الوطني لإدارة الثروات
NBK Wealth Management

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NBK

# PILLAR III REPORT

## For 2021

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# 1. OVERVIEW

## 1.1 Background

The purpose of the Pillar III report is to complement the minimum capital requirements (Pillar I) and the supervisory review process (Pillar II). The Capital Market Authority ("CMA"), as per article sixty eight (68) of the Prudential Rules (the "Rules"), supports the enhanced market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of capital, risk exposure, risk assessment process and hence the capital adequacy of the institution.

The Pillar III disclosures are an effective means of informing the market about the risks faced by a company, and provide a consistent disclosure framework that enhances transparency and comparability.

## 1.2 Basis of Disclosures

Watani Wealth Management (the "Company")'s Pillar III disclosures are set out in this report as required by CMA's Rules. All figures are based on the audited annual report for the period ended 31 December 2021 prepared by the Company's external auditors.

## 1.3 Verification & Approval

The report prepared by the Risk Department is presented to the Risk and Compliance Committee for review and then presented to the Board of Directors for approval.

## 1.4 Frequency of Disclosures

The report is prepared annually and should be read in conjunction with Company's annual report.

## 1.5 Location of Disclosure

The Company will publish the Pillar III Report on its website (www.nbkwm.com.sa) by the end of Q1 2022.

## 2. Company Structure

The Company is a single shareholder closed joint stock company incorporated under the laws of Kingdom of Saudi Arabia, commercial registration number 1010481235 (unified number 7005420547) dated 4 Rabi Thani 1440H (corresponding to 11 December 2018G) issued in Riyadh, regulated by the CMA under license number 17185-37 dated 19/12/1438H (corresponding to 10 September 2017G) with a paid up capital amounted to SAR 90,000,000 and fully owned by National Bank of Kuwait.

The Company operates in the Kingdom of Saudi Arabia through its head office located in Riyadh, and the following branches:

| City | Commercial Registration Number |
|---|---|
| Jeddah | 4030605432 |
| Al Khobar | 2051229687 |

The Company is a full-fledged financial institution (including Dealing, Managing Investments & Operating Funds, Arranging, Advising, and Custody in securities business), licensed by the CMA to provide investment advisory, wealth management, asset management, brokerage and custody services to its clients in line with Capital Market Law and its implementing regulations and best international practices. The Company had received its first commencement letter from CMA on 20 September 2018G.

# 3. Supervisory Structure

The Company is governed by a Board of Directors whose main role is to set strategic plans and objectives, define roles and responsibilities, set adequate internal controls and monitoring, set policies and procedures to ensure compliance with regulatory requirements in place, with the ultimate goal of increasing the long term value of the Company.

The Company Governance framework encompasses a number of policies, charters, and terms of reference that shape the Company’s Governance framework over a wide range of issues including risk supervision, compliance, audit, remuneration, evaluation, succession planning, ethics and conduct, budgeting, and capital management. Clear lines of responsibility and accountability are in place including effective channels of communication of the Company’s Board of Directors and core strategy. Strategic objectives setting corporate values and promoting high standards of conduct have been established and widely communicated throughout the Company, providing appropriate incentives to ensure professional behavior.

The Company has five (5) committees:

- The “Audit”, the “Nomination & Remuneration” and the “Risk & Compliance” Committees that report to the Board;
- The “Management” and the “IT steering” Committees appointed by the Board that are chaired by the CEO.

## 3.1 Risk Appetite

Risk appetite is the risk capacity of the Company and details the maximum exposure that the Board approves the Company to take in achievement of its strategy.

Risk appetite details the amount and types of risk that the Company is willing to accept in its business to attain its objectives and strategic goals. The Company’s shareholders equity forms the basis of the risk appetite and limits.

This risk framework is approved by the Board of Directors and defines the appetite of the Company. This framework monitors the Treasury and Capital Markets as well as other risk indicators most notably the FX, interest rate, operational and liquidity risk.

## 3.2 Internal Control Oversight

The Board of Directors has overall responsibility for the Company’s internal controls and for reviewing their effectiveness. The internal control is designed to address the risks that might impact the Company’s business including all systems and departments. The internal controls are designed to mitigate, rather than eliminate, material misstatements and losses.

# 4. Capital Adequacy Analysis & Capital Structure

Capital adequacy refers to whether the Company has sufficient capital to meet certain risks that are usually associated with economy downturn and have conservable effect on financial assets. These risks comprise of credit, market, liquidity and operations. The Company is subject to these risks and accordingly has to monitor the capital adequacy on regular basis to ensure that the mentioned risks are adequately covered by sufficient capital base.

