Sidra Capital

Basel Pillar III Disclosures

As at 31 December 2015

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1. Scope of Application

Sidra Capital ("the Company") is a Saudi closed joint stock company registered in Jeddah, Kingdom of Saudi Arabia under Commercial Registration No. 4030187025 on February 25, 2009, corresponding to 30/2/1430H. The Company commenced its operation as per the resolution of Ministry for Commerce and Industry, dated January 24, 2009, corresponding to 27/1/1430H.

The Pillar III disclosures contained herein relate to the audited financials of the Company for the year ended December 31, 2015. These are compiled in accordance with Capital Market Authority's (CMA) minimum requirements for the annual market disclosure of information as referred to by the Part 7 "Pillar III – Disclosure and Reporting" of the Prudential Rules. These rules include guidelines for the annual market disclosure of the Company's capital and risk management information required to be published on the Company's website.

The Company is not part of a financial group, does not have any subsidiary and therefore has no current or foreseen material or legal impediments for transfer of capital. The Company's organisation structure is provided in Appendix 1.

This Pillar III Disclosure and reporting have been approved by the Board of Directors before its publication. The information presented in this Pillar III Report is not required to be, and has not been, subject to external audit.

1.1 Company Background

The Company's principal activities include dealing in securities as principal and agent, management, custody, arranging and rendering financial advisory.

The Company operates as a Shari'ah compliant non-bank financial institution ("NBFI") and aims to be a leading financial advisory and services NBFI that undertakes. The activities of the Company licensed by the Capital Market Authorities are as follows:

	Licensed Activities							
	Dealing			Managing		Arranging	Advising	Custody
	Principal	Agent	Underwriting	Investment Funds	Client Portfolio Mgt.			
Sidra Capital	☑	☒	☑	☑	☑	☑	☑	☑

The focus is on Corporate Finance & Advisory (Debt Advisory, Private Placements and Financial Advisory) and Asset Management (alternative investment universe, such as real-estate and structured commodity trade).

Corporate Finance and Advisory (CFA)

This department is engaged in the following services:

1. Fund Raising (debt and equity).
2. Private Placement.
3. Financial Restructuring.
4. Business Development Advisory Services.

Asset Management Business

The main objective of the department is to be amongst the leading asset managers in Saudi Arabia. The focus will continue to be on alternative investments similar to the current products that we have in this area and which are income generating UK real estate fund and structured trade fund.

2. Capital Structure

The Company's objectives when managing capital are to comply with the capital requirements set by the CMA to safeguard the Company's ability to continue as a going concern and to maintain a strong capital base.

The current paid-up capital of the Company is SAR 90,000,000.

Restrictions on Capital

- The shareholders are not permitted to sell their shares, increase or reduce ordinary share capital or issue rights without the authorisation of the CMA.

- Statutory Reserve - In accordance with Regulations for Companies in Saudi Arabia, and after recovering the accumulated losses, the Company will establish a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

- During the year ended December 31, 2013, new Prudential Rules (the “rules”) were introduced by the CMA pursuant to its Resolution Number 1-40-2012 dated 17/2/1434H corresponding to 30/12/2012G. The rules state that an authorised person shall continually possess a capital base which corresponds to not less than the total of the capital requirements as prescribed under Part 3 of Prudential Regulations.

2.1 Quantitative Disclosure

2.1.1 Tier 1 Capital

Tier-1 Capital of the Company consists of paid-up capital, reserves (other than revaluation reserves) and audited retained earnings and has deductions in the form of dividend expense from retained earnings and negative equity items. The Company's biggest strength in terms of capital is that all of the capital is in the form of Tier I Capital. The Company has a comfortable cushion for capital shocks.

2.1.2 Tier 2 Capital

Tier 2 Capital consists of subordinated loans, cumulative preference shares, revaluation reserves and other eligible capital items in accordance with Prudential Regulations.
The Company does not have any Tier 2 capital.

2.1.3 Total Capital

The total eligible capital (Tiers 1 and 2) calculated in accordance with CMA guidelines as of December 31, 2015 is a follows:

SAR 000

Capital Base	31 Dec 2015	31 Dec 2014
Tier-1 capital		
Paid-up capital	90,000	90,000
Audited retained earnings	-9,421	-14,869
Share premium		
Reserves (other than revaluation reserves)		
Tier-1 capital contribution		
Deductions from Tier-1 capital		
Total Tier-1 capital	**80,579**	**75,131**

SAR 000

Capital Base	31 Dec 2015	31 Dec 2014
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	**80,579**	**75,131**

3. Capital Adequacy

The purpose of risk management is to identify and quantify risks faced by the Company, mitigate and manage such risks within the context of the Company's overall risk appetite. The Company is engaged exclusively in financial advisory and asset management services and does not undertake leverage on its balance sheet. The Company has consistently maintained an amount of capital that is in excess of the minimum regulatory capital needed by the Authority.

