# BASEL III

# PILLAR 3 ANNUAL DISCLOSURES

## As at

## 31-December-2017

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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 of 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) are intended 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.

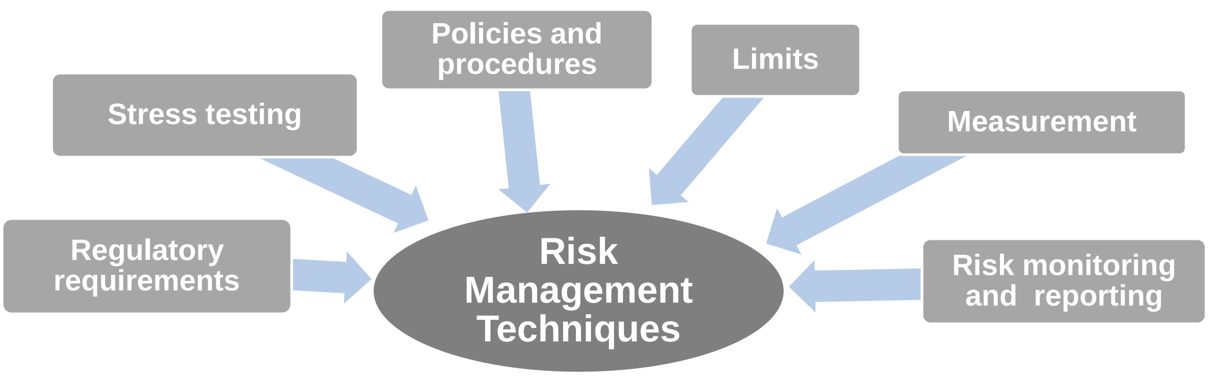
Documented policies and procedures are available to staff in the Business Units and Risk Management and Risk training programs are promoted to enhance awareness and understanding.

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.

The Bank's stress testing framework is enterprise wide, covering inter alia the Retail and Corporate Credit Portfolios, Liquidity Risk, Interest Rate Risk in the Banking Book, Market and Operational Risk. A range of scenarios are deployed using both qualitative and quantitative approaches and covering a range of severe but plausible events. Reverse stress tests with regard to solvency and liquidity are also conducted.

## 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<br>Dec-17 | T-1<br>Sep-17 | T<br>Dec-17 |
| 1 | Credit risk (excluding counterparty credit risk) | 76,373,637 | 81,634,901 | 6,109,891 |
| 2 | Of which: standardised approach (SA) | 76,373,637 | 81,634,901 | 6,109,891 |
| 3 | Of which: foundation internal rating-based (F-IRB) approach | - | - | - |
| 4 | Of which: Supervisory slotting approach | - | - | - |
| 5 | Of which: advanced internal rating-based (A-IRB) approach | - | - | - |
| 6 | Counterparty credit risk (CCR) | 639,122 | 818,622 | 51,130 |
| 7 | Of which: standardised approach for counterparty credit risk (SA-CCR)* | 639,122 | 818,622 | 51,130 |
| 8 | Of which: internal model method (IMM) | - | - | - |
| 9 | Of which: Other CCR | | | |
| 10 | Credit Valuation Adjustment (CVA) | 401,911 | 658,922 | 32,154 |
| 11 | Equity positions under the simple risk weight approach | - | - | - |
| 12 | Equity investments in funds – look-through approach | - | - | - |
| 13 | Equity investments in funds – mandate-based approach | - | - | - |
| 14 | Equity investments in funds – fall-back approach | - | - | - |
| 15 | Settlement risk | - | - | - |
| 16 | Securitisation exposures in banking book | - | - | - |
| 17 | Of which: securitisation internal ratings-based approach (SEC-IRBA) | | | - |
| 18 | Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA) | - | - | - |
| 19 | Of which: securitisation standardised approach (SEC-SA) | | | - |
| 20 | Market risk | 223,114 | 147,223 | 17,849 |
| 21 | Of which: standardised approach (SA) | 223,114 | 147,223 | 17,849 |
| 22 | Of which: internal model approaches (IMA) | - | - | - |
| 23 | Capital charge for switch between trading book and banking book | - | - | - |
| 24 | Operational risk | 6,262,700 | 6,132,638 | 501,016 |
| 25 | Amounts below the thresholds for deduction (subject to 250% risk weight) | - | - | - |
| 26 | Floor adjustment | - | - | - |
| 27 | **Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)** | **83,900,484** | **89,392,306** | **6,712,040** |

**Minimum Capital Requirements here and in all tables where the term is used, represents the Pillar 1 Capital Charge at 8% of RWA*

### 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 | 15,137,005 | 15,137,005 | 15,137,005 | - | - | - | - |
| Due from banks and other financial institutions | 2,115,271 | 2,115,271 | 2,115,271 | - | - | - | - |
| Positive fair value of derivatives | 212,218 | 212,218 | - | 285,569 | - | - | - |
| Investments, net | 16,688,747 | 16,688,747 | 16,688,747 | - | - | - | - |
| Loans and advances, net | 63,639,483 | 63,639,483 | 64,705,730 | - | - | - | - |
| Investment in an associates | 45,507 | 45,507 | 45,507 | - | - | - | - |
| **Property and equipment, net** | 1,347,009 | 1,347,009 | 1,347,009 | - | - | | - |
| **Other assets** | 684,590 | 684,590 | 646,361 | - | - | - | - |
| **Total assets** | **99,869,830** | **99,869,830** | **100,685,630** | **285,569** | **-** | **-** | **-** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| **Due to banks and other financial institutions** | 3,344,671 | - | - | - | - | - | 3,344,671 |
| **Negative fair value derivatives** | 91,679 | - | - | - | - | - | 91,679 |
| **Customers' deposits** | 78,274,963 | - | - | - | - | - | 78,274,963 |
| **Subordinated debt** | 2,505,026 | - | - | - | - | - | 2,505,026 |
| **Other liabilities** | 2,053,795 | - | - | - | - | - | 2,053,795 |
| **Total liabilities** | **86,270,134** | **-** | **-** | **-** | **-** | **-** | **86,270,134** |

### 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) | 99,869,830 | 100,685,630 | - | 285,569 | - |
| 2 | Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1) | - | - | - | - | - |
| 3 | Total net amount under regulatory scope of consolidation | 99,869,830 | 100,685,630 | - | 285,569 | - |
| 4 | Off-balance sheet amounts | 26,164,956 | 12,693,339 | - | - | - |
| 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 | - | - | - | - | 86,707 |
| 10 | Derivatives (also subject to Credit valuation adjustment) | 55,440,148 | - | - | 615,481 | 136,407 |
| **11** | **Exposure amounts considered for regulatory purposes** | **181,474,934** | **113,378,968** | **-** | **901,050** | **223,114** |

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

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

#### On-Balance Sheet

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

#### Off Balance sheet / Derivatives

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..

