

الراجحي المالية
Al Rajhi Capital



PILLAR-III DISCLOSURES

FY 2021

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1 Introduction & Scope of Application

Al Rajhi Capital (CMA License No: 07068-37), is a Closed Joint Stock Company, registered in the Kingdom of Saudi Arabia under commercial registration number 1010241681 dated 1 Dhul Hijjah 1428H (corresponding to December 11, 2007) and offers brokerage, asset management, custodial services, and investment banking including advisory services in accordance with the license and letter of authorization issued by the Capital Market Authority.

This report is prepared in accordance with the CMA Prudential Regulations framework issued in December 2012 and Pillar III disclosure guidelines issued in December 2014 by the Capital Market Authority (CMA).

The CMA Prudential Rules comprises three ‘Pillars’:

- Pillar 1 sets minimum capital requirements to meet credit, market and operational risk;
- Pillar 2 requires firms and their supervisors to consider whether additional capital should be held to cover risks not covered by Pillar 1 requirements; and
- Pillar 3 seeks to improve market discipline by requiring firms to disclose certain information on their risks, capital and risk management.

This document contains the Pillar 3 disclosures required by CMA in respect of Al Rajhi Capital (“ARC” or “the Company”). The purpose of this disclosure is to inform relevant stakeholders about the Company’s capital, risk management and capital adequacy.

1.1 Basis of Disclosures

These disclosures are made in accordance with the requirements of CMA Prudential Rules. Specifically, they cover ARC’s risk management objectives and policies; the processes for managing its material risks; the structure and organization of its risk management functions; the scope and nature of its risk reporting and measurement systems; and its policies for mitigating risk.

1.2 Frequency of Disclosures

These disclosures will be produced on an annual basis at a minimum. These disclosures reflect the position as of 31 December 2021.

1.3 Material or Legal Impediments between ARC and its Subsidiaries

ARC have one subsidiary to hold titles of real estate assets. ARC does not have any material or legal impediments with its Subsidiaries.

| Company Name | Paid Up Capital (SAR) | ARC Ownership | Purpose | Country of Incorporation / Registration |
|--------------------------------|-----------------------|---------------|--|---|
| Privileged Warehouse Company 3 | 100,000 | 95% | Carries out activities of real estate funds in KSA | Saudi |

Table 1 – ARC Subsidiaries

Note: ARC also have other subsidiaries on behalf of third party funds to provide custody services, where ARC does not have any beneficial interest in these subsidiaries. One of ARC’s investment is held through an SPV owned by the Company, and ARC has transferred the ownership of an SPV holding clients assets to an independent custodian in 2018 as required by the applicable regulations.

2 Capital Structure of Al Rajhi Capital

2.1 Capital Structure

ARC is a 100 % owned subsidiary of Al Rajhi Bank. It is well capitalised with a Tier 1 capital ratio of 2.60 times and a total capital ratio of 2.61 times. The current capital base is SAR 4,435 million as of 31 December 2021, while the paid-up capital is SAR 500 million. For regulatory purposes, capital is categorised into two main classes. These are Tier 1 and Tier 2, which are described below:

Tier 1 capital

Tier 1 capital consists of Paid-up capital, Audited retained earnings, and statutory reserves.

Tier 2 capital

Tier 2 capital consists of revaluation reserves.

(All amounts in SAR “000)

| Capital | Dec-21 | Dec-20 |
|---|------------------|------------------|
| Paid-up capital | 500,000 | 500,000 |
| Audited retained earnings | 3,673,095 | 2,953,456 |
| Statutory Reserves | 250,000 | 250,000 |
| Deductions from Tier-1 capital | (19,865) | (17,464) |
| Total Tier 1 capital | 4,403,230 | 3,685,992 |
| Revaluation reserves | 31,546 | 5,190 |
| Total Tier 2 capital | 31,546 | 5,190 |
| TOTAL CAPITAL BASE (Tiers 1 and 2) | 4,434,776 | 3,691,181 |

Table 2 –Total Capital Base

Please refer to [Appendix 1](#) for the details.

3 Capital Adequacy

ARC defines “Capital” as the resource necessary to cover unexpected losses and thus ARC, at all times, maintains sufficient capital to cover risks inherent in its business operations and to support current & future activities. ARC aims to maximize shareholders’ value through an optimal capital structure that protects the stakeholders’ interests under extreme stress conditions, and provides sufficient capacity for growth whilst ensuring compliance with the regulatory requirements and meeting shareholders’ expectations.