Risk is part of the business and the Company needs to effectively identify, monitor and manage each of the risks that are likely to emerge during the operations. Going forward, the Board of Directors will need to review the material risks and considers the results of the work of the management in mitigating those risks.

The capital adequacy calculation has been calculated as at 31st December 2015 which corresponds to the end of the annual reporting period for the Company and are based on the audited financial statements.

The Company's capital requirement is calculated based on CMA Prudential Regulations. The Company's minimum capital requirement is SAR 42.168 million as of December 31, 2015. Details are provided in Appendix 2.

3.1 Capital Adequacy Assessment and Pillar II - ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP) is introduced under Pillar II of the Prudential Rules, which is contained in Part 6 (Article 66) and Annex 9 of the Prudential Rules approved by CMA and to be implemented by all Authorised Persons (APs).

The Company is well capitalized and will be able to allocate capital for both Pillar 1 and Pillar 2 risks.

3.2 Capital Planning

Capital Planning is crucial for the survival and leads management to strategic decisions. The Company's capital planning process needs to incorporate rigorous, forward looking stress testing to indicate how much capital might be needed to absorb losses if large shocks occur. Effective capital planning process requires the Company to assess risk exposures and consider the potential impact on earnings and capital.

Capital Planning is done based on present level of business and projected business for the future. The Company projects its capital requirements on annual basis and also for the next three years.

The Company has a general contingency plan for dealing with divergences and unexpected events. The Company has a single major shareholder that can provide for additional capital in the event of major events. The Company can also swiftly modify its business plans to focus on advisory services that require little or no capital.

The Company defines overall risk appetite relating to capital adequacy. As part of this, Early Warning Indicator (EWI) levels are established to enable the Company to take adequate measures on a timely basis. Action plan for capital management are triggered as part of ICAAP process on breach of EWI established for capital. The risk appetite and capital ratio EWI triggers are defined in the ICAAP policy. In case the capital ratios are projected to fall below regulatory and acceptable levels, the Company takes actions to either reduce exposures or enhance capital or do both of these.

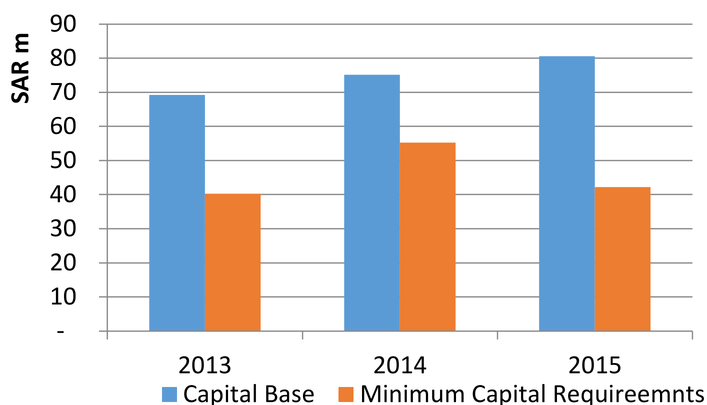
3.3 Stress Testing

The Company has defined a formal approach to stress testing and Scenario Analysis that defines the framework and approach for conducting stress tests to assess the impact on earnings and capital. Stress scenarios have been designed for material risk factors.

Stress testing is used to evaluate potential vulnerability of risk management system of the Company to certain unlikely but plausible events or movements in financial variables. Stress testing can be done by using sensitivity analysis (wherein impact of change in one variable is assessed on the Company’s financial position) or using scenario test (which include simultaneous moves in a number of variables based on a single event experienced in the past).

3.4 Minimum Capital Requirements

The Company is well capitalised and capital levels are consistently higher than minimum capital requirements. The following provides the capital buffer over the past three years.



4. Risk Management

The diversified business activities require the Company to identify, measure, aggregate, monitor and manage risks effectively and to allocate capital among its businesses appropriately.

Given the size of the Company and its operations, the Company has adequate risk management framework to identify and manage major risks. The Company is in the process of defining a separate risk function and refine its key risk management policies which are already approved. The Company is working towards integrating risk management into its operations and culture and plans to achieve this over the next few years.

The Company has a reasonably strong corporate governance structure as a result of which management and governance related risks are well managed. It aims to outline and make known, in the best possible way the organisation's established vision, business principles, strategies and best practices towards achieving the missions of the organisation, as a Shari'a compliant financial institution. It also takes into serious considerations the interests of various stakeholders of the organizations including the regulators, clients and business partners.

