigns and their central banks									-
Non-central government public sector entities (PSEs)									-
Multilateral development banks (MDBs)									-
Banks			431,450	373,921					805,370
Securities firms			-	-					-
Corporates						822,103			822,103
Regulatory retail portfolios									-
Other assets									-
Total	**-**	**-**	**431,450**	**373,921**	**-**	**822,103**	**-**	**-**	**1,627,474**

*The breakdown by risk weight and regulatory portfolio included in the template is for illustrative purposes. Banks may complete the template with the breakdown of asset classes according to the local implementation of the Basel framework.

**Banks subject to the simplified standardised approach should indicate risk weights determined by the supervisory authority in the columns.

B.26 - Template CCR5: Composition of collateral for CCR exposure

	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency						
Cash – other currencies	74,636		62,506			
Domestic sovereign debt						
Other sovereign debt						
Government agency debt						
Corporate bonds						
Equity securities						
Other collateral						
Total	74,636	-	62,506	-	-	-

B.30-34

Securitization

The Group is not involved in any securitization deals; hence the requirement for qualitative and quantitative disclosures does not arise.

B.35

Qualitative disclosure requirements related to market risk

The Bank is exposed to market risk due to its trading activities, which cover both facilitation of customer activity and limited proprietary trading. The Bank's appetite for market risk is low and the Bank will seek to mitigate or transfer excess market risk through hedging and other appropriate trading strategies.

The Bank's Asset and Liability Committee (ALCO) are delegated the responsibility for the oversight of the market risk framework by the Board. ALCO ensures appropriate policies and limits are in place. Limits are considered at product, portfolio, and Business Unit level.

The Treasury Risk department, reporting to the Chief Risk Officer, cover the day to day monitoring and reporting of market risks. Treasury Risk reports market risk exposures against limits by the various market risk-types to senior management and management and Board committees on a daily, monthly and quarterly basis.

Treasury Risk applies an appropriate variety of metrics and models to measure and control market risk exposures. These techniques include proprietary and vendor-supplied systems and models and are selected based on an assessment of the nature of risks in a particular activity. The use and attributes of each of these techniques are described in the Bank's Market Risk policy and procedures, the upkeep of which is the responsibility of Treasury Risk.

Treasury Risk together with Financial Control, assess the effectiveness of proposed hedges in line with the Bank's hedging policy prior to execution of the hedge and on an ongoing basis thereafter.

A product approval process is in place for all new products giving rise to market risk.

Models are independently validated prior to implementation and are subject to formal periodic review in line with the Bank's model validation policy.

B.37 - Template MR1: Market risk under standardised approach

MR1: Market risk under standardised approach
AS AT 31 DECEMBER 2016
(SAR '000s)

		a
		RWA
	Outright products	**210,754**
1	Interest rate risk (general and specific)	155,504
2	Equity risk (general and specific)	-
3	Foreign exchange risk	55,250
4	Commodity risk	-
	Options	-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	**Total**	**210,754**

The market risk RWA reduced by SAR 67 million (2016: SAR 211 million vs 2015: SAR 278 million), mainly due to lower FX exposures. Alawwal Bank neither have any exposures in Equity and Commodity markets under its trading book nor proprietary OTC Option positions open.

B.41

Operational risk

Operational risk is defined as the risk of loss due to inadequate or failed internal processes, people and systems, or from external events. ALAWWAL BANK's approach has been to adopt the Basel Committee on Banking Supervision's (BCBS's) Sound Practices for Operational Risk as a guideline and the Standardized Approach for capital calculation, as defined by the Basel II framework.

41.1 Objective

Operational risks are inherent to all business activities. It is the Group’s objective to minimize the Bank's exposure to such risks, subject to cost tradeoffs. This objective is met through a framework of policies and procedures that ensure risk identification, assessment, control and monitoring.

41.2 Governance Structure

The Operational Risk Management unit (ORM) reports to the CRO and is managed by the Head of Operational Risk Management. ORM is guided and directed by the ORM committee, at the request of Alawwal Bank's Board of Directors.

41.3 Risk identification

Alawwal Bank follows a best practice methodology of risk assessment and control evaluation for the identification of inherent operational risks. ORM manages operational risk for new or changed initiatives/products through the Operational Risk Assessment Procedure (ORAP) and the policy for this is set out in the ORAP Policy Manual. All operating losses and issues are recorded in the Bank's Operational Loss Database (BWise) as part of the Bank's system supporting its internal control framework. Operational risks are identified and assessed using the Risk and Control Self-Assessment and Key Risk Indicator tools

41.4 Risk Measurement

Measurement of operational risk is managed primarily through the Bank's loss database and the register of deficiencies, both of which are maintained in the system.