ICAAP

The Company has an Internal Capital Adequacy Assessment Process (ICAAP) by which it examines its risk profile from both regulatory and internal risk capital point of view.

The ICAAP describes the Company’s business strategy, its forecasts for the next three years for risk weighted assets, its risk appetite and the assessment of specific risk exposures, their mitigation and the capital allocated to these risks. In effect, the ICAAP document is a crucial part of the Company’s strategic decision making process and risk management framework.

Within the framework of the ICAAP, the annual Capital Plan is reviewed by Senior Management and the Governing Body. The ICAAP is updated and reviewed by the Board of Directors on an annual basis. The assessment draws on the results of existing risk management techniques and reporting.

Scenario Analysis and Stress Testing

Scenario analysis and stress testing are performed to assess ARC exposure to extreme events and ensure that appropriate mitigation measures are put in place. Any residual risk is then mitigated by setting aside capital to meet the potential capital requirement.

Senior Management is regularly informed of the stress testing outcomes to ensure that the Company has sufficient capital in place and that any risk is mitigated. These scenarios are regularly reviewed and updated to account for changing market dynamics.

The Company’s capital plan shows that its current and projected capital is adequate to bear any loss, to support its current activities, and future strategies & operational plans.

The following table provides the Company’s Capital Ratio as of 31 December 2021:

(All amounts in SAR “000”)

| Particulars | Dec-21 | Dec-20 | % Change |
|---|------------------|------------------|--------------|
| Credit Risk Capital Requirement | 1,574,522 | 1,293,039 | 21.7% |
| Market Risk Capital Requirement | 5,747 | 4,563 | 26.0% |
| Operational Risk Capital Requirement | 115,909 | 94,862 | 22.2% |
| Minimum Capital Requirement | 1,696,178 | 1,392,463 | 21.7% |
| Tier 1 Capital | 4,403,230 | 3,685,992 | 19.5% |
| Tier 2 Capital | 31,546 | 5,190 | 507.8% |
| Total Capital | 4,434,776 | 3,691,181 | 20.1% |
| Tier-1 Capital Ratio (number of times) | 2.60 | 2.65 | -1.9% |
| Total Capital Ratio (number of times) | 2.61 | 2.65 | -1.3% |

Table 3 – Capital Ratio

The Capital Ratio conveys that the Company is well capitalized and sufficiently covers all material risks of the Company and meets the minimum capital requirement with the capital ratio of 2.61 times, well above CMA’s minimum regulatory requirement of 1 time. Please refer to [Appendix 2](#) for the details.

4 Risk Management

Active and effective risk management is at the core of the company's business and is regarded as a key competence by clients, the regulator, and other interested parties.

The Company's overall objective in managing risk is to protect the safety and soundness of the Company, avoid excessive risk taking, and manage and balance risk in a manner that serves the interest of its clients, customers and shareholders.

Risk is managed in a variety of different ways, depending on the nature of the risk and the areas potentially affected to ensure that, wherever appropriate, the consequences are mitigated. These techniques include use of controls, outsourcing, contingency planning, insurance and capital allocation.

Risk Management Department actively manages the risks through regular monitoring and reporting on credit, market and operational risk. The Company's Risk Management Department works closely with the Business and Support Units to ensure relevant limits are approved and necessary oversight controls are put in place before positions are taken, and limit and control breaches are monitored on an ongoing basis.

All risk types identified as part of the ICAAP process and articulated in the Company's risk appetite statement are closely managed through sound risk management practices.

Risk Management Objectives

ARC's strategy and processes for Risk Management are aligned to the organizational objectives approved by ARC's Board of Directors. ARC's Risk Management Strategy primarily focuses on the following areas:

- Management of Market Risk and Credit Risk across active businesses
- Management of Operational Risk emanating from all ARC units
- Monitoring ARC's performance as per Risk Appetite policy and providing feedback to senior management for possible tightening or enhancing the risk limits
- Risk Monitoring & Review of key risks across all businesses and key support functions
- Ensuring ARC's adherence to the capital adequacy norms of CMA
- Monitoring Liquidity Risk at Organizational level as well as at business unit level

Governance Framework

ARC's Board of Directors is the governing body that sets the strategic direction of the Company. The Board also sets its risk appetite and is ultimately responsible for the Risk Management of the Company.