#### Valuation methodologies

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

## LR1: Summary comparison of accounting assets versus leverage ratio exposure measure

| | Item | In SR 000's |
|---|---|---|
| 1 | Total consolidated assets as per published financial statements | 99,869,830 |
| 2 | Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation. | - |
| 3 | Adjustments for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure. | - |
| 4 | Adjustments for derivative financial instrument. | - |
| 5 | Adjustment for securities financing transactions (i.e. repos and similar secured lending) | - |
| 6 | Adjustment for off-balance sheet items(i.e. conversation to credit equivalent amounts of off-balance sheet exposures) | 26,164,956 |
| 7 | Other adjustments | - |
| **8** | **Leverage ratio exposure** | **126,034,786** |

## LR2: Leverage Ratio Common Disclosure Template

| Row | Item | Dec 31,2017<br>In SR 000's | Dec 31,2016<br>In SR 000's |
|---|---|---|---|
| | **On-Balance sheet exposures** | | |
| 1 | On-balance sheet items (excluding derivatives and SFTs but including collateral) | 99,869,830 | 105,070,500 |
| 2 | (Relevant Asset amounts deducted in determining Basel III Tier 1 capital) | - | - |
| 3 | Total on-balance sheet exposures ( excluding derivatives and SFTs) (sum of lines 1 and 2) | 99,869,830 | 105,070,500 |
| | **Derivative exposures** | | |
| 4 | Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) | 285,569 | 673,528 |
| 5 | added-on amount for Potential Financial Exposure (PFE) associated with all derivatives transactions | 615,481 | 953,946 |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework | - | - |
| 7 | (Deduction of receivables assets for cash variation margin provided in derivatives transactions) | - | - |
| 8 | (Exempted CCP leg of clients-cleared trade exposures) | - | - |
| 9 | Adjusted effective notional amount of written credit derivatives | - | - |
| 10 | (Adjusted effective notional offsets and add-on deductions fro written credit derivatives) | - | - |
| 11 | **Total derivatives exposures(sum of lines 4 to 10)** | 901,050 | 1,627,474 |
| | **Securities financing transaction exposures** | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transaction. | - | - |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | - | - |
| 14 | Credit Conversion Factor (CCR) exposure for Security Financing Transaction (SFT) assets | - | - |
| 15 | Agent transaction exposures | - | - |
| 16 | **Total securities financing transaction exposures (sum of lines 12 to 15)** | - | - |
| | **Other off-balance sheet exposures** | | |
| 17 | Off-balance sheet exposure at gross notional amount | 26,164,956 | 28,901,656 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (13,471,616) | (14,798,223) |
| 19 | Off-balance sheet items (sum of lines 17 and 18) | 12,693,340 | 14,103,433 |
| | **Capital and total exposures** | | |
| 20 | **Tier 1 Capital** | 13,599,696 | 12,862,795 |
| 21 | **Total exposures (sum of lines 3, 11, 16 and 19)** | 113,464,221 | 120,801,407 |
| | **Leverage ratio** | | |
| **22** | **Basel III leverage ratio*** | **11.99%** | **10.65%** |

* minimum requirement is 3%

### Reconciliation

| Row | Item | In SR 000's |
|---|---|---|
| 1 | Total Assets amounts on Financial Statements | 99,869,830 |
| 2 | Total On balance sheet assets according to Row #1 on Table 2 | 99,869,830 |
| **3** | **Difference between 1 and 2 above** | **-** |

## LIQA – Liquidity risk management

## Qualitative disclosures

Liquidity Risk is the risk that the Bank is unable to meet its financial obligations in a timely manner at reasonable cost. Financial obligations include: liabilities to depositors; payments due under derivative contracts; settlement of repurchase transactions; and lending and investment commitments.

The management of liquidity is a core function of any bank, being inherent in the maturity transformation process that underlies corporate and retail banking. Given its wide scope, a single measurement to identify Liquidity Risk is insufficient. The Bank therefore applies a broad range of approaches to measure and monitor Liquidity Risk, including forward looking and historical metrics. These approaches are laid out in the Bank's Liquidity Risk Management Framework that contains a variety of risk management techniques that are consistent with the BCBS Principles for Sound Liquidity Risk Management and Supervision and Basel III requirements.

### Overview of the Bank's Liquidity Risk Management framework

The Bank's Asset and Liability Committee ("ALCO") is responsible for providing strategic oversight in respect to asset and liability management. The Committee provides direct guidance and instruction to Business Units with regard to asset and liability growth and composition targets as well as steering the Bank's balance sheet through the approval of FTP methodologies and liquidity premia. ALCO may also take direct balance sheet action, for instance raising long-term debt or capital.

The Bank's Board has delegated authority to ALCO to maintain and develop the Bank's Liquidity Risk Management Framework including policy oversight, setting limits and monitoring performance against risk appetite. In addition to setting limits for regulatory liquidity ratios, including Basel III ratios – the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"), and intraday liquidity reporting - the Bank has set a number of internal liquidity metrics which include the monitoring of large depositors under normal and stressed conditions.

The Treasury Group function is the primary risk-owner responsible for the detailed day-to-day management of the Bank's liquidity position and adherence to internal and regulatory ratio requirements.

Risk Management, as secondary risk-owner, provide independent oversight of all significant liquidity risks and support the Treasury Function with liquidity risk analysis, risk measurement and reporting, and the development and performance of liquidity stress-testing.

The Treasury Group function owns - and Risk Management review and recommend - the Bank's Liquidity policy, Funding Strategy and Contingency Funding Plan ("CFP").

The Financial Control Department is responsible for the regulatory reporting of liquidity returns to SAMA and, alongside Risk Management, are responsible for internal liquidity reporting for ALCO purposes.

- The Financial Control Department is the custodian of the FTP model and is responsible for ensuring that the methodologies agreed by ALCO are reflected in reporting.

- Business Units support Liquidity Risk management by providing information to the Treasury function of any anticipated / expected material cash-flows from customers.

- The money market desk within Treasury is responsible for managing liquidity across all currencies. In order to facilitate this, the GM Treasury together with Head of Financial Institutions Group, are responsible to ensure that appropriate nostro facilities, with overdrafts if appropriate, and foreign exchange lines are in place with a range of local and international banks.

## Liquidity stress testing

The Bank's liquidity stress testing scenarios are designed to demonstrate that the Bank is able to withstand a range of material liquidity stress events. A key output of liquidity stress scenarios is the LCR which is computed after applying varying stresses, for example, to the roll-off factors for deposits that mature within 30-days. A range of other regulatory and internal ratios under stressed conditions are prepared for management assessment and are communicated to the Board.

The recently introduced intraday liquidity stress testing methodology is based on the guidance set out by the BCBS, stress scenarios from the Bank’s CFP and other internal liquidity stress testing approaches.

The Bank places high importance on the availability of High Quality Liquid Assets (“HQLAs”) when considering its capacity to withstand a liquidity stress event. HQLA’s are core to the management of the Bank’s liquidity on an operational and regulatory basis and represent the principal liquidity buffer in the event of a stress scenario transpiring. The majority of assets contained within the Bank's investment portfolio qualify as HQLA's. Responsibility for the maintenance of the investment portfolio lies with the Treasury Group, guided by the Investment Policy, approved by ALCO and the Board.

The Bank believes that assets not eligible for inclusion as HQLAs may nonetheless be useful sources of liquidity, particularly in non-stressed markets. These assets therefore have a role to play in meeting the Bank’s liquidity needs, including via international repo markets. Investment in these assets, within the limitations of the Bank’s investment policy, is therefore frequently desirable.

## Contingency funding plan

The Bank’s CFP specifies an approach for analyzing and responding to actual and potential liquidity events. The liquidity stress-testing results are a key consideration in shaping the Bank's CFP.

The Bank's CFP outlines the governance structure for the management and monitoring of liquidity events, describes processes for effective internal and external communication and identifies potential counter measures to be considered at various stages of an event.

The CFP sets out the plan of action the Bank would use to fund business activity in crisis situations and period of market stress. It consist of two principal parts:

Part 1: Analysis and Identification

Part 2: The Liquidity Crisis Action Plan ("LCAP")

The Bank is required to test its CFP in accordance within its CFP policy. As part the testing, the Bank will ensure that the test scenarios applied are current and relevant.

### Liquidity Coverage Ratio monitoring

The Bank monitors its LCR in all significant currencies. A currency is considered “significant” if the aggregate liabilities denominated in that currency amount to 5 percent or more of the Bank’s total liabilities. Using this approach, only SAR and USD are material currencies for Alawwal bank and the LCR in these currencies are monitored and reported as per the Basel and SAMA requirements accordingly.