The Board of Directors is responsible for the overall governance of the Company. This includes, determining the strategy, providing direction to the Senior Management, ensuring that the control functions are robust and that they conform to international best practices. The Company has adequate risk governance framework as part of strengthening its Corporate Governance and Risk Management structures.

An outsourced risk function provides second line of defence and outsourced internal audit function provides oversight / third line of defence over internal controls.

Risk Appetite

The Company's risk appetite is the single most influencing factor in its fundamental risk attitude. Risk appetite is defined as the amount and type of risks that the Company is willing to take within the context of its business strategy. Risk appetite is either quantitatively defined by the appropriate indicators (e.g. capital adequacy level and risk limits) or qualitatively embedded in the policies and procedures (e.g., underwriting criteria).

Within the risk appetite levels specified, specific risk limits may be fixed to monitor risks

on an ongoing basis. Such risk limits shall ensure that the Company operates within its target range and does not exceed its aggregate risk tolerance. The Company's risk tolerance levels and risk limits are part of various policy & process documents.

Breach of EWI or risk appetite threshold for Capital Adequacy Ratio is escalated to the Management Committee / Board. Appropriate Board level strategic decisions on the steps required to remediate the situation are taken.

Breach of other Risk Appetite Statements are escalated to the Management Committee for remediation.

Due Diligence Process to Mitigate Investment Risk
The Company's investments are made after proper review and approval by the Investment Committee. As part of the review process, the Investment Committee evaluates the following risk factors before granting approval:

1. Geo-political situation in the country where investment is made.
2. Current Exposure to the type of investment, product
3. Adequacy of liquid surplus after such investment is made
4. Review of Credit Rating of the investment
5. Time horizon, maturity, lock in period and other constraints
6. Partners involved in the transaction and their financial commitment
7. Legal and tax due-diligence and other appropriate due diligences

All investments are made only after proper approval by the Investment Committee.

Audit Risk Committee (AC)

The Company has an Audit Committee (AC) to ensure that it complies with all the policies and procedures and that the recommendations of the CMA and the external auditors are considered in full and implemented where appropriate. The AC oversees the work and considers the reports of the Company's outsourced internal audit function, overseeing the implementation of their recommendations where appropriate, and giving due consideration to the effectiveness of internal controls and compliance checks. It also makes recommendation on the appointment of the external auditor.

Internal Audit Function

Given the size of the Company, the internal audit function is currently outsourced to a local audit firm. They undertake 2 inspections per year and all units and departments are covered under their scope of work. The report is discussed with the management and presented at the Management Committee before being finalized and submitted to the AC for their review. The internal auditor is present at the AC meeting where the report is discussed.

Compliance Function

As per the CMA regulation, the compliance function is one of the critical functions of any AP. At the Company, we currently have two persons who is in charge of the compliance and AML functions. Other than educating and training our staff on the latest law and rules of the CMA, the person is also in charge of all KYC for our customers. Annual audits on each department is undertaken and reported to the Management Committee. The annual compliance and AML report is discussed and approved by the AC/Board prior to its submission to the Authority.

4.1 General Qualitative Disclosure for Risks

4.1.1 Credit Risk

Credit risk is one of the most important risks that the Company faces in its operations and it is the failure of one or more of its major counterparties. It could be defined as the risk of

a potential loss of cash reserves due to a counterparty failure or an obligor's non-payment of an outstanding debt.

Credit risk is principally controlled by establishing and enforcing limits and by defining exposure levels to counterparties and checking the creditworthiness of counterparties that are not related parties. To mitigate this risk, the Company has diversified its banking relationships across several local Saudi and international banks.

As at 31st Dec 2015, the Company had cash and cash equivalents SAR 29.5m and these are all placed with financial institutions, while receivables and other investment amounted to SAR 48.7m. Under the standardised Pillar 1 methodology, the capital required to cover credit risk in respect of these assets is SAR 32.223m.

The Company shall measure and maintain capital for credit risk as per the methodology set by CMA under Standardized Approach. Most of the credit risk for the Company originates from the Non Trading Activities.

4.1.2 Market Risk

Market risk is the risk that the value of an investment will decrease due to movements in the market. The CMA has listed the following as key market risks: equity & fund risks, interest rate risk, commodities risk, foreign exchange risk, underwriting risk and settlement risk. After discussions with external auditor and considering that the Company does not have a trading book, the only market risk that is applicable to the Company is Foreign Exchange risk.

Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. There are two ways where changes in foreign exchange rate could adversely impact the capital position of the Company and these are through either our investment in foreign currency products or the value of fees generated from foreign currency funds managed by the Company declining in value as compared to our base currency of Saudi Riyals.