ARC's Risk Governance Framework includes the Board Audit Committee, Board Compliance Committee, Risk Management Committee, Management Committee, Investment Committee, New Business Committee, Governance Committee, Credit and Limits Committee, and other relevant Committees deemed by the Board as being appropriate to the size, nature and complexity of ARC's current business and operational model. Risk management practices are reviewed, approved and implemented successfully within the Company; including the appointment of a dedicated Chief Risk Officer, Head of Credit & Market, Operational Risk Manager, Information Security Manager, and Business Continuity Manager to lead the second line of defense.

The Board Audit Committee performs a significant role in carrying out the supervision and governance functions on behalf of the Board with regard to the integrity of the Company's financial statements, efficiency and effectiveness of the internal control system, and independence of the external and internal auditors. The Board Compliance Committee assists the Board in ensuring that the Company is carrying out its business in compliance with CMA provisions and regulations. The Risk Management Committee's role is to recommend to the Board adoption of appropriate risk management strategies and actions in key risk areas in line with

the Company's risk appetite. It also review processes that identify, measure, control and monitor risks being incurred by the organization, maintain a risk management organizational structure that clearly assigns responsibility, authority and reporting relationships and avoids conflict of interest situations, ensure that delegated responsibilities are effectively carried out, review the internal control policies monitor the adequacy and effectiveness of the internal control system. The Governance Committee is responsible for review and resolution of various Governance related matters of the Company. The Governance Committee meets as required to follow up and resolve outstanding issues. The Management Committee plays a pivotal role in the overall decision making process and is responsible for the day to day operations of the Company in line with the goals set by the Board of Directors. The New Business Committee (NBC) chaired by the CEO considers all new transactions proposed to be undertaken in the name of the Company (Private Placements, equity and debt capital market transactions, mergers and acquisitions, new funds and new products).

Proprietary Investment Committee reviews the performance of all the funds and portfolios being managed and recommends changes to the composition of the portfolio of in-house investments in accordance with the objectives and investment guidelines of funds/portfolios. The main responsibilities include assessment of new investment opportunities available (such as participation in upcoming IPOs), discuss and formulate investment strategies and policies for products; and review the performance of external fund managers.

Each fund has a Fund Board which oversees the fund's compliance with all applicable laws and regulations. It ensures that the activities of fund management are carried out with the aim of achieving the investment objectives. It approves or disapproves the recommendations made by the Fund Manager with respect to investments and divestments by the Fund; and ensures that the Fund Manager is taking up its responsibilities in the best interests of unit holders in accordance with the terms and conditions of the Fund and regulatory guidelines.

Through oversight, the Company's Senior Management ensures that day-to-day responsibilities are discharged in an effective and efficient manner. Senior management is responsible for the formulation and implementation of the Board strategy.

Risk Appetite

ARC has implemented the Risk Appetite Policy to communicate its risk culture, control risk taking in the development and execution of its operating plans, budgets, and to ensure the consistency of risk decisions throughout the Company.