The reporting of the quarterly LCR based on daily averages became applicable from 1st Jan 2017. Alawwal bank has used 92 data points to calculate the LCR to quarter-end 31st December 2017, which is at 357 percent. The quarter end LCR to September 30th was calculated using 92 data points, which was at 397 percent. The movement between the two quarters was mainly due to an increase in Total Average cash outflows of around SAR 3.0 billion, this was partly offset by an increase in the average HQLA’s by SAR 1.2 billion and an increase in Total Average cash inflows of around SAR 475 million. The intra period LCR’s were comfortably above the minimum requirements of SAMA/Basel as provided hereunder:

| | 1 Jan 2015 | 1 Jan 2016 | 1 Jan 2017 | 1 Jan 2018 | 1 Jan 2019 |
|---|---|---|---|---|---|
| Minimum LCR | 60% | 70% | 80% | 90% | 100% |

## LIQ1: Liquidity Coverage Ratio (LCR)

| | | | |
|---|---|---|---|
| LCR Common Disclosure Template<br>As at 31st December 2017 | | | |
| (In SR 000's) | | TOTAL UNWEIGHTED VALUE (Daily Average for the Quarter) | TOTAL WEIGHTED VALUE (Daily Average for the Quarter) |
| **HIGH QUALITY LIQUID ASSETS** | | | |
| **1** | **Total high-quality liquid assets (HQLA)** | **24,180,060** | **23,984,427** |
| **CASH OUTFLOWS** | | | |
| 2 | **Retail deposits and deposits from small business customer of which** | **21,676,844** | **2,167,684** |
| 3 | Stable deposits | - | - |
| 4 | Less stable deposits | 21,676,844 | 2,167,684 |
| **5** | **Unsecured wholesale funding of which** | **27,217,897** | **11,379,960** |
| 6 | Operational Deposits (all Counterparties) | - | - |
| 7 | Non-Operational Deposits(all counterparties | 27,209,049 | 11,379,960 |
| 8 | Unsecured Debt | - | - |
| 9 | Secured wholesale funding | 8,848 | - |
| **10** | **Additional requirements of which** | **52,882,416** | **1,518,515** |
| 11 | Outflows related to derivative exposures and other collateral requirements | - | - |
| 12 | Outflows related to loss of funding on debt products | - | - |
| 13 | Credit and liquidity facilities | 2,281,067 | 237,965 |
| 14 | Other contractual funding oblifations | - | - |
| 15 | Other contingent funding obligations | 50,601,349 | 1,280,550 |
| **16** | **TOTAL CASH OUTFLOWS** | **101,777,156** | **15,066,159** |
| **CASH INFLOWS** | | | |
| 17 | Secured lending (eg Reverse repos) | - | - |
| 18 | Inflows from fully performing exposures | 13,854,718 | 8,336,140 |
| 19 | Other cash inflows | 4,881 | 4,881 |
| **20** | **TOTAL CASH INFLOWS** | **13,859,599** | **8,341,021** |
| | | | |
| **21** | **TOTAL HQLA** | **24,180,060** | **23,984,427** |
| **22** | **TOTAL NET CASH OUTFLOWS** | **87,917,558** | **6,725,138** |
| **23** | **LIQUIDITY COVERAGE RATIO (%)** | | 356.64% |

**B.6**

## CRA - 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 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** | 1,985,604 | 64,426,741 | 2,772,862 | 63,639,483 |
| 2 | **Debt Securities** | - | 16,531,070 | - | 16,531,070 |
| 3 | **Off-balance sheet exposures** | - | 26,164,956 | - | 26,164,956 |
| 4 | **Total** | **1,985,604** | **107,122,767** | **2,772,862** | **106,335,509** |

## 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** | **1,655,536** |
| 2 | Loans and debt securities that have defaulted since the last reporting period | 877,241 |
| 3 | Returned to non-defaulted status | - |
| 4 | Amounts written off | (547,173) |
| 5 | Other changes | - |
| 6 | **Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)** | **1,985,604** |

There is no significant difference between the current and the previous year.

## 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 2017.

| Breakdown of Exposures by Geographical Areas as at 31 December 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|
| (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: | **27,629,979** | **38,224** | **-** | **-** | **-** | **-** | **27,668,203** |
| SAMA and Saudi Government | 27,629,979 | - | - | - | - | - | 27,629,979 |
| Others | - | 38,224 | - | - | - | - | 38,224 |
| Multilateral Development Banks (MDBs) | - | - | - | 377,007 | - | - | 377,007 |
| Public Sector Entities (PSEs) | - | - | - | - | - | - | - |
| Banks and securities firms | 1,232,043 | 1,299,781 | 1,948,046 | 277,849 | 330 | 432,903 | 5,190,951 |
| Corporates | 57,042,552 | - | - | - | - | - | 57,042,552 |
| Retail non-mortgages | 9,306,042 | - | - | - | - | - | 9,306,042 |
| Mortgages | **10,747,783** | **-** | **-** | **-** | **-** | **-** | **10,747,783** |
| Residential | *10,747,783* | - | - | - | - | - | 10,747,783 |
| Commercial | - | - | - | - | - | - | - |
| Securitized assets | - | - | - | - | - | - | - |
| Equity | 203,184 | - | - | - | - | - | 203,184 |
| Others | 3,013,314 | - | - | - | - | - | 3,013,314 |
| **Total** | **109,174,896** | **1,338,005** | **1,948,046** | **654,856** | **330** | **432,903** | **113,549,036** |

## Breakdown of Exposures by Industry Sector as at 31 December 2017

| Breakdown of Exposures by Industry Sector as at 31 December 2017 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (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: | 27,668,203 | - | - | - | - | - | - | - | - | - | - | - | 27,668,203 |
| SAMA and Saudi Government | 27,629,979 | - | - | - | - | - | - | - | - | - | - | - | 27,629,979 |
| Others | 38,224 | - | - | - | - | - | - | - | - | - | - | - | 38,224 |
| Multilateral Development Banks (MDBs) | - | 377,007 | - | - | - | - | - | - | - | - | - | - | 377,007 |
| Public Sector Entities (PSEs) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Banks and securities firms | - | 5,190,951 | - | - | - | - | - | - | - | - | - | - | 5,190,951 |
| Corporates | 1,047,377 | 1,115,989 | 762,660 | 13,435,802 | - | 2,067,745 | 17,826,159 | 11,659,732 | 2,936,151 | 3,962,277 | - | 2,228,661 | 57,042,552 |
| Retail non-mortgages | - | - | - | - | - | - | - | - | - | - | 9,306,042 | - | 9,306,042 |
| Small Business Facilities Enterprises (SBFE's) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Mortgages | - | - | - | - | - | - | - | - | - | - | 10,747,783 | - | 10,747,783 |
| Residential | - | - | - | - | - | - | - | - | - | - | 10,747,783 | - | 10,747,783 |
| Commercial | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Securitized assets | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Equity | - | - | - | - | - | - | - | - | - | - | - | 203,184 | 203,184 |
| Others | - | - | - | - | - | - | - | - | - | - | - | 3,013,314 | 3,013,314 |
| **Total** | **28,715,580** | **6,683,948** | **762,660** | **13,435,802** | **-** | **2,067,745** | **17,826,159** | **11,659,732** | **2,936,151** | **3,962,277** | **20,053,825** | **5,445,159** | **113,549,036** |