Pillar I refers to minimum capital requirements to meet credit, market and operations risks in accordance with the CMA's Rules. Pillar II refers to internal capital adequacy assessment process as explained in the Rules. Pillar III provides a detailed and transparent reporting structure that enhances market discipline which leads to improve corporate governance.

The Company continuously assesses the adequacy of its capital to support current and future activities through the following measure:

- The process and strategy for assessing its overall capital adequacy and risk profile.
- Maintenance of minimum capital levels and the ability to hold capital in excess of that minimum.
- Review of Internal Capital Adequacy Assessment Process (ICAAP).
- Monitoring and ensuring compliance to CMA regulations with appropriate actions being taken when required.
- The ability to intervene at an early stage to prevent capital from falling below the minimum levels.

With respect to capital adequacy management, the Company implements the following policies and procedures in order to manage capital and their adequacy:

- Calculate the capital adequacy ratio on monthly basis in accordance with applicable regulations and guidelines;
- Capital should be of high quality and loss absorbing. Quality of capital is determined through the application of the common and best practice criteria for common equity, and additional tier 1 and tier 2 capital, with emphasis on retained earnings as the highest quality of capital;
- Capital should adequately protect against unexpected losses. Quantity of capital should rest above regulatory minimums and sufficiently reflect Company's risk appetite and risk profile capturing all material risks and taking into account forward-looking factors such as the strategic plans;
- Report the capital adequacy ratio along with detailed computations to CMA;
- Maintain minimum capital adequacy and monitor this minimum level on regular basis;
- Identify the impact of investment decisions over risks, liquidity and capital adequacy;
- Manage assets, liabilities and monitor future cash flows;
- Set a level of leverage ratio for the Company;
- Monitor large exposures and asset concentration on regular basis; and
- Follow up newly released rules and regulations that affect the capital adequacy calculation.

The calculation and reporting of capital adequacy is based on the following procedures:

1. Calculation of capital base based on tier one and tier two of capital.
2. Developing and calculating risks related to market, credit and operations. Other risks may be considered based on the circumstances.
3. Calculation of minimum capital required to meet the calculated risks.
4. Calculating of capital adequacy ratio and resulting surplus.
5. Drawing results and making recommendations to mitigate impact of risks.
6. The above process should be based upon predefined and set policies, procedures with regular review and monitoring.

Based on above, the Company appropriately manages and controls capital and their adequacy.

## 4.1 Core Capital Positions

The Company's regulatory capital is comprised of the following:

- **Tier 1 Capital** which is considered as the core measure of the Company's financial strength and includes share capital, reserves, and retained earnings;
- **Tier 2 Capital** which consists of qualified subordinated instruments, certain loan loss provisions and revaluation reserves.

## 4.2 Capital Structure

The Company is fully owned by National Bank of Kuwait (listed in Kuwaiti stock exchange). The Company paid up capital is SR 90 million which comprises of 9 million shares at par value of SR 10 per share.

Capital base related to tier one comprises of paid up capital, reserves, retained earnings (or accumulated deficit) after deducting intangible assets, zakat and other applicable deductions from tier one capital.

Capital base related to tier two comprises of revaluation surplus related to fair value investments routed through other comprehensive income. Non-controlling equity and short term loans (where applicable) are not included in capital base. Refer the schedule shown below for the calculation of capital adequacy ratio and surplus. Also the composition of shareholders' equity is available in the annual financial statements.

The Company investment portfolio as of 31st December 2021 comprises of fair value investments routed through profit and loss in the amount of approximately SR 19.6 million. Other assets include bank balances, accounts receivable and prepayments, property and equipment, intangible assets and right-of-use assets all totaling SR 57 million. Total assets as of December 31, 2021 is SR 76.6 million.

During the year 2021, the Company was able to manage investments as to their different risks and liquidity in a proper manner and there were no instances that the Company faced issues that result in major risks and losses in relation to large exposure to market, credit, operations or any other risks.