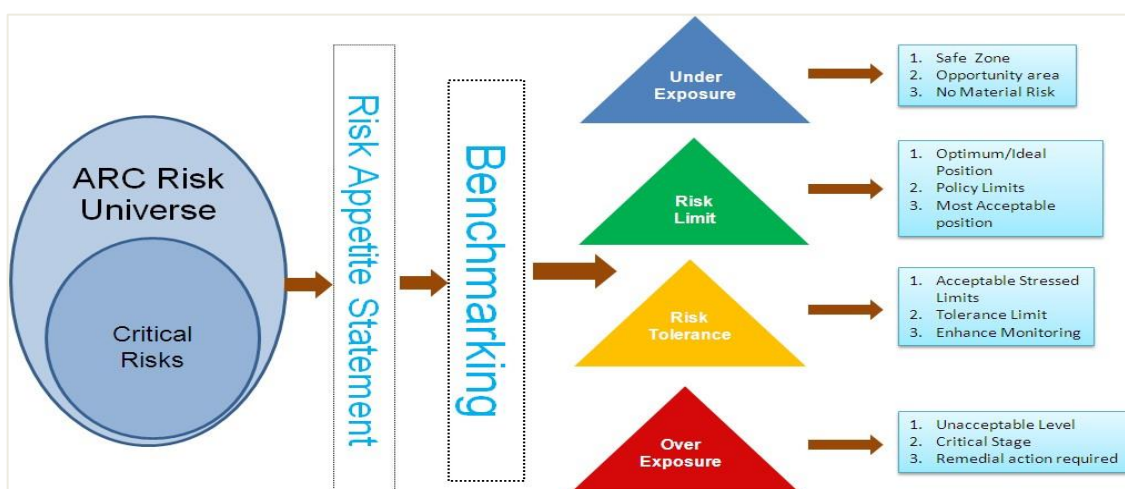


Figure 1 – Risk Appetite

Risk appetite and risk tolerance set boundaries of how much risk an entity is prepared to accept. Risk appetite is a higher level statement that considers broadly the levels & type of risks that management deems acceptable while risk tolerances are narrower and set the acceptable level of variation around objectives.

Operating within risk tolerances provides management greater assurance that the Company remains within its risk appetite, which, in turn, provides a higher degree of comfort that, the Company will achieve its objectives.

Risk Management Process

Risk management of the Company is a continuous, active and systematic process to understand, manage and communicate risk. Risk management practice is a collective responsibility based around the ‘three lines of defense model’ where ownership for risk is taken at all levels

| Three Lines of Defense | | |
|--|---|--|
| 1 st Line – Business Units | 2 nd Line – Risk Management and Compliance | 3 rd Line – Internal Audit |
| The first line is accountable for the management of all risks relevant to its business | Second line is responsible for providing objective challenge and oversight of the business’ management of all risks. Forward looking, helping define solutions with the 1 st line, the 2 nd line will challenge 1 st line decision and escalate where there is sufficient disagreement | Third line is responsible for providing reliable independent assurance on the adequacy and effectiveness of the risk management and control framework operated by 1 st and 2 nd lines of defense |

Table 4 – Risk Management Processes

Also, ARC will continue to enhance and improve upon its existing risk management framework and methodologies to keep it aligned with changing business environment, CMA regulations and global best practices.

Compliance Risk Management

Compliance department has developed a risk-based approach to assist ARC in supervision of its regulatory compliance. The risk assessment is conducted in each area individually based on experience and results of the Regulatory Reviews, CMA Inspections, Risk and Control Self-Assessment (RCSA) and Internal Audit Findings.

The Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) procedures cover all policies, principles and guidelines relating to customer acquisition.

Annual compliance review is conducted, which is a comprehensive review to ensure that all regulations related to a particular department are in compliance throughout the year. All regulatory guidelines are mapped to individual department’s policy & procedure manual. This review is based on risk severity mechanism and outcomes are reported to the Compliance Committee.

Sharia Risk Management

The Company has established a Sharia Board in accordance with its commitment to comply with Islamic Sharia Laws. Sharia Board ascertains that all the Company’s activities are subject to its review and approval.

The Sharia department ensures compliance with the provisions of Islamic Sharia in all Company’s activities. The department reviews contracts, agreements, products, funds and play an important role in restructuring some products to meet Sharia guidelines.

5 Credit Risk

Credit risk is most simply defined as the risk that a borrower or counterparty will fail to meet its obligations in accordance with the agreed terms.

5.1 Credit Risk Management, Reporting, and Mitigation

The principal objective of credit risk management is to ensure a high quality credit portfolio and minimization of the losses. This objective is supported by a robust risk management policy and control framework. ARC performs quarterly review of the Business portfolio and identifies the key risk exposures, and the Company's positions are recorded and presented to Risk Management Committee, and the Board of Directors.

For managing the credit risk on balance sheet, contracted through Murabaha Financing, collaterals are accepted only in the form of listed Sharia-compliant stocks, REITs or cash. No other forms of collaterals are accepted. As Murabaha financing exposures are adequately covered by their collaterals, the inherent credit risk is adequately mitigated.

Risk Management department performs risk review for all new counterparties for Commodity Funds and DPM exposures. The Company has allocated limits for counterparties based on credit review and limit setting parameters. Furthermore, to manage geographical concentration, country level exposure limits are applied and periodically monitored to ensure portfolio level adherence to the geographical limits. Counterparty Limits are reviewed and updated on annual basis based on latest published financials, and economic environment of the region of operations, where applicable. Also, the risk assessment is performed for all new and existing custodians for safekeeping the client assets. Risk Management department reserves the right to downsize current exposures or prohibit future exposures based on its periodic risk reviews.

For Capital Requirement purposes, ARC assigns the risk weights to its Credit Risk Exposures as per the CMA Prudential Rules, and calculates the risk weighted assets and required Regulatory Capital under Pillar I.