In respect of the Company's exposure to non-Saudi Riyals denominated income and expenses, the Company tries to match payment with any income in that currency. Open positions in foreign currencies is not something that we take and action is taken to convert open currency positions into Riyals on a regular basis, thereby, keeping open positions and foreign currency exchange risk to a minimum.

As at 31st December 2015, the Company had long positions in four foreign currencies – GBP, US, Euro and AED. Under Pillar 1, the market risk has still been calculated at 2% (for USD and AED currencies) and 14% (for GBP/Euro) of the Saudi Riyals equivalent open positions respectively, and amounts to SAR 5.3m as at 31st December 2015.

4.1.3 Operational Risk

Basel II requires financial institutions to have sufficient capital to cover Operational Risks. Operational Risk is defined as risk of loss resulting from inadequate or failed internal processes, people and systems as also the risk of loss arising from external events. More than the regulation, Basel II provides opportunity to improve internal control and risk measurement processes supplemented by supervisory review process and market discipline through Pillar II as well as Pillar III of the Accord.

4.1.4 Interest Rate Risk

The exposure of the Company's financial condition to adverse movements in interest rates is referred to as Interest Rate Risk. The Company has no trading book. Since all of the Company's sources of funds are equity and there are no interest sensitive liabilities, Interest Rate Risk on the Banking Book (IRRBB) has no impact on Company's capital requirement.

Concentration Risk

Credit risk concentrations may involve large exposures to groups of connected clients.

These groups refer to companies which are legally or economically connected in such a way that a majority of the individual companies in the group would encounter repayment problems if a single one of them encountered financial difficulties. Credit risk concentrations can generate such large losses that the risk-bearing capacity and continued existence of the Company might be endangered.

Types of Concentration risk
Concentration risk can take many forms and can arise whenever a significant number of exposures have similar risk characteristics. Large exposures and high correlation between exposures could increase the amount of losses for the Company, and can arise from the following:

- Revenues generated from a particular geographical regions/jurisdictions
- Revenues from a specific client
- Revenues from a specific product
- Revenues from a particular industry or economic sectors

Management of Concentration Risk
Concentration Risk is managed through prescription of various prudential / exposure limits.

- Large Exposures - Currently, the Company is not significantly exposed to any particular client other than related parties. In other case, the Company has recourse to cash that the debtor has invested with the Company and which can be netted out in the event of default by the debtor.
- Geographic Concentration - The Company is marginally exposed to geographic concentration as most of its investments are in Rest of the World. The Company does not actively monitor geographic concentration as the Company is aware that the geographic concentrations are a result of its business model. Further, the exposures are well diversified.
- Industry Concentration - The Company is exposed to industry/sector concentration. The Company is taking measures to control exposures to highly concentrated industry sector by prescribing risk appetite limit and also approaching the Board with an action plan reduce such exposures.

4.2 Credit Risk Disclosure

Credit risk consumes the largest proportion of the Company's minimum capital requirement. Within the established principles and parameters, the company ensures that strict capital discipline is maintained through correct pricing and management of credit risks.

4.2.1 Gross Credit Risk Exposures

The gross credit exposure as presented in Appendix 3 is reflected before applying any credit risk mitigation, such as financial collaterals and guarantees. Since the Company does not use financial collaterals and guarantees, both gross credit risk exposure and net credit risk exposure are the same.

External ratings
The Company uses globally recognised credit ratings to determine which credit quality step an exposure corresponds to. 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 Prudential Rules.

As per CMA's prudential norms, an authorised person which uses credit ratings for a particular exposure category shall use these credit ratings consistently for all exposures belonging to that category.

Credit quality steps
The Company uses CMA guidelines for assign credit quality steps for its credit exposures.

The range of the quality steps is 1 to 6 and arises due to exposure to financial institutions, investment in companies and funds.

The following are the mappings between the credit rating from each credit rating agency and the credit quality steps with respect to non-trading activities. This is in compliance with the Prudential Rules issued by the CMA.

Credit quality step - Long term rating	S&P	Fitch	Moody's	Capital Intelligence
1	AAA TO AA-	AAA TO AA-	Aaa TO Aa3	AAA
2	A+ TO A-	A+ TO A-	A1 TO A3	AA TO A
3	BBB+ TO BBB-	BBB+ TO BBB-	Baa1 TO Baa3	BBB
4	BB+ TO BB-	BB+ TO BB-	Ba1 TO Ba3	BB
5	B+ TO B-	B+ TO B-	B1 TO B3	B
6	CCC+ and below	CCC+ and below	Caa1 and below	C and below
Unrated	Unrated	Unrated	Unrated	Unrated

Credit quality step - Short term rating	S & P	Fitch	Moody's	Capital Intelligence
1	A-1+, A-1	F1+, F1	P-1	A1
2	A-2	F2	P-2	A2
3	A-3	F3	P-3	A3
4	Below A-3	Below F3	Not Prime	Below A3
Unrated	Unrated	Unrated	Unrated	Unrated

Credit Risk Exposures by Credit Quality
The credit risk exposure by long term and short term ratings is given as Appendix 4 and follows Annex 11 and 12 of the Prudential Regulations to determine the credit quality.