In the following table, we illustrate the capital adequacy calculation for the year 2021 based on the information and explanations shown above:

### Disclosure on Capital Base

| Capital Base | 2021 SAR'000 | 2020 SAR'000 |
|---|---|---|
| **Tier-1 Capital** | | |
| Paid-up capital | 90,000 | 90,000 |
| Share premium | - | - |
| Reserves | 297 | 147 |
| Audited retained earnings | (34,741) | (35,682) |
| Tier-1 Capital contribution | - | - |
| Deductions from Tier-1 Capital | (1,343) | (1,273) |
| **Total Tier-1 capital** | **54,213** | **53,191** |
| | | |
| **Tier-2 Capital** | | |
| Subordinated loans | - | - |
| Cumulative preference shares | - | - |
| Revaluation reserves | - | - |
| Other deductions from Tier-2 (-) | - | - |
| Deduction to meet Tier-2 capital limit (-) | - | - |
| **Total Tier-2 capital** | **-** | **-** |
| | | |
| **CAPITAL BASE** | **54,213** | **53,191** |

### Disclosure on Capital Adequacy Ratio

| Description | 2021 SAR '000 | 2020 SAR '000 |
|---|---|---|
| **Capital Base** | - | - |
| Total Tier-1 capital | 54,213 | 53,191 |
| Total Tier-2 capital | 0 | 0 |
| **Total Capital Base** | **54,213** | **53,191** |
| **Minimum Capital Requirements** | - | - |
| Credit Risk | 23,477 | 12,417 |
| Operational Risk | 11,870 | 7,504 |
| Market Risk | 1,062 | 865 |
| **Total Minimum Capital Requirements** | **36,410** | **20,786** |
| Total Capital Ratio (time) | 1.49 | 2.56 |
| Surplus / (Deficit) in the capital | 17,803 | 32,405 |

The Company has a Capital Adequacy ratio of 1.49x at year end 2021, which is above CMA's minimum regulatory requirement of 1.00x.

# 5. ICAAP

## 5.1 ICAAP Framework

The Company prepares an annual internal assessment of its capital adequacy (ICAAP) as per CMA requirements. The first assessment was performed in 2018 and submitted since then annually to the CMA.

The annual ICAAP exercise is to assess if the Company is adequately capitalized in relation to its risk exposure, and it includes most notably:

- Summary of current situation as well as the financial and capital forecasts for the next three years. These are financial projections in line with the Company's strategic objectives.
- A series of stress tests and scenario analysis that are frequently updated to take into account market conditions variations. These are financial scenarios to assess whether the Company is adequately capitalized to face a range of unlikely but plausible adverse circumstances. The Company stresses the relevant parameters at three different levels of assumptions: Mild / Medium / Severe.

The ICAAP is a vital part of the Company's decision making process and risk management framework.

## 5.2 Oversight Responsibilities

The Board of Directors performs the final review and approval of the ICAAP, including assessing and approving the capital adequacy. The Board provides its input and approval after the review by the Management, Group Risk Department and the Risk & Compliance Committee.

# 6. RISK MANAGEMENT

## 6.1 Department Overview

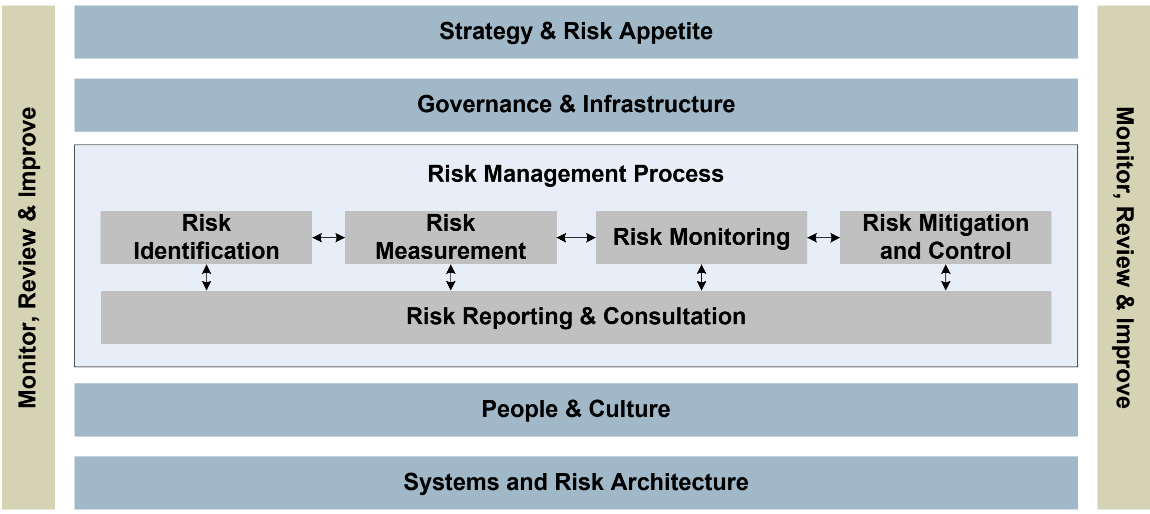
Risk Management function is to develop and maintain programs that protect assets from unanticipated loss by providing systematic risk analysis, developing techniques to reduce potential exposure to loss, and procuring and administering insurance and self-insurance programs in accordance with the Company's risk management policies and procedures in place.