## Breakdown of Exposures by Residual Contractual Maturity as at 31 December 2017

| Breakdown of Exposures by Residual Contractual Maturity as at 31 December 2017 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (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: | 14,115,211 | 35,408 | 16,661 | 7,650 | - | 4,587,647 | 3,214,799 | 5,690,827 | 27,668,203 |
| SAMA and Saudi Government | 14,115,211 | 35,408 | 16,661 | 7,073 | - | 4,550,000 | 3,214,799 | 5,690,827 | 27,629,979 |
| Others | - | - | - | 577 | - | 37,647 | - | - | 38,224 |
| Multilateral Development Banks (MDBs) | 2,007 | - | - | - | - | 375,000 | - | - | 377,007 |
| Public Sector Entities (PSEs) | - | - | - | - | - | - | - | - | - |
| Banks and securities firms | 2,048,526 | 458,093 | 638,902 | 378,953 | 290,424 | 976,205 | 67,691 | 332,157 | 5,190,951 |
| Corporates | 6,280,723 | 6,013,341 | 11,025,123 | 6,565,870 | 5,857,537 | 8,761,678 | 5,822,248 | 6,716,031 | 57,042,552 |
| Retail non-mortgages | 334,607 | 2,177,758 | 381,614 | 507,470 | 959,940 | 3,353,899 | 1,352,030 | 238,723 | 9,306,042 |
| Mortgages | 1,604 | 33,347 | 72,118 | 107,559 | 213,517 | 930,111 | 915,442 | 8,474,084 | 10,747,783 |
| Residential | 1,604 | 33,347 | 72,118 | 107,559 | 213,517 | 930,111 | 915,442 | 8,474,084 | 10,747,783 |
| Commercial | - | - | - | - | - | - | - | - | - |
| Securitized assets | - | - | - | - | - | - | - | - | - |
| Equity | - | - | - | - | - | - | - | 203,184 | 203,184 |
| Others | 1,021,795 | - | - | - | - | - | - | 1,991,519 | 3,013,314 |
| **Total** | **23,804,472** | **8,717,947** | **12,134,419** | **7,567,503** | **7,321,419** | **18,984,540** | **11,372,210** | **23,646,525** | **113,549,036** |

## Impaired Loans, Past Due Loans and Allowances as at 31 December 2017

| Impaired Loans, Past Due Loans and Allowances as at 31 December 2017 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (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 | 304 | 92 | 92 | - | - | - | 654 | (350) | - | 304 | - |
| Manufacturing | 374,748 | 80,790 | 45,449 | 35,341 | - | - | 270,590 | 189,835 | (85,677) | 374,748 | - |
| Mining and quarrying | - | - | - | - | - | - | - | - | - | - | - |
| Electricity, water, gas and health services | 7,193 | 4,897 | - | 4,897 | - | - | 92,957 | (85,764) | - | 7,193 | - |
| Building and construction | 909,639 | 30,340 | 29,589 | 751 | - | - | 411,709 | 362,374 | (64,476) | 709,607 | - |
| Commerce | 454,562 | 16,997 | 12,277 | 4,720 | - | - | 308,781 | 194,293 | (70,829) | 432,245 | - |
| Transportation and communication | 7,654 | 199 | 199 | - | - | - | 6,737 | 917 | - | 7,654 | - |
| Services | 68,413 | 15,951 | 11,488 | 4,463 | - | - | 69,552 | 85,079 | (86,218) | 68,413 | - |
| Consumer loans and credit cards | 160,916 | 685,087 | 685,087 | - | - | - | 110,323 | 233,098 | (239,145) | 104,276 | 192,593 |
| Others | 2,175 | 40,341 | 12,776 | 27,565 | - | - | - | 3,003 | (828) | 2,175 | 873,654 |
| **Total** | **1,985,604** | **874,694** | **796,957** | **77,737** | **-** | **-** | **1,271,303** | **982,485** | **(547,173)** | **1,706,615** | **1,066,247** |

| Impaired Loans, Past Due Loans And Allowances by Geographic area - 31 December 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|
| (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 | 1,985,604 | 796,957 | 77,737 | - | - | 1,706,615 | 1,066,247 |
| **Total** | **1,985,604** | **796,957** | **77,737** | **-** | **-** | **1,706,615** | **1,066,247** |

| Reconciliation Of Changes In The Allowances For Loan Impairment - 31 December 2016 | | |
|---|---|---|
| (Figures in SAR '000s) | | |
| Particulars | Specific allowances | General allowances |
| Balance, beginning of the year | 1,271,303 | 880,937 |
| Charge-offs taken against the allowances during the period | (547,173) | - |
| Amounts set aside (or reversed) during the period | 982,485 | 185,310 |
| **Balance, end of the period** | **1,706,615** | **1,066,247** |

## 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 | 64,696,481 | 9,249 | 9,249 | - | - | - | - |
| 2 | Debt securities | 16,531,070 | - | - | - | - | - | - |
| 3 | Total | 81,227,551 | 9,249 | 9,249 | - | - | - | - |
| 4 | Of which defaulted | - | - | - | - | - | - | - |

There is a reduction in loans and debt securities compared to the previous year due to current market conditions.

## B.12

## CRD- 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 BBB- | BB+ to B- | Below B- | Unrated |
|---|---|---|---|---|---|---|
| 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 75% risk weight has been applied to such claims. SAMA has reduced the Risk Weights to 50% with effect from 1st January 2018

## 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 | 27,651,180 | - | 27,668,203 | - | - | 0.00% |
| 2 | Non-central government public sector entities | - | - | - | - | - | - |
| 3 | Multilateral development banks | 377,007 | - | 377,007 | - | - | 0.00% |
| 4 | Banks | 3,147,342 | 4,058,180 | 3,147,342 | 1,587,117 | 2,162,189 | 45.67% |
| 5 | Securities firms | 707 | 17,837 | 707 | 8,919 | 4,277 | 44.43% |
| 6 | Corporates | 46,220,516 | 22,088,939 | 46,212,817 | 10,391,045 | 56,397,272 | 99.64% |
| 7 | Regulatory retail portfolios | 9,306,042 | - | 9,306,042 | - | 7,301,706 | 78.46% |
| 8 | Secured by residential property | 10,747,783 | - | 10,747,783 | - | 8,060,837 | 75.00% |
| 9 | Secured by commercial real estate | - | - | - | - | - | - |
| 10 | Equity | 203,184 | - | 203,184 | - | 271,445 | 133.60% |
| 11 | Past-due loans | 2,063,340 | - | 356,725 | - | 395,593 | 110.90% |
| 12 | Higher-risk categories | - | - | - | - | - | - |
| 13 | Other assets | 2,656,589 | - | 2,656,589 | - | 1,780,319 | 67.02% |
| 14 | Total | 102,373,689 | 26,164,956 | 100,676,399 | 11,987,080 | 76,373,637 | 67.79% |

**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 2017**
**(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 | 27,668,203 | - | - | - | - | - | - | - | - | 27,668,203 |
| 2 | Non-central government public sector entities (PSEs) | - | - | - | - | - | - | - | - | - | - |
| 3 | Multilateral development banks (MDBs) | 377,007 | - | - | - | - | - | - | - | - | 377,007 |
| 4 | Banks | - | - | 2,169,848 | - | 1,677,101 | - | 883,191 | 4,318 | - | 4,734,459 |
| 5 | Securities firms | - | - | 2,967 | - | 5,951 | - | 707 | - | - | 9,626 |
| 6 | Corporates | - | - | - | - | 413,182 | - | 56,190,680 | - | - | 56,603,863 |
| 7 | Regulatory retail portfolios | - | - | - | - | - | 8,017,343 | 1,288,698 | - | - | 9,306,042 |
| 8 | Secured by residential property | - | - | - | - | - | 10,747,783 | - | - | - | 10,747,783 |
| 9 | Secured by commercial real estate | - | - | - | - | - | - | - | - | - | - |
| 10 | Equity | - | - | - | - | - | - | 157,677 | | 45,507 | 203,184 |
| 11 | Past-due loans | - | - | - | - | - | - | 278,989 | 77,736 | - | 356,725 |
| 12 | Higher-risk categories | - | - | - | - | - | - | - | - | - | - |
| 13 | Other assets | 876,270 | | | | | | 1,780,319 | - | - | 2,656,589 |
| 14 | Total | 28,921,480 | - | 2,172,816 | - | 2,096,234 | 18,765,126 | 60,580,262 | 82,054 | 45,507 | 112,663,479 |