5.2 Impairments and Past Due Claims

An assessment is made to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost price and fair value, net of any impairment loss previously recognised in the statement of income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective rate.

5.3 Use of Credit Rating Information

ARC uses the credit ratings issued by the "S&P", "Moody's", and "Fitch" for assessing the counterparty credit risk of its exposures, wherever they are available. If two or more credit ratings are available for one exposure, lowest rating is considered for counterparty credit risk assessment.

5.4 Exposures

Please refer to [Appendix 3](#) for details.

5.5 Impairments and Specific Provisions

There are impairments of SAR 25.39 Million related to three Investment properties.

The movement in allowance for credit impairment losses in relation to rental receivables and Murabaha Margin Financing is as follows:

(All amounts in SAR “000”)

| Particulars | Dec-21 | Dec-20 |
|-------------------------------|---------------|---------------|
| At the beginning of the year | 20,346 | 10,645 |
| Charge for the year | 3,711 | 10,860 |
| Reversal for the year | (902) | (1,159) |
| At the end of the year | 23,156 | 20,346 |

Table 5 – Credit Impairment Losses

5.6 IFRS 9 and Expected Credit Loss (“ECL”)

The Company has developed a methodology for computing ECL provisions on all credit exposures including its own products/investments and all client related products where International Financial Reporting Standard Number 9 (“IFRS 9”) is mandatory for financial reporting purposes.

5.7 Geographic Concentration

ARC’s credit risk exposures are predominantly within Saudi Arabia representing, 94.60% of the total assets are within the Saudi Arabia, while only 5.40% of total assets is outside Saudi Arabia (including 3.82% real estate exposure and 1.58% sukuk exposure).

5.8 Residual Maturity

Residual Maturity of major credit exposures as of 31 December 2021 is as per the table below:

| Particulars | RESIDUAL MATURITY OF MAJOR EXPOSURES | | | | | | | <i>(All amounts in SAR “000”)</i> | | Total |
|---------------------------------------|--------------------------------------|-------------------|--------------------|----------------------|-----------------------|----------------------|--------------|-----------------------------------|------------------|------------------|
| | 1 Day | > 1 day to 1 week | >1 week to 1 month | >1 month to 3 months | >3 months to 6 months | > 6 months to 1 year | > 1 year | Past Dues | Non Maturity | |
| EXPOSURE CLASSES | | | | | | | | | | |
| Government and Central Banks | - | - | - | 310 | - | - | - | - | - | 310 |
| APs and Banks (including Cash) | 13,736 | - | 6,878 | 7,761 | 2,699 | 4,704 | 1,818 | - | - | 37,596 |
| Administrative Bodies | - | - | - | 12 | - | 214 | 0 | - | - | 226 |
| Margin Lending (incl. accrued profit) | 13,539 | 21,360 | 108,571 | 330,228 | 712,781 | 1,403,109 | - | - | - | 2,589,588 |
| Retail | - | - | 7,047 | 24,636 | - | - | - | 2,085 | - | 33,768 |
| Corporates | 1,534 | - | 348 | 18,519 | 553 | 441 | - | 499 | - | 21,893 |
| Investments | - | - | - | - | - | - | - | - | 2,182,179 | 2,182,179 |
| Other Assets | 73 | - | 2,922 | 8 | 1 | 8,218 | 1,037 | - | 33,338 | 45,596 |
| Total Assets | 28,881 | 21,360 | 125,766 | 381,473 | 716,035 | 1,416,685 | 2,855 | 2,584 | 2,215,517 | 4,911,156 |

Table 6 – Residual Maturity of Exposures

5.9 Credit Risk Exposures by Credit Quality

Please refer to [Appendix 4](#) for the details.

6 Credit Risk Mitigation

Collaterals are securities, cash or assets that are offered to secure a financing or a credit sales transaction. Collaterals become subject to seizure on default. It is a form of security to the financier/seller in case the purchaser fails to pay back the finance amount. In Murabaha Financing for purchasing shares on deferred basis, the blocked securities in the account are the collateral.

6.1 Policies and Processes for Collateral Valuation and Management

ARC is taking benefit of credit risk mitigation only for its Murabaha Financing where collaterals are accepted only in the form of listed Sharia stocks, REITs or Cash.