Risk Management function is independent from Business lines and has the responsibility of ensuring that risks across the Company are properly identified, measured, monitored, mitigated and reported to various stakeholders including the heads of business lines, Management, Risk & Compliance Committee and the Board of Directors.

The Company has a risk framework whose purpose is to assist in managing risk effectively through the application and the embedment of the Risk Management Process (i.e. Risk identification, Risk Measurement, Risk Monitoring, Risk Mitigation & Control and Risk Reporting & Consultation) at all levels of the Company, including strategy, governance, people, culture, systems and risk architecture.

## 6.2 Risk Management Framework

The following depicts the key components of the Company's Risk Management Framework:




| Risk Management Process | Criteria for appropriate implementation |
|---|---|
| **Risk Identification** | ➢ Risk identification represents the first step into risk assessment.<br>➢ The process involves the identification of risk sources, events, causes and their potential consequences.<br>➢ Risk identification encompasses internal and external factors and events that could affect the intended strategy and the risk profile. |
| **Risk Measurement** | ➢ Risk Measurement includes assessing the magnitude of risk by producing metrics and other quantitative / qualitative measures. Magnitude is expressed in terms of the combination of consequences and their likelihood.<br>➢ Models that support risk measurements are used in combination with expert judgments.<br>➢ Stress testing is performed to identify areas of major concerns and to measure their severities and impacts. |

| | |
|---|---|
| **Risk Monitoring** | ➢ Risk monitoring encompasses continual checking, supervising and critically observing in order to ensure adherence with limits and policies, and ensuring that the risk profile stays within the risk appetite approved by the Board of Directors.<br>➢ Monitoring role is assigned to people with appropriate authorities and capabilities.<br>➢ Processes to escalate risk issues are well communicated throughout the Company. |
| **Risk Control & Mitigation** | ➢ Mitigating actions are designed and recommended actions / opinions are proposed to transfer, control and balance risk & rewards.<br>➢ Risk mitigation includes avoiding the risk, removing the risk source, changing the likelihood, changing the consequences, sharing the risk with another party.<br>➢ Risk provides an objective check on risk-taking activities. |
| **Risk Reporting & Consultation** | ➢ The identified, measured, monitored, mitigated risks are reported to the appropriate authority including Management and Board of Directors when needed for timely action and follow-up.<br>➢ A two-way process of communication is established between the Risk function and the different stakeholders to provide, share, obtain information and engage in a dialogue regarding risk issues. The Risk function provides an input to the decision making process and is not by its own a decision maker on any transaction involving risk taking.<br>➢ Standard definitions and requirements of reporting are set to enable a central risk aggregation. |

## 6.3 Risk Reporting

The Company is exposed to a diversified set of risks in common with its peers. Some of the risks are an inherent part of the business model and the day-to-day activities of the Company. Its risk management capabilities are focused on managing and addressing these types of risks.

In addition to the constant reporting to the Company's Management, the Risk function provides on regular basis, a Risk Management Report to the Risk & Compliance Committee. This report describes any changes in the regulatory field, the events achieved and projects under-way. It also emphasizes on the proprietary portfolio, in addition to detailing the different types of risks (operational, market, liquidity, etc.).

## 6.4 Credit Risk

The credit risk is defined as the negative consequences associated with the default or deterioration in credit quality of counterparties in lending operations to which the Company is exposed to.

The Company seeks to manage its credit risk with respect to banks by only dealing with reputable banks and with respect to clients by setting credit limits for individual clients, monitoring outstanding receivables and ensuring close follow-ups.

The Company shall use credit rating for evaluating cash deposited / invested with banks and other Capital Market Institutions, investment in syndicated transactions and in debt securities.
The Company uses credit rating for evaluating cash deposited / invested with banks and other Capital Market Institutions and other investments in money markets. The credit quality step, risk weighted assets and credit risk mitigation have been calculated based on CMA guidelines. Please refer to Appendices 3, 4 and 5 for more details.