Residual Contractual maturity
The residual contractual maturity of the Company's credit risk exposures is given in the Appendix 5.

Impairment, past due and provisions
An exposure is identified and recognized as impaired when it is not probable or no reasonable assurance exists that the Company will be able to collect all amounts due according to the contractual terms. The exposure can be a receivable from the customers or employees of the Company or an investment made by the Company.

Past due claims are exposures where repayments of principal and /or profit charges have not been made as of the due date. The Company's policy defines the approach to be used when determining provisions. Certain factors are taken into consideration prior to deciding on the level of provision.

The Company has SAR 525,000 past due or impaired exposures as of 31 December 2015.

Geographic Distribution of Credit Risk Exposures
Credit Risk Exposures of the Company are geographically concentrated in Saudi Arabia. The following table provides geographic distribution of credit risk exposures by major

exposure type.

Exposure Class	Total	Saudi Arabia	GCC (Except Saudi Arabia)	Europe	Rest of the World
					(SAR 000)
Credit Risk					
On-balance Sheet Exposures	-				
Governments and Central Banks	*12*	12			
Authorised Persons and Banks	*29,515*	13,536		15,979	
Corporates	*4,875*	*1,312*	1,107	2,456	-
Retail	-	-			
Investments	*43,908*	5,135		38,773	-
Securitisation	-				
Margin Financing	-				
Other Assets	*8,026*	2,548		5,478	
Total On-Balance sheet Exposures	**86,336**	**22,543**	**1,107**	**62,686**	**-**
Off-balance Sheet Exposures	-				
OTC/Credit Derivatives	-				
Repurchase agreements	-				
Securities borrowing/lending	-				
Commitments	-	-			
Other off-balance sheet exposures	-				
Total Off-Balance sheet Exposures	**-**	**-**	**-**		**-**
Exposures	**86,336**	**22,543**	**1,107**	**62,686**	**-**

4.3 Credit Risk Mitigation Exposure

The Company does not deal in lending activities and as such has no eligible or non-eligible financial collaterals user for credit risk mitigation purposes. Accordingly, credit risk mitigation exposures are Nil.

Appendix 6 provides details for gross and net credit risk exposure as there are no risk mitigation exposures.

4.4 Counterparty Credit Risk (CCR) and Off-Balance Sheet Disclosure

Counterparty risk derives from the exposure to a single party in a financial transaction or business transaction. It is the risk in a transaction that may occur if the counterparty is unable to perform in accordance with the agreements executed with the Company.

The Company does not deal with transactions in OTC derivatives, repos and reverse repos and securities borrowing/ lending. The Company does not have any outstanding guarantees as of 31 December 2015.

Mitigating Counterparty Risk

- The Company sets criteria for appropriate due diligent analysis including processes for measuring and managing counterparty risk
- The Company sets criteria for selecting and maintaining relationships with counterparties.
- The Company sets controls that limit the exposure of capital to single counterparties expressed as a percent of the Company's capital base (if applicable)
- The Company conducts periodic reporting and monitoring of counterparty exposures to the Investment Committee (if applicable).
- The Company takes actions to mitigate Company's exposure in the event the financial condition of a counterparty deteriorates and doubts arise about its ability to perform in accordance with the agreements and contracts the Company has executed.

4.5 Market Risk Disclosure

4.5.1 Market risk Capital - Qualitative Disclosure

Market risk is the risk of losses in on-and off-balance sheet trading book positions arising from movements in market rates or prices such as profits rates, foreign exchange rates, equity prices, credit spreads and/or commodity prices resulting in a loss to earnings and capital.

4.5.2 Market risk Capital - Quantitative Disclosure

(Amounts in SAR 000)

Market Risk	**Capital Required 31 Dec 2015**	**Capital Required 31 Dec 2014**
Interest rate risks		
Equity price risks		
Risks related to investment funds		
Securitisation/re-securitisation positions		
Excess exposure risks		
Settlement risks and counterparty risks		
Foreign exchange rate risks	5,360	4,232
Commodities risks.		
Total Market Risk Capital	5,360	4,232

4.6 Operational Risk Disclosure

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events

Basel II requires financial institutions to have sufficient capital to cover Operational Risks. Operational Risk is defined as risk of loss resulting from inadequate or failed internal processes, people and systems as also the risk of loss arising from external events. More than the regulation, Basel II provides opportunity to improve internal control and risk measurement processes supplemented by supervisory review process and market discipline through Pillar II as well as Pillar III of the Accord

4.6.1 Operational risk Capital - Qualitative Disclosure

Risks in this category are broad in nature and inherent in most businesses and processes and cover the following:

- Fraud or the risk of loss from financial crime.
  The Company aims to minimise the opportunity for fraud and financial crime through segregation of duties and due process. In addition, the Company has outsourced its AML and terrorism financing courses to staff to Thomson Reuters.