## 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) | 285,569 | 615,481 | | - | 901,050 | 639,122 |
| 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 | | | | | | 639,122 |

### 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 | 901,050 | 401,911 |
| 4 | **Total subject to the CVA capital charge** | **901,050** | **401,911** |

### 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 | - | - | 78,967 | 383,393 | - | - | - | - | 462,360 |
| Securities firms | - | - | - | - | - | - | - | - | - |
| Corporates | - | - | - | - | - | 438,690 | - | - | 438,690 |
| Regulatory retail portfolios | - | - | - | - | - | - | - | - | - |
| Other assets | - | - | - | - | - | - | - | - | - |
| Total | - | - | 78,967 | 383,393 | - | 438,690 | - | - | 901,050 |

### 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 | 23,363 | - | 38,209 | - | - | - |
| Domestic sovereign debt | - | - | - | - | - | - |
| Other sovereign debt | - | - | - | - | - | - |
| Government agency debt | - | - | - | - | - | - |
| Corporate bonds | - | - | - | - | - | - |
| Equity securities | - | - | - | - | - | - |
| Other collateral | - | - | - | - | - | - |
| Total | 23,363 | - | 38,209 | - | - | - |

### 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<br>AS AT 31 DECEMBER 2017<br>(SAR '000s) | | |
|---|---|---|
| | | a |
| | | RWA |
| | Outright products | **223,114** |
| 1 | Interest rate risk (general and specific) | 136,407 |
| 2 | Equity risk (general and specific) | - |
| 3 | Foreign exchange risk | 86,707 |
| 4 | Commodity risk | - |
| | Options | **-** |
| 5 | Simplified approach | - |
| 6 | Delta-plus method | - |
| 7 | Scenario approach | - |
| 8 | Securitisation | - |
| **9** | **Total** | **223,114** |

The market risk RWA increased by SAR 12 million (2016: SAR 223 million vs 2015: SAR 211 million), mainly due to higher FX exposures, which was partly offset by lower interest rate 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

### 41.1 Objective

### 41.2 Governance Structure

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.

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.

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)

## Qualitative Disclosure of IRRBB

This section contains qualitative disclosures providing a description of the risk management objectives and policies concerning IRRBB.

**a) Definition of IRRBB for purposes of risk control and measurement.**

The Bank defines IRRBB as “Risk of losses, or reduced income, due to timing mismatches in the sensitivity of the Bank’s assets and liabilities to interest rate movements within the Banking book.”

A sufficiently high level of IRRBB could pose a significant threat to the Bank’s capital and/or future earnings if not managed appropriately. Changes in interest rates can affect both the underlying economic value of the Bank’s assets, liabilities and off-balance sheet instruments and its net interest income. Three main sub-types of IRRBB for the purpose of risk control are as follows:

- **Re-pricing Gap** Risk arises from the term structure of banking book instruments, and describes the risk arising from timing differences in the repricing or maturity of interest rate sensitive assets, liabilities and off balance sheet item.
- **Basis Risk** describes the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices.
- **Option Risk** arises from option derivative positions or, more particularly for interest rate risk in the banking book, from optional elements embedded in a bank’s assets, liabilities and/or off-balance sheet items. Such embedded optionality may exist, where the bank or its customer can make elections (such as prepayment of a loan or early redemption of a deposit) that alter the level and timing of their cash flows.

The three sub-types listed above are directly linked to IRRBB. The Bank additionally considers Credit Spread Risk in the Banking Book (CSRBB), a related risk that the Bank monitors and assesses within its IRRBB framework.

**b) The Bank's IRRBB management and mitigation strategies**

The Bank’s IRRBB policy is consistent with the Basel Committee’s publication, BCBS 368 on Standards on IRRBB dated April 2016 and the SAMA Questions and Answers on IRRBB dated January 2017, for establishing standards for defining, measuring, limiting, and reporting IRRBB. The Bank’s policy has been presented to and approved by the Bank’s ALCO and Board. The Bank reviews the Policy periodically to ensure relevant developments are reflected.

The Bank’s principal IRRBB management and mitigation strategies as below:

**i) Developing a Risk framework, Setting and Monitoring Risk Appetite.**

The Board Risk Committee (BRC) is responsible for the oversight of the IRRBB risk management framework and for reviewing and recommending the Bank’s risk appetite for IRRBB to the Board.

At a management level, the Bank’s ALCO is responsible for overseeing the management of IRRBB. ALCO’s functions include: reviewing the framework to identify, measure, evaluate, control and monitor IRRBB in the Bank’s balance sheet; recommending IRRBB policy, risk limits, and measures to the Board; and monitoring exposure, limit utilisation and actual and expected changes in the Bank’s interest rate risk profile.

The Bank’s risk appetite for IRRBB is considered in terms of the risk to both economic value (EVE at risk) and earnings (NII at risk). Limits are set consistent with the risk appetite and exposure against limits reported regularly. Management will take appropriate actions if risk approaches the set trigger levels.

**ii) Hedging**

The Bank primarily maintains its risk position within the desired level through adjustments to balance sheet composition and does not intend to fully hedge the interest rate risk. However, whenever a hedge is concluded proper documentation is maintained and accounting is done as per relevant accounting standards.

**iii) Stress testing**

Severe, yet plausible stress testing scenarios are considered to provide meaningful estimates of risk and to allow the Board and senior management to understand the risk inherent in the Bank’s products and activities.

**iv) Model Validation**

The Bank has an established model validation framework that covers IRRBB models. All new models and any revisions to existing models will to be presented to ALCO for approval.

The Bank’s Internal Audit function is responsible for periodically reviewing the robustness of the IRRBB Management framework by assessing the efficiency of the IRRBB policy and framework.

**c) The Bank's IRRBB Measures**

The Bank has the capability to calculate an IRRBB gap statement for any given day, while the reports are generated on a monthly basis during normal course of business. The measures computed along with their description are mentioned below:

- **Interest Rate Gap:** Interest rate gap measure captures the term structure of all rate-sensitive assets, liabilities and off-balance sheet items. Instruments are slotted into predefined re-pricing buckets based on their re-pricing cash flows taking into consideration behavioural analysis and prepayment modelling.
- **Earnings Approach (Earnings at risk):** The “Earnings Approach” is defined by the impact of changes in interest rates on the Bank’s earnings. This is measured by the changes in the Net Interest Income assuming a constant balance sheet, where maturing or re-pricing cash flows are replaced by new cash flows with identical features with regard to the amount, re-pricing period and spread components.
- **Economic Value Approach (EVE):** EVE sensitivity is computed with the assumption of a run-off balance sheet, where existing Banking book positions are amortized and are not replaced by any new business. EVE measures the change in the net present value of the assets and liabilities. The measure therefore depicts the change in economic equity value resulting from an interest rate shock.
- **Repricing Duration Gap:** The Repricing duration gap is calculated using the re-pricing cash flows of the Bank including rate sensitive assets, liabilities and off-balance sheet items. The duration measure gives an indication as to how quick the net Banking book position reprices. The lower the number the faster the repricing and higher the sensitivity. It also enables to identify the specific assets or liability product that is contributing to the interest rate sensitivity of the Bank.
- **Credit Spread Risk in the Banking Book (CSRBB)** : (CSRBB) is presently not material for the Bank as it does not hold significant positions in quoted securities in its banking book.

**d) Interest Rate Shock and Stress Scenarios**

The Bank has applied the six interest rate shock scenarios (namely Parallel up, Parallel down, Short rate up, Short rate down, Flattener and Steeper) prescribed in the regulatory IRRBB guidelines and measured the outcomes on the income and economic value based measures.

While all these scenarios are applied for ΔEVE (ΔEVE signifies change in EVE) computations, only the first two scenarios are utilized to compute the ΔNII using Income approach.