Credit risks are calculated as follows:

| Description | Dec. 31, 2021 SR ('000') |
|---|---|
| Total risk weighted assets (see details below) | 167,696 |
| Credit risk calculation as 14% of risk weighted assets | 23,477 |
| **Capital requirement** | **23,477** |

Risk weighted assets used for credit risk calculation are summarized as follows:

| Description | Dec. 31, 2021 SR ('000') |
|---|---|
| Administrative bodies and NOP | 5,306 |
| CMIs and banks | 5,944 |
| Corporates | 1,276 |
| Investment funds | 58,833 |
| Other exposures | 61,291 |
| Off balance sheet commitments | 9,967 |
| Prohibited exposures | 25,079 |
| **Total** | **167,696** |

## 6.5 Market Risk

Market Risk is defined as the risk of potential loss arising from unexpected changes in the market values of financial instruments stemming from adverse fluctuations in the volatility of market prices of assets, liabilities, and financial instruments.

Market risks in general comprise of equity, investment funds, bonds, commodities, foreign exchange rate, underwriting, excess exposures and settlement. The only applicable risks to the Company for the year 2021 are investment fund risk and foreign exchange rate which is associated mainly with Company's investments & cash at banks denominated in USD.

Investment fund risk is the risk related to holding particular investments by the fund which are exposed fully or in part to fluctuations in the local or international stock market including equity securities, debt securities, and other products traded therein. Also the investment holdings by the fund may be directly correlated to market risks despite the fund does not hold these assets. The measure of investment fund risk is typically the standard deviation of the fund's net asset value over a number of periods.

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company did not undertake significant transactions in currencies other than Saudi Riyals, Euro, Sterling Pound and US Dollars during the period ended on 31 December 2021. As the Saudi Riyal is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The Company monitors market risks related to equity price and currency risks on regular basis. The market prices of fair value investments through P/L and fair value investments through other comprehensive income are reviewed on daily basis and proper research reports are performed to identify over/under valued securities. Macroeconomic research reports are also performed on regular basis to assess systemic risks and their potential impact on the respective portfolios in the proprietary book investments.

The calculation of this risk is summarized as follows:

| Description | Dec. 31, 2021 SR ('000') |
|---|---|
| Total assets & Off-Balance Sheet Commitments denominated in foreign currency (USD & GBP) | 51,545 |
| **Foreign exchange rate risk** | **1,062** |
| **Capital requirement** | **1,062** |

## 6.6 Operational Risk

The Company defines Operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Company used the expenditure based approach to assess operational risk. This is performed by multiplying the risk charge of (25%) with the current year overhead expenses to obtain the amount of 11.87 million. This amount will be computed to derive the capital adequacy ratio of the company.

The calculation is summarized as follows:

| Description | Dec. 31, 2021 SR ('000') |
|---|---|
| Total overhead expenses | 47,482 |
| Operations risk calculation as 25% of overhead expenses | 11,870 |
| **Capital requirement** | **11,870** |

## 6.7 Liquidity Risk

The Company defines liquidity as the risk that the company may be unable to meet its financial obligations upon maturity. Liquidity risk for the Company primarily arises from the mismatch in the maturity profile of the assets & liabilities.

The primary role of liquidity-risk management is to prospectively assess the need for funds to meet obligations and ensure the availability of cash or collateral to fulfill those needs at the appropriate time by coordinating the various sources of funds available to the Company under normal and stressed conditions.

Losses from credit risk can have a direct impact on liquidity risk as it could trigger a loss of investor confidence which would have a further impact of causing a liquidity contingency scenario as the entity may face difficulty in raising funds at an acceptable price or in preventing unit holders from withdrawing their funds.

The Company will identify and measure its exposure to liquidity risk and its funding needs within and between business lines and currencies.

The Company will calculate the cost of liquidity and take the costs into account in pricing and performance measurement. The cost of liquidity will reflect the Company's current cost of refinancing, for the relevant maturities, and the cost that this entails for the Company to keep a liquidity reserve in accordance with regulatory requirements.

In Addition to maturity profile analysis, the following ratios are monitored to maintain appropriate level of liquidity:

| Liquidity ratios as of 31 December 2021 | | |
|---|---|---|
| Current Ratio (Short term assets/short term Liabilities) | 3.30 | Current and Quick ratios show a level of comfort in meeting Company's short term obligations |
| Quick Ratio | 3.24 | |

## 6.8 Contingency Funding Plan

The Finance department updates on an annual basis the Liquidity and Contingency Funding Plan to address any potential adverse liquidity crisis. The plan, which is ratified by the Board of Directors, assesses the diverse options and action plans.

