الوطني لإدارة الثروات
NBK Wealth Management

PILLAR III REPORT

For 2020

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Background

The purpose of this report is to set out the Pillar 3 report of NBKWM as at December 2020.

Basis of Disclosure

NBKWM"s Pillar 3 disclosures are set out in this report as required by CMA's Prudential Rules. All figures are based on the audited annual report for the period ended 31 December 2020

Verification & Approval

The report is presented to the Risk and Compliance Committee for review and presented to the Board of Directors for approval

Frequency, media and location

The report is prepared annually and should be read in conjunction with Company's annual report. The report will be published on the Company's website: nbkwm.com.sa

Scope of Application

Watani Wealth Management Company (the "Company") is a single shareholder closed joint stock company established on 08/05/1439 H (corresponding to 25 January 2018) pursuant to the rules and regulations of the companies' law issued by a Royal Decree No. M/3, dated 28/01/1437 H (corresponding to 10 November 2015). The Company is registered in the Kingdom of Saudi Arabia under commercial registration number 1010481235 dated 4 Rabi Thani 1440H (corresponding to 11 December 2018).

The Company also operates in the Kingdom of Saudi Arabia through the following branches:

City	*Commercial Registration Number*
Jeddah	*4030605432*
Al Khobar	*2051229687*

The Company and its branches are licensed to deal as principal and as an agent, managing investment fund, managing discretionary portfolio, arranging, advising and serves as a custodian in the securities business in accordance with the license issued by the Capital Market Authority N0. 17185-37 dated 19/12/1438 H (corresponding to 10 September 2017). The Company is fully owned by National Bank of Kuwait.

In this report, we analyze the Company capital adequacy based on audited financial statements for the period ended 31 December 2020

Capital Adequacy Analysis

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 and operations. The Company is subject to these risks and accordingly has to monitor the capital adequacy on regular basis to ensure that the previously mentioned risks are adequately covered by sufficient capital base.

The purpose of this analysis of capital adequacy is to determine whether the Company has sufficient capital and liquidity to continue during economy downturn or a financial crisis. If either capital or liquidity drops below acceptable minimums during the test, it is a signal that the business models or risk-management practices should be changed.

Pillar I refers to minimum capital requirements to meet credit, market and operation risks in accordance with chapter 4 to 16 of the Prudential Rules. Pillar II refers to internal capital adequacy assessment process as explained in part 6 – article 66 of the Prudential Rules. Pillar III provides a detailed and transparent reporting structure that enhances market discipline for all stakeholders of the Capital Market Institution's business and operations which leads to improved corporate governance.

The Company continuously assesses their 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 the 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 regulators;
- 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 and owned subsidiaries;
- 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 policies and procedures the Company appropriately manages and controls capital and their adequacy.

Capital Structure

The Company is fully owned by National Bank of Kuwait (a company listed in Kuwaiti stock exchange market). 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 31 December 2020 comprises of fair value investments routed through profit and loss in the amount of approximately SR 6.4 million and short-term investments in the amount of SR 2 million bringing the total investment portfolio to SR 8.4 million. Other assets include bank balances, accounts receivable and prepayments, property and equipment, intangible assets and right-of-use assets all totaling SR 59.8 million. Total assets as of December 31, 2020 is SR 68.2 million.

During the period of 2020, 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 2020 based on the information and explanations shown above:

Description	Dec. 31, 2020 SR ('000')
Capital base:	
Tier – 1 capital	53,191
Tier – 2 capital	-
Total	**53,191**
Minimum Capital	
Credit risks	12,417
Market risks	865
Operations risks	7,504
Total	**20,786**
Capital adequacy ratio	**2.56**
Surplus	**32,405**

Tier -1 capital is calculated as follows:

Description	Dec. 31, 2020 SR ('000')
Paid-up capital	90,000
Reserves	147
Less:	
Accumulated losses	(35,682)
Intangible assets	(1,273)
Total Tire – I capital	**53,191**

Risk Management and Compliance

The function of risk management at the Company 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 in place risk management policies and procedures.

Specifically, risk management's primary goal is to minimize the adverse effects of accidental losses by either stopping losses from happening using risk control techniques, or paying for those losses that unavoidably occur, using risk financing or risk transferring techniques.

Risk management policy forms part of a framework established by the Board to provide for systematic and responsible management of risks that are, or could be, incurred by the Company in carrying out its various activities.

Risk management policy is intended to ensure that costs, anticipated benefits and potential risks associated with particular activities are accurately considered. Where the balance of advantage favors particular activity or initiative, the possible risks will be planned for and managed, taking account of broader company objectives and priorities.