**e) Modelling Assumptions**

The modelling assumptions used for the Bank's IRRBB as disclosed in this report have been adopted for internal capital adequacy assessment purposes from 1st January 2018.

**f) IRRBB Hedging**

The Bank at an overall balance sheet level does not fully hedge interest rate risk but targets to maintain its IRRBB position at a desired level, within risk appetite, through strategic planning of the balance sheet composition including a suitable tenor and repricing mix of fixed and floating rate products.

The bank is permitted, and from time to time does, carry out Cash Flow and Fair Value hedges to hedge interest rate risk on particular assets and liabilities in order to maintain risk and return parameters within appetite and plan. In determining whether to and in the execution of a hedge the Bank follows its internal hedging policy and relevant accounting standards are fully observed.

**g) Key Modelling Assumptions**

Balance sheet items where the contractual characteristics accurately reflect the interest rate risk are slotted into time buckets as per their repricing tenors or maturity tenors, for other assets and liabilities, behavioural analysis is conducted.

The Bank has carried out behavioural analysis based on historical data for those balance sheet items which are either non-contractual or expected behaviour does not reflect contractual maturity or repricing parameters. These include: fixed rate retail loans with prepayment conditionality, retail term deposits with early redemption options and deposits with no fixed maturity.

The Net Interest Income (NII) sensitivity has been estimated assuming a flat balance sheet profile over a horizon of twelve months and applying a parallel 200bps up and down scenario to relevant rates on each interest rate sensitive instrument repricing within the horizon.

For Economic Value of Equity (EVE) sensitivity the Bank's interest rate sensitive banking book instruments were revalued by applying the six interest rate shock scenarios to the Bank's existing transfer pricing curve to arrive at the change in EVE under each scenario.

A simple additive method is used for aggregation across currencies.

## Quantitative Disclosure : Economic Value of Equity (ΔEVE) and Risk on Net Interest

| | | ΔEVE | | ΔNII | |
|---|---|---|---|---|---|
| | | SAR '000 | % of Tier 1 Capital | SAR '000 | % of Tier 1 Capital |
| 1 | Parallel up by 200 bps | -165,065 | -1.21% | 222,773 | 1.64% |
| 2 | Parallel down by 200 bps | 141,948 | 1.04% | -216,407 | -1.59% |
| 3 | Steepener or short rate down by 300 bps | -295,919 | -2.18% | | |
| 4 | Flattener or short rate up by 300 bps | 272,948 | 2.01% | | |
| 5 | Short rate up | -236,974 | -1.74% | | |
| 6 | Short rate down | 211,780 | 1.56% | | |
| 7 | Maaximum | -295,919 | -2.18% | - 216,407 | -1.59% |
| 8 | Tier 1 Capital | 13,599,696 | | 13,599,696 | |

## B.43

## Remuneration Policy

**(a) Information relating to the bodies that oversee remuneration:**

The Board of Directors are responsible for ensuring the effective implementation of the compensation policy. The Board is advised by the Nomination and Remuneration Committee, which comprises of six Non-Executive Directors out of which two are independent. The committee receive reports and recommendation from Executive Management supported by Human Resources. The Committee reviews and approved all compensation decisions relating to all employees.

The NRC Terms of References as follows:

- The Committee comprises of three to six non-executive Board members, two of whom must be independent members as per the Saudi Arabian Monetary Agency’s (SAMA) definition of independence.
- Members must have rich expertise in the human resources domain, preferably gained in the local or international banking sector.
- At least one member must have the necessary knowledge and expertise on the procedures and policies in other financial institutions in the Kingdom of Saudi Arabia with regards to nomination and remuneration.
- The Chairman of the Committee shall attend General Assembly Meetings to answer any questions raised by shareholders.
- The Board has the right to amend the above rules as deemed necessary and The Committee shall appoint a secretary from amongst its members or others to document the meeting discussions and resolutions in minutes to be signed by all attending members and ratified by the Board of Directors.
- By the invitation of its Chairman, the Committee shall meet at a minimum twice per annum or more frequently as circumstances dictate.
- Meetings’ agenda and supporting documentation are prepared and circulated with sufficient background information within a reasonable period in advance of any Committee meetings.
- The Committee's meeting is valid with the attendance of - at least - three members in person. An absent member could delegate another member to attend the Committee's meetings and vote on his/her behalf.
- The Committee's resolutions are issued with simple majority of members’ votes, and shall be submitted to the Board for final approval and recommend nominees for the positions of directors in accordance to the Board membership policy and the relevant regulations in this regard.

- Develop and maintain a record of Board members' skills and qualifications in order to identify additional skills required for Board members to adequately conduct their functions and responsibilities.
- Develop a clear policy for the remunerations of the Board and Board Committees. The Committee shall also recommend amendments to the policy to the Board, for onward submission to, and approval by, the Shareholders General Assembly meeting. The Committee shall ensure the effective implementation of such policy, and ensure that it is disclosed to the public. The said policy shall be reviewed and evaluated periodically.
- Review the remunerations paid against the adopted Board and Board Committees Remuneration Policy, and address and escalate to the Board any material deviation from the policy.
- Review on an annual basis the requirement for members to have suitable skills for membership of the Board of Directors, as well as the requirement of having the time needed to handle their duties.
- Review the Board Membership Policy, and recommend amendments to the Board in line with the skills and qualifications required for the Board, for onward submission to, and approval by, the shareholders General Assembly meeting.
- Review the structure, size and composition of the Board of Directors on a regular basis and recommend changes to the Board of Directors if and when deemed necessary.
- Assess on an annual basis the effectiveness of the Board of Directors and the Board Committees, review the performance and contribution of each of their members, and recommend measures for further improvement.
- Ensure the independence of independent members and manage potential conflicts of interest pertaining to Board members.
- Ensure the presence of clear performance based policies regarding the indemnities and remuneration of the Board members and the Board Committees' members.
- Ensure the presence of job descriptions for the Executive, Non-Executive and Independent Directors.
- Identify areas of strengths and weaknesses in the Board and recommend remedial actions in alignment with the bank's interests
- Develop a Board Succession Plan, review the plan periodically and ensure that necessary arrangements are in place in the event of a Board vacancy.
- Develop an Executive Management Appointment Policy, review periodically and update when deemed necessary.

- Develop a clear policy for the remunerations of the Executive Management. Such Policy shall follow standards that are linked to performance. The Committee shall also recommend amendments to the policy to the Board, for onward submission to, and approval by, the Shareholders General Assembly meeting. The Committee shall ensure the effective implementation of such policy, and ensure that it is disclosed to the public. The policy must be reviewed and evaluated periodically.
- Review the remunerations paid against the adopted Executive Management remuneration policy, and address and escalate to the Board any material deviation from the policy.
- Develop standards for the performance of the Executive Management consistent with the bank's objectives and strategy.
- Interview candidates for executive management positions, examine their qualifications and submit recommendations for their appointment to the Board of Directors for final approval.
- Conduct an annual assessment of the Managing Director's performance.
- Ensure the presence of clear performance based policies regarding the indemnities and remuneration of executive management.
- Ensure the presence of job descriptions for the Executive Management.
- Ensure the Bank has an incentive system, including a proper mechanism to determine bonuses and set remunerations, which is consistent with SAMA and other regulations, and prevailing domestic practices.
- Review and appraise the Bank's incentive system on a regular basis, ensure that it does not encourage participation in high risk transactions for the purpose of achieving short term profits and that it complies with the Bank's risk policy as approved and communicated to the Committee by the Board Risk Committee.
- Develop, in coordination with the Human Resources Department, a policy for succession planning to be approved by the Board and implemented by the Executive Management.
- Review the Bank's succession planning to ensure that necessary arrangements are in place and that recruitment and training offer adequate candidates for promotion to senior positions.
- Review the Bank's organizational structure and recommend changes when deemed necessary.
- Ensure the presences of clear job descriptions for members of the executive management.
- Review the remuneration, recruitment and termination policies periodically to evaluate its effectiveness in attaining its set goals.