- Outsourcing risk
  This is the risk of loss or reputational damage as a result of service failure on the part of an outsourced service provider. The Company does outsource certain fund administration services to reputable service providers operating in well-regulated offshore centres. The Company undertakes a rigorous selection process of service providers and has an ongoing due diligence process.

- Employee retention.
  The Company recognizes that due to its small size there is an operational dependency on key individuals and the loss of a member could have a material adverse impact on revenues. The Company has implemented a competitive remuneration package for staff.

- Legal action
  The risk of liability related to litigation from clients, staff or third parties is covered under legal action. This risk is mitigated by compliance with existing legislation, which is reinforced by internal policies and monitoring checks. The Company has also both Professional Indemnity and Directors and Officers Liability insurance arrangements in place.

- Business continuity and disaster recovery
  Physical disasters affecting the Company's premises and continued operations could come in many different forms – fire, flood, failure of IT systems, hacking, etc. Each of these different threats presents a risk to the Company. However, the impact of these different threats materialising will have many common implications which are detailed in the Disaster Recovery and Business Continuity Plans of the Company.

4.6.2 Operational risk Capital - Quantitative Disclosure

Under Pillar 1 and using the Basic Indicator Approach, the capital needed to cover operational risks is the higher of 15% of the last 3-year gross operating income or 25% of last year's operating expenditure. For the Company, the capital needed is based on 25% of the last year expenditure and amounts to SAR 4.5m.

Approach	Year	Gross Income	Average Gross Income	Risk Capital Charge (%)	Capital Required
Basic Indicator Approach	2013	22,552			
	2014	22,606			
	2015	26,237	23,798	15%	3,570
Approach	**Year**	**Expenses**	**Risk capital Charge (%)**		**Capital Required**
Expenditure Based Approach	2015	18,339	25%		4,585
Minimum Operational Risk Capital - December 2015					**4,585**
Minimum Operational Risk Capital - December 2014					**4,383**

4.7 Liquidity Risk Disclosure

Liquidity Risk is the 'potential for loss' to the Company arising from either its inability to meet its obligations or to fund assets as they fall due without incurring unacceptable cost or losses.

Liquidity Risks can be classified as-

- Funding liquidity risks: Need to replace net outflows.
- Time risk: Need to compensate for non-receipt of expected inflows,
- Call risk: Due to crystallization of contingent liabilities.

Liquidity Risk is best understood as Funding Liquidity Risk - the risk that the Company will not be able to efficiently meet both expected and unexpected current and future cash flow needs without affecting either daily operations or its financial condition. This is the risk that the Company does not have the available resources to meet its payment obligations as they fall due or can only secure such resources at excessive cost.

4.7.1 Risk Assessment Methodology

The Company identifies the liquidity risk on an on-going basis. To mitigate these risk, the Company's liquidity management guidelines requires that the Company maintain enough cash to pay all projected operating costs for a period of 12 months.

4.7.2 Risk Measurement Methodology (Quantitative / Qualitative)

In order to ensure adequate liquidity availability and healthy funding profile, the Company uses various metrics and internal controls. The liquidity risk measurement approach is qualitative and Early Warning Indicators (EWI) based.

4.7.3 Liquidity Early Warning Indicators (EWI)

Early warning indicators help in identifying the emergence of increased risk or vulnerabilities in the Company's liquidity risk position or potential funding needs

The EWIs measure the Liquidity Risk position of the Company from various perspectives, including the following:

1. Adequacy of Funding Buffer
2. Unutilized Banking Limits
3. Adherence to Regulatory Limits
4. Repeated incidents of breach of internal limits

Risk Mitigation
Liquidity risk is mitigated by the fact that the Company has no debt, maintains cash levels in excess of regulatory capital requirements and its main cost items are discretionary compensation which is linked to profitability. It also includes the risks that investments in illiquid instruments cannot be exited in an efficient manner in the event of a downturn.