ARC has evolved its own share classification model maintained by Risk Management Department. This model grades a listed company on the basis of financial risk standard parameters. Share classification model takes liquidity factor into account. Risk Management keeps on updating the classification to ensure the robustness of this model. Share classification is actively used for monitoring Murabaha Financing exposure.

Furthermore, Murabaha Financing portfolio is marked to market daily by the Risk Management. It keeps track on transactions trading below margin call levels and initiates actions on such transactions as per approved Murabaha Credit Program.

Legal protection clause is included in the contract, binding customer to bear the loss/compensate for it in case of reduction in value of the collateral because of market volatility.

6.2 Market or Credit Risk Concentration within the Credit Risk Mitigation

Credit risk in its most simplified defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The credit risk for the Company arise mainly from two potential sources:

1. Murabaha facilities to retail customers and corporate clients – Islamic Murabaha facilities
2. Proprietary Investments of the Company

Murabaha facilities provided by the company are governed by the Murabaha Credit Programme that covers product definition, key risks and its mitigants, risk management tools relation to acceptance of a customer, eligible collateral, initial coverage ration, margin call, murabaha facilities mechnisim, share classification criteria, credit authority matrix and risk management limits & monitoring management. Individual muraabaha facilities are approved by the the Credit and Limit Committee, ARC Risk Management Committee and ARC Board depending upon the approved authority matix. The policies governing Murabaha Credit Program is reviewed and approved by the ARC Board members on an annual basis.

Proprietary investment of the company is done through after performing suitable due diligence on the proposal and obtaining approval from the respective committee based on the approved proprietary investment policy.

6.3 Credit Risk Exposures before/ after Credit Risk Mitigation

Please refer to [Appendix 5](#) for the details.

7 Counterparty Credit Risk and Off Balance Sheet Exposure

ARC does not have transactions in Over the Counter (OTC) derivatives, repos and reverse repos and securities borrowing/ lending, hence this section does not apply.

Counterparty Risk:

Counterparty risk is the probability that the other party in an investment, credit, or trading transaction may not fulfill its part of the deal and may default on the contractual obligations. The Company is exposed to various counterparty risk arising from its daily operation/delaying. The Company conducts initial risk assessment and periodic risk assessment of all counterparties to evaluate their credit worthiness and acceptability in order to ensure smooth functioning of business operations. Apart from the above the company also perform regular review of the counterparties related to Asset management business.

8 Market Risk

Market risk is the risk of losses in both on-and off-balance sheet 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.

8.1 Market Risk Management

ARC does not undertake any principal trading for its own account except for occasional ARC subscription/buying of IPO shares in the Book building or Rights Issue shares in the Rump Offering, and selling the allocated shares from the IPO or the Rights Issue later in the stock exchange. As a result, it is not exposed to any significant market risk which would arise from such activities.

Compliance Department monitors the “Issuer Concentration” and “Security concentration” of investment funds to ensure that they do not exceed the policy/ regulatory limits. Risk Management Department monitors the risk based performance (relative volatility & performance indicators such as alpha, beta, Sharpe ratio) of equity based funds and provides its feedback to the stakeholders as per the approved policy. It reports key risk positions to the Board of Directors and Risk Management Committee on quarterly basis.

Risk Management department measures the financial impact of different scenarios related to under subscription (failure in underwriting) and ARC’s ability to liquidation of security (in case of IPOs & Rights Issues) and ensures it is within the Risk Appetite limit of the Company

8.2 Market Risk – Capital

The Capital requirement for the following risks are SAR 5,747 thousand as indicated below:

(All amounts in SAR “000”)

| Risk | Capital Required |
|---------------------------------------|------------------|
| Interest Rate Risk | - |
| Equity Price Risk | - |
| Investment Risk | - |
| Securitization Risk | - |
| Excess Exposure Risk | - |
| Settlement Risk and Counterparty Risk | - |
| Foreign Exchange Risk | 5,747 |
| Commodities Risk | - |
| Total | 5,747 |

Table 7 – Market Risk Capital

9 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, this will include legal risks covering, but not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

9.1 Operational Risk Management

ARC’s Risk Management Policy & Procedures establish the principles which ensure that Operational Risks are identified, assessed, monitored, and mitigated. The policy defines roles and responsibilities for managing Operational Risk at ARC. Operational Risk Management covers the following 6 key areas:

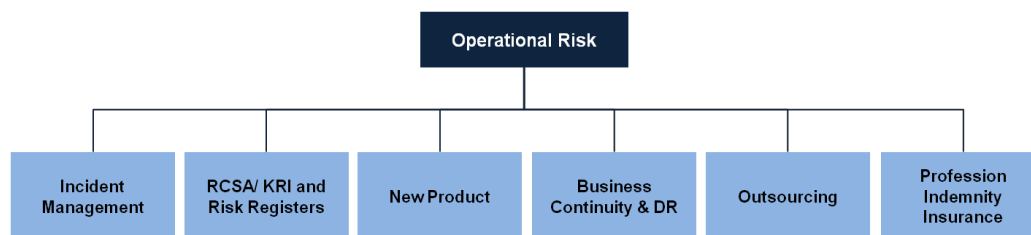


Figure 2 – Operational Risk Management

Incident Management: Risk Management Department actively monitors and identifies events which could materially impact the Assets, Operations and reputation of the Company. Business Units determine the causal factors of the events and maintain record of details such as the Control failures, Risk mitigation measures and lessons learnt in order to prevent repetition of events.

Risk and Control Self-Assessment (RCSA) / Key Risk Indicators (KRI) and Risk Registers: Risk Management Department uses RCSA, Risk Appetite Dashboard, Risk Registers (for all the business lines), KRIs and Operational Risk (OpR) Action Tracker as active tools to monitor progress on Operational Risk management and management of key enterprise wide risks.

New Product Risk Management: ARC has a New Business Committee (NBC) in place which reviews and approves all new products, funds and investment banking transactions. All new business proposals are reviewed by the Risk Management Department and their review and recommendations are presented to the New Business Committee to facilitate decision making.

Business Continuity Management: Business Impact Analysis, Business Continuity Plan (BCP), and Business Continuity test results for each ARC unit are recorded and stored in the Business Continuity Management system. Periodic review of Business Impact Analysis, BCP, and Business Continuity test results are enabling ARC to maintain resilience of its systems and processes.

Disaster Recovery: ARC has a Disaster Recovery (DR) plan in place and has successfully tested it.

Professional Indemnity Insurance: ARC has a Professional Indemnity Insurance Policy to cover losses incurred by the activities of the Company, its officers, registered persons, or employees in following areas:



Figure 3 – Operation Risk – Professional Indemnity Insurance

Apart from managing operational risk, the Company also keeps capital as per the Basic Indicator Approach for calculation of Operational Risk Capital.

9.2 Operational Risk - Capital

The Operational Risk capital charge is calculated as higher of the amounts under the following two approaches.

- 1) **Basic Indicator Approach:** Under the Basic Indicator Approach, 15% capital charge is calculated on average operating income of the last three audited financials.
- 2) **Expenditure Based Approach:** Under the Expenditure Based Approach, 25% capital charge is calculated on all overhead expenses except extraordinary expenses as per the most recent audited annual financial statements.

(All amounts in SAR “000”)

| Basic Indicator Approach (BIA) | Operational Risk Capital Charge at 15% of average operating income of last three years |
|---|--|
| 2021– Capital | 115,909 |
| Expenditure Based Approach (EBA) | Operational Risk Capital Charge at 25% of last year audited overhead expenses |
| 2021 – Capital | 49,650 |
| Capital requirement for Operational Risk for 2021 (Higher of Basic Indicator Approach and Expenditure Based Approach) | |
| 115,909 | |

Table 8 – Operational Risk Capital

10 Liquidity Risk

Liquidity risk is the inability to honour payment commitments when they are due and replace funds when they are withdrawn in a timely and cost effective manner. This can be caused by market disruptions to credit downgrades. Effective and timely liquidity risk management therefore helps to ensure the Company's ability to meet its cash flow obligation and in maintaining diverse funding sources to the Company.

10.1 Liquidity Risk Management

Risk Management department sets guidelines for the overall management of the liquidity risk by recommending policies, setting limits and guidelines and monitoring the risk and liquidity profile of the Company on regular basis both for on-balance sheet and off-balance sheet items.

Risk Management department monitors the Liquidity level for Commodity Funds in order to validate Company's capacity to meet up daily average redemption or any liability arising due to sudden redemption pressure. Liquidity position of Commodity fund portfolio is part of Company's monthly monitoring report.

The Company manages liquidity by maintaining sufficient cash with banks and matching maturities of its receivables and payables to meet its ongoing commitments.

10.2 Liquidity Reserves

ARC's liabilities comprise majorly of operating costs (relatively fixed), and the Company does not trade as principal or act as a market maker.