The Board of Directors through the NRC shall ensure that an annual compensation review is conducted independently of management and submitted to NRC for review and tracking. This review takes place by an external independent consultants, previously through through HayGroup, where this review assess the Bank's compliance with the SAMA Rules on Compensation Practices and the FSB Principles and Standards. The Board of Directors, NRC and Management takes into account the findings of such a review in deciding compensation related matters and may also, if deemed appropriate, disclose a summary of the same publicly in the Bank's Annual Report.

**The scope of Alawwal Bank's remuneration policy covers the following:**

All employees: Permanent Employees; wholly owned subsidiaries (Alawwal Invest & Alawwal Insurance) and Outsourced Employees.

All compensation elements: Basic Salary; allowances; employee benefit programmes; bonus and incentive schemes.

Key determinants of compensation: Salary Structures; Internal Equity; Meritocracy & individual performance, business performance; risk alignment; compensation & market conditions; and regulatory requirements.

Reporting processes: Annual reporting disclosures; management information reporting: and regulatory reporting, CMA Private Placement notification.

**Senior Management Team**: This comprises senior management having responsibility and authority for formulating strategies and directing and controlling the activities of the Group. This covers the Managing Director (MD) and certain other employees directly reporting to the MD.

**Material Risk Takers**: This comprises employees within the bank who are responsible for executing and implementing the business strategy on behalf of the bank. Based on their level of compensation these roles are categorized as material risk takers and leading to 3 years variable pay deferrals in line with SAMA's regulations on compensation practices and the Financial Stability Board (FSB) guidelines.

**(b) Information relating to the design and structure of remuneration processes:**

Alawwal Bank aims to create a performance-focused workplace and to retain its best talent. This means employees need to be rewarded appropriately for their differing contributions and in line with market practice. We follow the concept of 'Total Reward' to help our employees to fully understand the value of their package.

Our *Total Remuneration Policy* helps to create a performance-driven culture by ensuring:

- Employees understand the components of their reward package.
- Employees are incentivized to exceed performance targets.
- We retain the best talent.

Our policy has been designed around the following guiding principles:

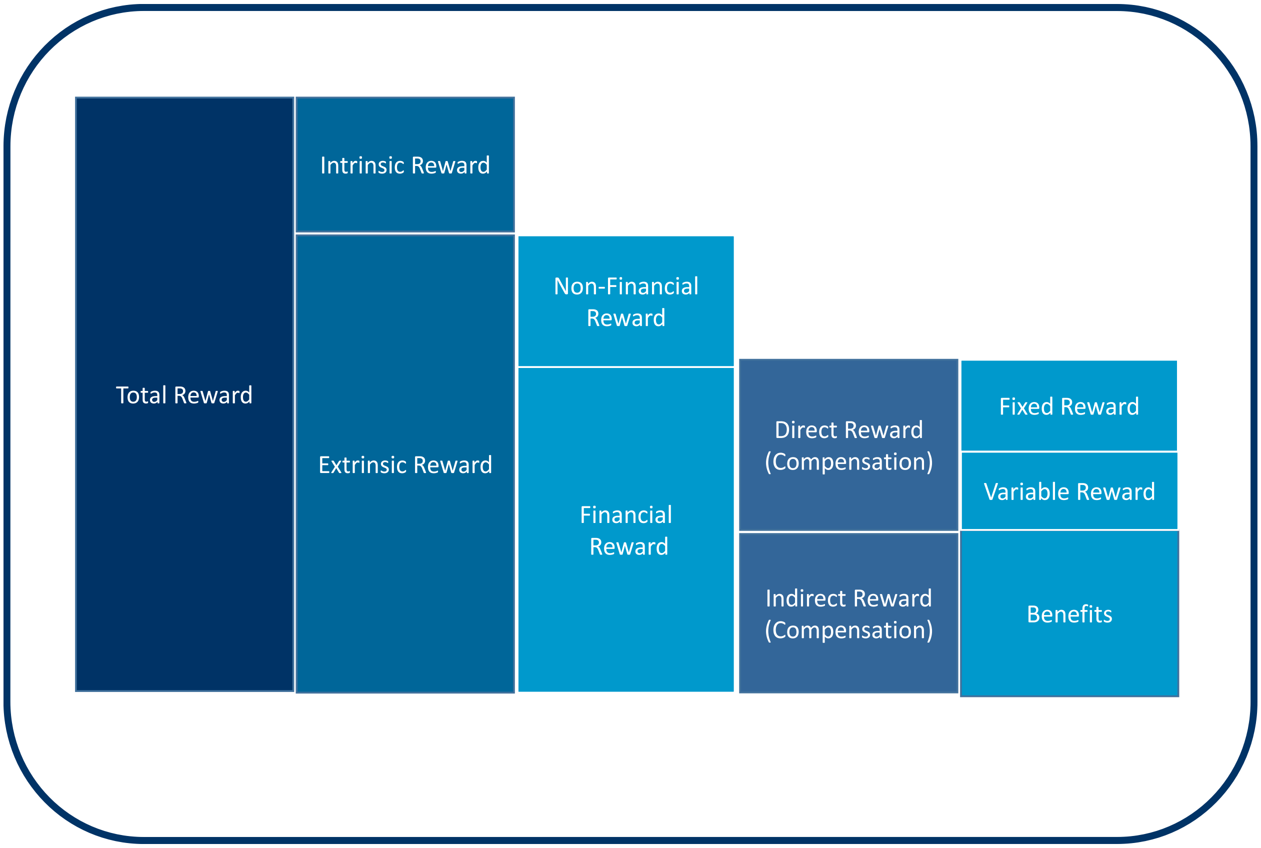
- Fairness and equity.
- Consistent application across Alawwal Bank.
- Reward for performance outcomes and unique skills.
- Attract and retain competent and high performing employees.
- Differentiated reward based on job size and complexity to promote aspirational career progression.

The purpose of this policy is to establish and apply compensation policies and processes which support delivery of our business strategy, reinforce our desired organizational culture and reflect prudent risk management, whilst complying with Saudi Monetary Authority (SAMA) regulations.

## Objectives of the Reward Policy:

### Total Reward Components

at Alawwal Bank we firmly believe in the importance and effectiveness of financial & non-financial The components of our Total Reward approach are shown below.



**(C) Description of the ways in which current and future risks are taken into account in the remuneration processes, Including an overview of the key risks, their measurement and how these measures affect remuneration;**

The Group's compensation policy is aimed at rewarding both risk-adjusted performance and appropriate behavior in line with the Group's core values. To this end, Performance measurements are risk adjusted and reviewed by the independent Risk Management function, In addition, the compensation policy is reviewed by Risk Management to ensure rewards are adjusted for the level risk incurred.

Heads of business units and control functions being monitored and/or controlled by Internal Audit, Compliance, Risk Management and Credit Risk will not have any input to compensation decisions of employees in the control functions, Compensation recommendations are determined based on a clear understanding of the intended total reward package and decisions are taken considering the balance between external competitiveness and affordability together with focusing attention on building motivational and performance related compensation arrangements.

All employees classified as material risk takers will be subject to bonus deferral conditions, as detailed herein:

- The financial reward paid to an employee based on results and outcomes, such as bonus and incentives. A significant component of the total compensation the Bank offers to its employees, particularly for senior executives and risk takers, though also for other classes of employees, is, and is anticipated to continue to be, in the form of variable compensation.
- All employees engaged in material risk category will be subject to bonus deferral scheme. The scheme is structured as 60% of the total bonus is in cash with the other 40% to be deferred in the form of Alawwal Bank Shares.  The deferred shares will have a vesting schedule of three years, vesting 1/3rd on each year.
- It is always understood that the Bonus Award Scheme may not be construed as imposing on ALAWWAL BANK a binding obligation, contractual or otherwise to offer participation in the scheme to an eligible staff. Equally, the granting of shares as deferred element of compensation to any member of staff does not constitute an obligation to continue the employment of said member of staff. A bonus award will not be taken into consideration when calculating the eligible staff's terminal indemnity.