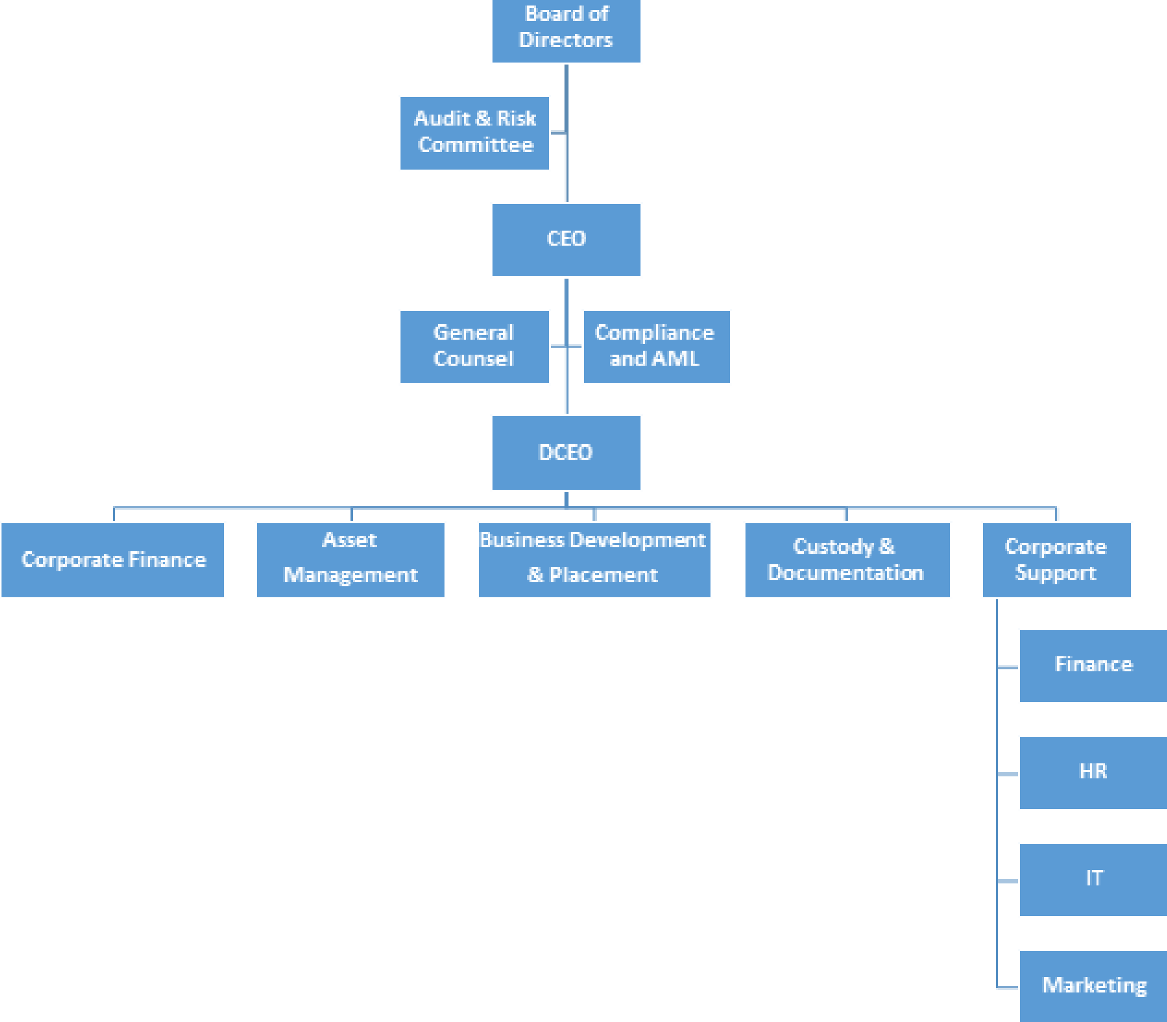
To mitigate these risk, the Company's liquidity management guidelines requires that the Company maintain enough cash to pay all projected operating costs for a period of 12 months. In respect of investing in long term projects, the Company only invests in its own products. All investment are managed through the Investment Committee and regular reporting on performance and risks are made by the respective Head of Departments on the use of the Company's capital.

4.7.4 Contingency Plan

The Company has a general contingency plan for dealing with divergences and unexpected events. The Company has a single major shareholder that can provide for additional capital in the event of major events. The Company can also swiftly modify its business plans to focus on advisory services that require little or no capital.

Contingency Buffer
The Company proposes to maintain a contingency buffer needs equivalent to 12 months of working capital needs.