B.42

Interest rate risk in the banking book (IRRBB)

Commission rate risk in the Banking book arises from the possibility that changes in commission rates will affect either the fair values or the future cash flows of financial instruments. The Board has established commission rate gap limits for stipulated periods. The Bank monitors positions daily and uses hedging strategies to ensure maintenance of positions within the established gap limits.

Further, on a monthly basis, ALCO reviews an extended commission rate gap report containing the following buckets: 0-1 month, 1-3 months, 3-6 months, 7-12 months, 1-2 years, 2-3 years, 3-4 years, 4-5 years, 5 years onwards, and non-commission sensitive assets/liabilities.

As per the Bank's Risk Appetite statement, the Bank's management has set limits for Net Special Commission Income at Risk exposures (NII at Risk or NII@Risk) under two time-periods, vis. 1 year and 2 years using four different stress scenarios:

a) Parallel up: a 200 basis point increase of commission rates across the curve in year 1 with rates flat in year 2;

b) Parallel down: a 200 basis point decrease of commission rates across the curve in year 1 with rates flat in year 2;

c) Flattening: a reduction with 20 percent of the spread between 2 years and 1 month commission rates;

d) Steepening: an increase with 20 percent of the spread between 2 years and 1 month commission rates.

IRRBB is measured and controlled using both Earnings Perspective (Traditional Gap Analysis - impact on net special commission income) and Economic Value Perspective (Duration Gap Analysis - impact on market value of equity).

<u>Earnings Perspective</u>

Earnings Perspective measures the sensitivity of net special commission income to changes in commission rate over the next 12 months. It involves bucketing of rate sensitive assets, liabilities and off balance sheet items as per residual maturity/ re-pricing date in various time bands and computing change of income under 200 basis points upward and downward rate shocks over a one year horizon.

Non-maturity deposits:

These are liabilities that the depositor is free to withdraw at any time. Some of these will behave in practice as long-term commission rate-insensitive liabilities (core deposits), while others (non-core deposits) will be sensitive to commission rate sensitivities (and will therefore be subject to repricing or replacement as deposit rates increase). Core deposits can be allocated across maturity buckets up to a five year maturity, while non-core deposits are placed in the overnight maturity bucket. The Bank's Commission bearing non-maturity deposits are only 0.64% of total customer deposits as at the end of 31 December 2016, these are allocated between 0-1 months, 1-2 months and 2-3 months buckets based on behavioural assumptions.

Other behavioural assumptions:

As per Basel Banks are required to make some adjustments for customer behaviour in prepaying fixed rate loans, drawing down loan commitments, and early redemption of term deposits as commission rates change. This may be prescribed by the national supervisor; or supervisors may allow banks to make some use of internal estimates, subject to supervisory review and approval. The Bank considers this through its ALCO processes.

Economic Value Perspective

Economic Value Perspective calculates the change in the present value of the Bank's expected cash flows for a 25 basis point upward and downward rate shock, which is reported as part of the Annual Financial Statements.

Stress Testing

The Bank also undertakes periodic stress testing for its banking book. This provides a measure to assess the Bank's financial standing from commission rate fluctuations. The stress testing framework is approved by the Board. Periodic risk reports are sent to senior management for review. A risk summary is also presented at ALCO meetings.

Disclosure in Annual Financial Statements

The table shown under Note 31 b (i) to the financial statements 2016, depicts the sensitivity to a reasonable possible change in commission rates, with other variables held constant, on the Bank's statement of income or equity. The sensitivity of the income is the effect of the assumed changes in commission rates on the net commission income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at December 31, 2016 including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2016 for the effect of assumed changes in commission rates. The sensitivity of equity is analyzed by maturity of the asset or the hedging instrument.

Quantification of IRRBB

The increase / decline in earnings perspective for an upward / downward rate shock of 200 basis points ('bps'), for each currency with material exposures, namely those accounting for more than 5 percent of either banking book liabilities or banking book assets are as follows:

INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)
AS AT 31 DECEMBER 2016
(SAR '000s)

200bps Interest Rate Shocks for currencies with more than 5% of Assets or Liabilities	
Rate Shocks	Change in earnings
Upward rate shocks:	
SAR	219,541
USD	32,077
Downward rate shocks:	
SAR	(219,541)
USD	(32,077)