Risk management enables the Company's management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value for its customers and shareholder.

Compliance function is an independent function whose main objectives are:

- To ensure that the Company complies with the requirements of Capital Market Institutions regulations;
- To assist the Board of Director, management, employees and the registered persons to comply with any requirement issued by CMA to appear to explain any matter or to assist in any enquiry relating to the administration of the Capital Market Law and its implementing regulations; and
- To assist in the efficient management of consequent risks.

In practice, these objectives are reached by:

- Identifying, evaluating, controlling and monitoring the compliance risks (as defined here below) affecting the Company;
- Organizing the compliance-related controls by structuring, coordinating and/or delegating them;
- Reporting to and advising the Executive Management and/or the Risk and Compliance Committee;
- Submitting recommendations and corrective actions when appropriate; and
- Acting as advisor in compliance matters to Executive Management.

Compliance is a key element of Corporate Governance, which is about encouraging the Company fairness and integrity, improving transparency and increasing responsibility.

Credit Risk

The risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. 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 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 Appendix 111, IV and V for more details.

Credit risks are calculated as follows:

Description	Dec. 31, 2020 SR ('000')
Total risk weighted assets (see details below)	88,693
Credit risk calculation as 14% of risk weighted assets	12,417
Capital requirement	**12,417**

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

Description	Dec. 31, 2020 SR ('000')
Administrative bodies and NOP	230
Capital market institutions and banks	8,046
Corporates	373
Investment funds	19,350
Other exposures	60,010
Off balance sheet commitments	683
Total	**88,693**

Market Risk

Watani Wealth Management defines market risk 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 period of 2020 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, Kuwaiti Dinars and US Dollars during the period ended on 31 December 2020. 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, 2020 SR ('000')
Total assets & Off-Balance Sheet Commitments denominated in foreign currency (USD)	43,251
Foreign exchange rate risk	**865**
Capital requirement	**865**

Operations Risk

Operational risk, is the risk of losses resulting from deficiencies or failed processes, people or information systems or from external events. The Company used the expenditure based approach to assess the operational risk. This is performed by multiplying the risk charge of (25%) with the current year overhead expenses to obtain the amount of 7.5 million. The calculation is summarized as follows:

Description	Dec. 31, 2020 SR ('000')
Total overhead expenses	30,015
Operations risk calculation as 25% of overhead expenses	7,504
Capital requirement	**7,504**

Liquidity and Cash Management

Watani Wealth Management 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.

Watani Wealth Management identifies and measures its exposure to liquidity risk and its funding needs within and between business lines and currencies.

As part of NBK Group, Watani Wealth Management pays particular attention to the legal and operational limitations to freely transfer cash and securities between its Parent Company (NBK Group).

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 Watani Wealth Management'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.

Liquidity risk arises from the mismatch in the maturity profile of the assets & liabilities, due to one or more of the risk factors, which includes but is not limited, to the following:

- Increases in currency mismatches
- A decrease in weighted average maturity of liabilities
- Repeated incidents of positions approaching or breaching internal limits for liquidity risk
- Significant deterioration in the Company's earnings, asset quality, and overall financial condition
- Difficulty accessing longer-term funding
- Difficulty placing short-term liabilities

Liquidity analysis.

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

Liquidity ratios as of 31 December 2020		
Current Ratio (Short term assets/short term Liabilities)	4.98	Current and Quick ratios show a level of comfort in meeting Company's short term obligations
Quick Ratio	4.88	

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

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.

Impact of Covid-19 on Operations and FS

The WHO announced, in March 2020, the Covid-19 outbreak as a pandemic. This outbreak has affected the GCC area. In response to the pandemic situation, KSA has taken measures to contain the outbreak of the vires which resulted in a negative impact on the business and economic environment.

The management has also taken measures to protect its staff while preserving its clients' and stakeholders interests, among these measures is Work from Home (WFH)

Management has not identified any significant impact on Company's operations and financial results.

Conclusion

Based on the results of the analysis, the capital adequacy ratio is 2.56 based on the audited financial statements for the period ended 31 December 2020, 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.