1. Appendix 1 - Organisation Structure



Appendix 2 - Capital Adequacy

					(SAR 000)
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	12		12	-	-
Authorised Persons and Banks	29,515		29,515	5,903	826
Corporates	4,875		4,875	34,808	4,873
Retail	-		-	-	-
Investments	43,908		43,908	142,307	19,923
Securitisation					
Margin Financing					
Other Assets	8,026		8,026	47,146	6,600
Total On-Balance sheet Exposures	86,336		86,336	230,163	32,223
Off-balance Sheet Exposures					
OTC/Credit Derivatives					
Repurchase agreements					
Securities borrowing/lending					
Commitments	-		-	-	-
Other off-balance sheet exposures					
Total Off-Balance sheet Exposures	-		-	-	-
Total On and Off-Balance sheet Exposures	86,336		86,336	230,163	32,223
Prohibited Exposure Risk Requirement	-		-	-	-
Total Credit Risk Exposures	86,336		86,336	230,163	32,223
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	69,750				5,360.00
Commodities risks.					-
Total Market Risk Exposures	69,750	-			5,360
Operational Risk					4,585
Minimum Capital Requirements					42,168
Surplus/(Deficit) in capital					38,411
Total Capital ratio (time)					1.91

2. Appendix 3 - Credit Risk's Risk Weights

(SAR 000)

Risk Weights	Exposures after netting and credit risk mitigation												
	Governments and central banks	**Administrative bodies and NPO**	**Authorised persons 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%	12											12	-
20%			29,515									29,515	5,903
50%												-	-
100%												-	-
150%								9,375				9,375	14,063
200%												-	-
300%								9,888		2,454		12,342	37,026
400%								24,645				24,645	98,580
500%												-	-
714% (include prohibited exposure)					4,350	-	525			5,572	0	10,447	74,592
Average Risk Weight			20%		800%			324%		587%	0%	267%	
Deduction from Capital Base	-	-	826	-	4,873	-	-	19,923	-	6,600	-	32,223	

3. Appendix 4 - Credit Risk's Rated Exposure

(SAR 000)

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								
Governments and Central Banks		12						
Authorised Persons and Banks		13,536	15,979					
Corporates								4,875
Retail								
Investments								43,908
Securitisation								
Margin Financing								
Other Assets								8,026
Total	-	13,548	15,979	-	-	-	-	56,809

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						
Governments and Central Banks		12				
Authorised Persons and Banks		13,536	15,979			
Corporates						4,875
Retail						-
Investments						43,908
Securitisation						
Margin Financing						
Other Assets						8,026
Total	-	13,548	15,979	-	-	56,809

4. Appendix 5 - Residual Contractual Maturity of Credit Risk Exposures

						(SAR 000)
Exposure Class	**Total**	**1 Day to 1 month**	**>1 month to 3 months**	**>3 months to 6months**	**>6 months to 1 year**	**>1 year**
Credit Risk						
On-balance Sheet Exposures	-					
Governments and Central Banks	*12*	12				
Authorised Persons and Banks	*29,515*	13,536	15,979			
Corporates	*4,875*				4,875	
Retail	-				-	
Investments	*43,908*					43,908
Securitisation	-					
Margin Financing	-					
Other Assets	*8,026*	3,283				4,743
Total On-Balance sheet Exposures	**86,336**	**16,831**	**15,979**	**-**	**4,875**	**48,651**
Off-balance Sheet Exposures	-					
OTC/Credit Derivatives	-					
Repurchase agreements	-					
Securities borrowing/lending	-					
Commitments	-					-
Other off-balance sheet exposures	-					
Total Off-Balance sheet Exposures	-	-	-	-	-	-
Total On and Off-Balance sheet Exposures	**86,336**	**16,831**	**15,979**	**-**	**4,875**	**48,651**

5. Appendix 6 - Disclosure on Credit Risk Mitigation (CRM)

(SAR 000)

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
Credit Risk						
On-balance Sheet Exposures						
Governments and Central Banks	12	-	-	-	-	12
Authorised Persons and Banks	29,515	-	-	-	-	29,515
Corporates	4,875	-	-	-	-	4,875
Retail	-	-	-	-	-	-
Investments	43,908	-	-	-	-	43,908
Securitisation	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	8,026	-	-	-	-	8,026
Total On-Balance sheet Exposures	86,336	-	-	-	-	86,336
Off-balance Sheet Exposures						
OTC/Credit Derivatives	-	-	-	-	-	-
Exposure in the form of repurchase agreements	-	-	-	-	-	-
Exposure in the form of securities lending	-	-	-	-	-	-
Exposure in the form of commitments	-	-	-	-	-	-
*Other Off-Balance sheet Exposures	-	-	-	-	-	-
Total Off-Balance sheet Exposures	-	-	-	-	-	-
Total On and Off-Balance sheet Exposures	86,336	-	-	-	-	86,336

* Refer to Chapter 2 of Annex 3.