## 7. Financial Stress Testing

Financial stress testing refers to techniques used by the Company to assess the impact of probable events on the Company's financial position and hence capital adequacy. It is a risk management technique used to evaluate the potential effects of financial variables on investments and operations. Senior management monitors the outcomes of stress testing on regular basis and ensures that the Company has sufficient capital to encounter any negative impact therefrom. In the following paragraphs we discuss the general impact of certain events on the Company's financial position and capital adequacy.

***Fall in Stock Market Index***

The Company may have exposure to local stock market ("TASI") or international stock market and to perform a stress testing on this exposure we assume certain percentage decline in TASI (or in the international stock market or index) and apply the same effect on the Company portfolio to identify the impact on financial position and capital, we believe that the impact of this downturn is currently covered by risk calculation and capital adequacy and management will continue to monitor this particular risk in the future.

***Fall in Asset Under Management NAV***

Assets under management managed by the Company may be attributable to different assets classes such as equities, real estate, money markets, fixed income and other. An assumption of certain percentage decline in one or more of assets classes to which the assets under management NAV is attributable and apply the same effect to assess total impact on assets under management and financial position and capital of the Company. We believe that this risk is fully covered by risk calculation and capital adequacy and management will continue to monitor this particular risk in the future. It is assumed that the fund manager will exercise skills and experience in asset selection and allocation to mitigate effect of the any downturn in overall economy on total value of assets under management.

***Default on Debt Securities***

The Company may have exposure to debt securities investment (Sukuk or bonds) and we may assume a certain default percentage on the total of the investment portfolio and apply the same effect on financial positions and capital, we believe that this credit default is fully covered by risk calculation and capital adequacy. However, it is remote that this risk takes place taken into consideration management's asset allocation policies but we would like to apply more conservative analysis for capital adequacy.

***Increase in LIBOR – Impact on Debt Securities***

If we assume certain devaluation in debt securities value due to expected increase in LIBOR taking into consideration that these securities are classified in the Company's financial statements as amortized cost investment and any devaluation may not have immediate impact on the carrying value of the investment unless the Company is forced to sell part of these securities to exploit available opportunity or for any other reason, therefore and to take into account all foreseeable risks we assume this devaluation may take place, however we believe that this decline is fully covered by risk calculation and capital adequacy.

***Commission Rate on Money Markets Placement***

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. The Company is subject to commission rate risk on its commission bearing assets including investments in money market placements and funds, investments in syndicated money operations and other similar investments. The Company manages its exposure to commission rate risk by continuously monitoring movement in commission rate. As shown in the audited financial statements for the period ended 31 December 2020, the Company had minor amount invested in money markets, we assume that the downturn economy effect on market will expectedly result in an immaterial decrease in profit rate on these investments and we do not expect the principal investment will suffer from any credit risk since the capital of these transactions is guaranteed and that the Company deals with only reputable banks in the region. Additionally, that deposit is very liquid and are classified in the balance sheet under cash and cash equivalents.

***COVID19 Impact on Operations and FS***

The outbreak of the emerging Corona Virus (COVID-19) is still evolving and increasing. It is still not certain what size and extent of these impacts will be determined, depending on future developments that cannot be accurately predicted at the present time. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of issuing the financial statements. However, we did not identified any significant impact on Company's operations and financial results which requires adjustment to, or disclosure, in the 2021 Audited FS.

## 8. Conclusion

Based on the results of the analysis, the capital adequacy ratio is 1.49 based on the audited financial statements for the period ended 31 December 2021, indicates that the Company has proper management of credit, market and operational risks and the level of these risks appears to be acceptable. Also the Company appears to be liquid and have sufficient capital to continue their operations during macroeconomic downturn.