- Shares awarded to eligible staff will vest on condition that.
  - The eligible staff continues to be employed beyond the vesting date of shares;
  - Eligible staff performance rating throughout the period following award and until vesting date remains within satisfactory rating (currently at 3 and above rating)or any other equivalent rating as may be amended in the future;
  - In case any of the above two conditions are not met the awarded shares shall not vest and the eligible staff shall forfeit his right to vest his shares unless the specific conditions given below are met.
  - In case of death of eligible staff, shares will immediately vest and will be received by the legal heirs;
  - In case of staff leaving the Bank due to him/her reaching the official retirement age, i.e., 60 years, shares will vest. If staff continues employment with the Bank beyond the official retirement age, he/she shall have no right to claim for early vesting.
  - In case of staff having to leave the bank due to a permanent disability, shares will vest.
  - If staff leaves the bank upon expiry of a fixed-term contract, staff has met vesting conditions as described in Section 2.2. up until the contract expiry date, and staff is declared a "good leaver" by the HRC, then staff will retain his/her right to the deferred shares. These shares will vest according to the original vesting schedule.
  - If the contract of staff is terminated by the bank for redundancy reasons which are limited to change of control of the Bank or due to Saudization, and staff has met vesting conditions until the date the contract was terminated, then staff will retain his/her right to the deferred shares. These shares will vest according to the original vesting schedule.
  - In case the Bank terminates employment of the eligible staff for reasons as indicated in Article 80 of the Saudi Labor Law or for breach of ALAWWAL BANK's Code of Conduct, then the eligible staff shall forfeit his right to any deferred shares.
  - Granting of "Good Leaver" status is at the full discretion of the HRC. The HRC will typically grant "good leaver" status if staff has met all conditions until the date of leaving the Bank, and staff is not leaving the Bank to join a direct competitor of the Bank.
  - Staff who are granted "good leaver" status will retain their rights to the awarded shares. These shares will vest according to the original vesting schedule. Upon leaving the Bank, staff will be provided with formal notification confirmation of "good leaver" status, the number of shares awarded and the original vesting schedule.
  - The Bank's Board Risk Committee (BRC) provides guidance and strategic direction to management with respect to the Risk Governance Framework.

**(d) Description of ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration:**

Alawwal Bank aims to create a performance-focused and client-centric workplace. This means employees need to be clear on what they are expected to achieve in their roles so they can perform to their best and have opportunities for ongoing personal growth. Our Performance Management Policy sets out our approach to managing for high performance.

Our Performance Management Policy helps to create a performance-driven culture by ensuring employees:

- Are clear on the performance standards and outcomes they are expected to achieve.
- Take responsibility for their own performance.
- Receive feedback and support from their line manager to achieve their performance goals.
- Have an Individual Development Plan (IDP) to acquire key skills and competencies.

We take a holistic view of performance. For this reason, our assessment of employees performance takes into account two (2) criteria Key Performance Indicators (KPIs) and Competencies.

**Performance Reviews:**

Effective performance reviews recognize and reinforce good performance and provide the opportunity to manage under-performance.

They contribute to the following:

- Performance measurement against transparent goals.
- Clarifying, defining, redefining priorities and objectives.
- Employee motivation through feedback and positive reinforcement.
- Reinforcement and cascade of organizational strategy values, aims etc.
- Spotting opportunities for employee development.
- Dealing effectively with under-performance.
- Annual Bonus & Salary Increments

Our ratings and definitions are shown in the below Table 3: Performance Rating Scale and Definitions.

Performance Rating Scale and Definitions

| Rating | Definition |
|---|---|
| Score - 5 | Top performer compared to the rest of the team/level |
| Score - 4 | Score 3+ achieve result beyond what was reflected on the Job description / KPI |
| Score - 3 | Good performance based on job description / KPI |
| Score - 2 | Performance under expected |
| Score - 1 | Not up to the Bank's standards |

**(e) Description of ways in which the bank seeks adjust remuneration to take account of longer-term performances.**

Explained under section (c)

**(f) Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms:**

Alawwal Bank classified variable remuneration in two forms (cash and Alawwal Bank shares). Based on the applicablity, employees with variable pay is subject to deferral over 3 years in the form of Alawwal Bank shares, Alawwal Bank purchases shares for staff share plan and maintain the same within an overall bank portfolio managed by Alawwal Invest. Based on the deferred amount and share price, a number of shares is allocated to each individual and vested over 3 years period of the coming performance years. allocated shares are transferred from the bank portfolio to the employee portfolio where employee has the right to sell or maintain as preferred.

Alawwal Bank is also also having 6 Incentive schemes as list below.

1) Taffawuq 1 – Retail Branch Network
2) Taffawuq 2 – Retail Direct Sales:
3) Call Center
4) Retail Recovery & Collections:
5) Corporate Recovery & Collections:
6) SME

## REM1: Remuneration awarded during the financial year (Figures in SAR 000's)

| | | | a | b |
|---|---|---|---|---|
| | **Remuneration Amount** | | **Senior management** | **Other material risk-takers** |
| 1 | Fixed Remuneration | Number of employees | 15 | 74 |
| 2 | | Total fixed remuneration (3+5+7) | 23,969 | 58,037 |
| 3 | | Of which : Cash-based | | |
| 4 | | Of which : deferred | | |
| 5 | | Of which : shares or other share-linked instruments | | |
| 6 | | Of which : deferred | | |
| 7 | | Of which: other forms | | |
| 8 | | Of which: deferred | | |
| 9 | Variable Remuneration | Number of employees | 14 | 74 |
| 10 | | Total variable remuneration (11+13+15) | 10,412 | 19,512 |
| 11 | | Of which : Cash-based | 6,838 | 11,707 |
| 12 | | Of which : deferred | | |
| 13 | | Of which : shares or other share-linked instruments | 3,574 | 7,805 |
| 14 | | Of which : deferred | 3,574 | 7,805 |
| 15 | | Of which: other forms | | |
| 16 | | Of which: deferred | | |
| 17 | **Total Remuneration (2+10)** | | **34,381** | **77,549** |

No deferred remuneration

## REM2: Special payments (Figures in SAR 000's)

| Special payments | Guaranteed bonuses | | Sign-on awards | | Severance payments | |
|---|---|---|---|---|---|---|
| | Number of employees | Total amount | Number of employees | total amount | Number of employees | Total amount |
| Senior Management | | | | | | |
| Other material risk-takers | | | | | | |

## REM3: Deferred Remuneration (Figures in SAR 000's)

| | a | b | c | d | e |
|---|---|---|---|---|---|
| Deferred and retained remuneration | Total amount of outstanding deferre remuneration *as beg of the year | Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment | Total amount of amendment during the year due to ex post explicit adjustments | Total amount of amendement during the year due to expost implicit adjustments | Total amount of deferred remuneration paid out in the financial year. |
| Senior Management | **12,811** | **12,811** | | | 4,346 |
| Cash | | | | | |
| Shares | 12,811 | 12,811 | | | 4,346 |
| Cash-linked instruments | | | | | |
| Other | | | | | |
| Other material risk-takers | **28,193** | **28,193** | | | 9,056 |
| Cash | | | | | |
| Shares | 28,193 | 28,193 | | | 9,056 |
| Cash-linked instruments | | | | | |
| Other | | | | | |
| **Total** | **41,004** | **41,004** | | | **13,402** |

* included all outstanding deferrals from previous years