Approved (on behalf of the Board of Directors) by:

Mr. Tariq Mutlaq Al Mutlaq- Chairman
Date: 17 March 2021

Signature:____________________

Appendixes I, II, III, IV and V
Illustrative Disclosures on Pillar 3 Capital Base and Risks

Appendix I - Illustrative Disclosure on Capital Base

Capital Base	SAR '000
Tier-1 capital	
Paid-up capital	90,000
Reserves	147
Audited retained earnings	(35,682)
Share premium	
Reserves (other than revaluation reserves)	
Tier-1 capital contribution	
Deductions from Tier-1 capital	(1,273)
Total Tier-1 capital	**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	**-**
TOTAL CAPITAL BASE	**53,191**

Appendix II - Illustrative Disclosure on Capital Adequacy

Exposure Class	Exposures before CRM SAR '000		Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
Credit Risk					
On-balance Sheet Exposures					
Governments and Central Banks	-		-	-	-
Administrative bodies and NPO	230		230	230	32
CMIs and Banks	40,232		40,232	8,046	1,127
Corporates	52		52	373	52
Retail Investments	-		-	-	-
funds Securitisation	6,450		6,450	19,350	2,709
Margin Financing	-		-	-	-
Other Assets	20,003		20,003	60,010	8,421
Total On-Balance sheet Exposures	**66,968**		**66,968**	**88,010**	**12,321**
Off-balance Sheet Exposures					
OTC/Credit Derivatives					
Repurchase agreements Securities					
borrowing/lending Commitments					
Other off-balance sheet exposures	683		683	683	96
Total Off-Balance sheet Exposures	**683**		**683**	**683**	**96**
Total On and Off-Balance sheet Exposures	**67,651**		**67,651**	**88,693**	**12,417**
Prohibited Exposure Risk Requirement					
Total Credit Risk Exposures					**12,417**
Market Risk	Long Position	Short Position			
Interest rate risks					
Equity price risks					
Risks related to investment funds					
Securitisation/resecuritisation positions Excess exposure risks					
Settlement risks and counterparty risks					
Foreign exchange rate risks	43,251				865
Commodities risks.					
Total Market Risk Exposures	**43,251**				**865**
Operational Risk					**7,504**
Minimum Capital Requirements					**20,786**
Surplus/(Deficit) in capital					**32,405**
Total Capital ratio (time)					**2.56**

Appendix III - Illustrative Disclosure on Credit Risk's Risk Weight

Risk Weights	Exposures after netting and credit risk mitigation												
	Governments and central banks	**Administrative bodies and NPO**	**CMIs and banks**	**Margin Financing**	**Corporates**	**Retail**	**Past due items**	**Investments**	**Securitisation**	**Other assets**	**Off-balance sheet commitments**	**Total Exposure after netting and Credit Risk Mitigation**	**Total Risk Weighted Assets**
0%												0	
20%			40,232									40,232	8,046
50%												0	
100%		230										230	230
150%												0	
200%												0	
300%								6,450		20,003		26,453	79,360
400%												0	
500%												0	
714% (include prohibited exposure)					52						683	735	1,056
Average Risk Weight												0	
Deduction from Capital Base												0	

Appendix IV - Illustrative Disclosure on Credit Risk's Rated Exposure

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
<u>On and Off-balance-sheet Exposures</u>								
Governments and Central Banks								
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
<u>On and Off-balance-sheet Exposures</u>						
Governments and Central Banks						
CMIs and Banks		40,232				
Admin bodies and NPO						230
Corporates						52
Retail						
Investments						6,450
Securitization						
Margin Financing						
Other Assets						20,003
Total	-	**40,232**	**-**	**-**	**-**	**26,735**

Appendix V - Illustrative Disclosure on Credit Risk Mitigation (CRM)

Exposure Class	Exposures before CRM	Exposures covered by Guarantees/ Credit derivatives	Exposures covered by Financial Collateral	Exposures covered by Netting Agreement	Exposures covered by other eligible collaterals	Exposures after CRM
<u>Credit Risk</u>						
On-balance Sheet Exposures						
Governments and Central Banks	-	-				-
Administrative bodies and NPO	230					230
CMIs and Banks	8,046					8,046
Corporates	373					373
Retail						
Investments	19,350					19,350
Securitization						
Margin Financing						
Other Assets	60,010					60,010
Total On-Balance sheet Exposures	**88,009**	**-**				**88,009**
Off-balance Sheet Exposures						
OTC/Credit Derivatives						
Exposure in the form of repurchase agreements						
Exposure in the form of securities lending						
Exposure in the form of commitments	683					683
Other Off-Balance sheet Exposures						
Total Off-Balance sheet Exposures	**683**	**-**	**-**	**-**	**-**	**683**
Total On and Off-Balance sheet Exposures	**88,693**					**88,693**