## 9. Review and Approval

| Reviewed by the Risk & Compliance Committee during its meeting dated: |
|---|
| March 07, 2022 |
| **Approved by the Board of Directors during its meeting dated:** |
| March 15, 2022 |

# 10.Appendices

## 10.1 Appendix 1 – Disclosure on Capital Base

| Capital Base | SAR'000 |
|---|---|
| **Tier-1 Capital** | |
| Paid-up capital | 90,000 |
| Share premium | - |
| Reserves | 297 |
| Audited retained earnings | (34,741) |
| Tier-1 Capital contribution | - |
| Deductions from Tier-1 Capital | (1,343) |
| **Total Tier-1 capital** | **54,213** |
| | |
| **Tier-2 Capital** | |
| Subordinated loans | - |
| Cumulative preference shares | - |
| Revaluation reserves | - |
| Other deductions from Tier-2 (-) | - |
| Deduction to meet Tier-2 capital limit (-) | - |
| **Total Tier-2 capital** | **-** |
| | |
| **CAPITAL BASE** | **54,213** |

## 10.2 Appendix 2 - Disclosure on Capital Adequacy

| Exposure Class | Exposure before CRM SAR '000 | Net Exposure after CRM SAR '000 | Risk Weighted Assets SAR '000 | Capital Requirement SAR '000 |
|---|---|---|---|---|
| ***Credit Risk*** | | | | |
| *On-Balance Sheet Exposures* | | | | |
| Governments and Central Banks | - | - | - | - |
| Administrative bodies and NPO | 5,306 | 5,306 | 5,306 | 743 |
| CMIs and Banks | 29,722 | 29,722 | 5,944 | 832 |
| Corporates | 179 | 179 | 1,276 | 179 |
| Retail Investments | - | - | - | - |
| Investment Funds | - | - | - | - |
| Funds Securitization | 19,611 | 19,611 | 58,833 | 8,237 |
| Margin Financing | - | - | - | - |
| Other Assets | 20,430 | 20,430 | 61,291 | 8,581 |
| **Total On-Balance Sheet Exposures** | **75,248** | **75,248** | **132,650** | **18,571** |
| *Off-balance Sheet Exposures* | - | - | - | - |
| OT/Credit Derivatives | - | - | - | - |
| Repurchase agreements | - | - | - | - |
| Securities borrowing/lending | - | - | - | - |
| Commitments | - | - | - | - |
| Other off-balance sheet exposures | 1,396 | 1,396 | 9,967 | 1,395 |
| **Total Off-Balance Sheet Exposures** | **1,396** | **1,396** | **9,967** | **1,395** |
| | | | | |
| **Total On and Off-Balance Sheet Exposures** | **76,644** | **76,644** | **142,617** | **19,966** |
| **Prohibited Exposure Risk Requirement** | | | 25,079 | 3,511 |
| **Total Credit Risk Exposures** | | | **167,696** | **23,477** |
| | | | | |
| ***Market Risk*** | Long Position | Short Position | | |
| Interest Rate Risk | | | | |
| Equity Price Risk | | | | |
| Risks related to investment funds | | | | |
| Securitization/re-securitization positions excess | | | | |
| Excess Exposure Risk | | | | |
| Settlement Risk and Counterparty Risk | | | | |
| Foreign Exchange Rate Risk | 51,545 | | | 1,062 |
| Commodities Risk | | | | |
| **Total Market Risk Exposures** | **51,545** | | | **1,062** |
| | | | | |
| ***Operational Risk*** | | | | **11,870** |
| **47,482** | | | | |
| **Minimum Capital Requirements** | | | | **36,410** |
| | | | | |
| **Surplus / (Deficit) in capital** | | | | **17,803** |
| | | | | |
| **Total Capital Ratio** | | | | **1.49** |

## 10.3 Appendix 3 - Disclosure on Credit Risk’s Weight

**Disclosure on Credit Risk's Risk Weight as at 31/12/2021**

| Risk Weights | Exposure After Netting and Credit Risk Mitigation | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Governments and central banks | Administrative bodies and NPO | CMIs and banks | Margin Financing | Corporates | Retail | Past due items | Investment | Securitization | Other assets | Off-balance sheets commitments | Total Exposure after netting and Credit Risk Mitigation | Total Risk Weighted Assets |
| *0%* | | | | | | | | | | | | - | - |
| *20%* | | | 29,722 | | | | | | | | | **29,722** | **5,944** |
| *50%* | | | | | | | | | | | | - | - |
| *100%* | | 5,306 | | | | | | | | | | **5,306** | **5,306** |
| *150%* | | | | | | | | | | | | - | - |
| *200%* | | | | | | | | | | | | - | - |
| *300%* | | | | | | | | 19,611 | | 20,430 | | **40,041** | **120,123** |
| *400%* | | | | | | | | | | | | - | - |
| *500%* | | | | | | | | | | | | - | - |
| *714% (exclude prohibited exposure)* | | | | | 179 | | | | | | 1,396 | **1,575** | **11,246** |
| *Average Risk Weights* | | | | | | | | | | | | - | - |
| *Deduction from capital base* | | | | | | | | | | | | - | - |

## 10.4 Appendix 4 – Disclosure on Credit Risk's Rated Exposure

**Disclosure on Credit Risk's rated Exposure as at 31/12/2021**

| Exposure Class | Long term Ratings of counterparties | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Credit quality step | 1 | 2 | 3 | 4 | 5 | 6 | Unrated |
| | S&P | AAA TO AA- | A+ TO A- | BBB+ TO BBB- | BB+ TO BB- | B+ TO B- | CCC+ and below | Unrated |
| | Fitch | AAA TO AA- | A+ TO A- | BBB+ TO BBB- | BB+ TO BB- | B+ TO B- | CCC+ and below | Unrated |
| | Moody's | Aaa TO Aa3 | A1 TO A3 | Baa1 TO Baa3 | Ba1 TO Ba3 | B1 TO B3 | Caa1 and below | Unrated |
| | Capital Intelligence | AAA | AA TO A | BBB | BB | B | C and below | Unrated |
| **On and Off-Balance Sheet Exposures** | | | | | | | | |
| Government and central banks | | | | | | | | |
| Administrative bodies and NPO | | | | | | | | |
| CMIs and banks | | | | | | | | |
| Corporates | | | | | | | | |
| Retail | | | | | | | | |
| Investments | | | | | | | | |
| Securitization | | | | | | | | |
| Margin Financing | | | | | | | | |
| Other Assets | | | | | | | | |
| **Total** | | | | | | | | |

| Exposure Class | Short term Ratings of counterparties | | | | | |
|---|---|---|---|---|---|---|
| | Credit quality step | 1 | 2 | 3 | 4 | Unrated |
| | S&P | A-1+, A-1 | A-2 | A-3 | Below A-3 | Unrated |
| | Fitch | F1+,F1 | F2 | F3 | Below F3 | Unrated |
| | Moody's | P-1 | P-2 | P-3 | Not Prime | Unrated |
| | Capital Intelligence | A1 | A2 | A3 | Below A3 | Unrated |
| **On and Off-Balance-Sheet Exposures** | | | | | | |
| Government and Central Banks | | - | - | - | - | - |
| Administrative bodies and NPO | | - | - | - | - | 5,306 |
| CMIs and Banks | | 29,722 | - | - | - | - |
| Corporates | | - | - | - | - | 179 |
| Retail | | - | - | - | - | - |
| Investments | | - | - | - | - | 19,611 |
| Margin Financing | | - | - | - | - | - |
| Other Assets | | - | - | - | - | 20,430 |
| **Total** | | **29,722** | **-** | **-** | **-** | **45,526** |

## 10.5 Appendix 5 – Disclosure on Credit Risk Mitigation (CRM)

| Exposure Class | Exposure before CRM | Exposures covered by Guarantees/ Credit derivatives | Exposures covered by Financial Collateral | Exposures covered by Netting Agreement | Exposures covered by other eligible collaterals | Exposure after CRM |
|---|---|---|---|---|---|---|
| ***Credit Risk*** | | | | | | |
| ***On-Balance Sheet Exposures*** | | | | | | |
| Government and central banks | - | - | - | - | - | - |
| Administrative bodies and NPO | 5,306 | - | - | - | - | 5,306 |
| CMIs and banks | 5,944 | - | - | - | - | 5,944 |
| Corporates | 1,276 | - | - | - | - | 1,276 |
| Retail | - | - | - | - | - | - |
| Investments | 58,833 | - | - | - | - | 58,833 |
| Securitization | - | - | - | - | - | - |
| Margin Financing | - | - | - | - | - | - |
| Other Assets | 61,291 | - | - | - | - | 61,291 |
| **Total On-Balance Sheet Exposures** | **132,650** | | | | | **132,650** |
| ***Off-balance Sheet Exposures*** | - | - | - | - | - | - |
| OT/Credit Derivatives | - | - | - | - | - | - |
| Exposure in the form of repurchase agreements | - | - | - | - | - | - |
| Exposure in the form of securities lending | - | - | - | - | - | - |
| Exposure in the form of commitments | 9,967 | - | - | - | - | 9,967 |
| *Other off-balance sheet exposures | - | - | - | - | - | - |
| **Total Off-Balance Sheet Exposures** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total On and Off-Balance Sheet Exposures** | **142,617** | **-** | **-** | **-** | **-** | **142,617** |