It holds its Cash in a current deposit account as this can be accessed instantly by it. ARC actively manages its daily client money funding obligations through a number of measures including availability of required cash and daily monitoring of Asset Management funding requirements.

10.3 Funding Sources

All of the ARC earning assets are funded by equity.

10.4 Risk Measures and Ratios

ARC prepares a statement of expected cash flows arising at the time of settlement of its assets and liabilities and allocates them in different time intervals in which they are expected to occur. The time intervals are defined as per the Prudential Rules of Capital Market Authority (CMA) as stated below:

| Particulars | 1 Day | > 1 day to 1 week | >1 week to 1 month | >1 month to 3 months | >3 months to 6 months | > 6 months to 1 year | > 1 year | Non Maturity |
|-------------|-------|----------------------|-----------------------|----------------------------|-----------------------------|----------------------------|----------|-----------------|
|-------------|-------|----------------------|-----------------------|----------------------------|-----------------------------|----------------------------|----------|-----------------|

The assets and liabilities with no maturity are placed under a separate bucket, 'Non- Maturity'. The net cash flows across all time intervals were accumulated to observe the quantum of cumulative net cash flow in each bucket. ARC always maintains adequate Liquidity to meet its day-to-day obligations and cash outflows. Apart from Cash flows, following ratios are monitored to maintain appropriate liquidity levels.

| S. No. | Indicators | Values | Inference |
|--------|--|----------|---|
| 1 | Liquid Assets ⁽¹⁾ / Total Assets | 11.4% | This reflects the cushion/comfort level in meeting its short-term liabilities and fixed cost payment |
| 2 | Illiquid Assets ⁽²⁾ + Long Term Investments / Total Assets | 88.6% | This ensures long-term sustainable returns on assets and provides stabilization of income in future years |
| 3 | Maturity Gap Analysis | Positive | This reflects the positive gaps (net maturing assets) in all maturity buckets up to 6 months. |
| 4 | Cumulative Mismatch (+/-) as a % of total liabilities (excluding equity) | + 501.9% | This reflects that the Company has adequate capacity to meet its short-term liabilities through its earning assets. |

Table 9 – Liquidity Risk – Quantitative

The Company has a sound liquidity position as assessed through the liquidity ratios.

10.5 Contingency Funding Plan

Any liquidity shortfall requirement of business is met through a short-term draw down facility with the parent Bank with cost of funding linked to the KSA Money Market with a margin/spread. Also the Company maintains sufficient buffers in order to meet its net cash outflows over the 30-day period under stress scenario.

¹ Liquid Assets – Cash Equivalents which mature within 3 months

² Illiquid Assets - Assets with Expected Cash flow greater than 3 months

11 Appendices

11.1 Appendix 1

Disclosure on Capital Base as of 31st December 2021 (audited accounts)

| Capital Base (Dec – 21) | SAR “000” |
|--|------------------|
| <u>Tier-1 Capital</u> | |
| Paid-up capital | 500,000 |
| Audited retained earnings | 3,673,095 |
| Share premium | |
| Reserves (other than revaluation reserves) | 250,000 |
| Tier-1 capital contribution | |
| Deductions from Tier-1 capital | (19,865) |
| Total Tier-1 Capital | 4,403,230 |
| | |
| <u>Tier-2 Capital</u> | |
| Subordinated loans | - |
| Cumulative preference shares | - |
| Revaluation reserves | 31,546 |
| Other deductions from Tier-2 (-) | - |
| Deduction to meet Tier-2 capital limit (-) | - |
| Total Tier-2 Capital | 31,546 |
| | |
| Total Capital Base | 4,434,776 |

Disclosure on Capital Base as of 31st December 2020 (audited accounts)

| Capital Base (Dec – 2020) | SAR “000” |
|--|------------------|
| <u>Tier-1 Capital</u> | |
| Paid-up capital | 500,000 |
| Audited retained earnings | 2,953,456 |
| Share premium | - |
| Reserves (other than revaluation reserves) | 250,000 |
| Tier-1 capital contribution | - |
| Deductions from Tier-1 capital | (17,464) |
| Total Tier-1 Capital | 3,685,992 |
| | |
| <u>Tier-2 Capital</u> | |
| Subordinated loans | - |
| Cumulative preference shares | - |
| Revaluation reserves | 5,190 |
| Other deductions from Tier-2 (-) | - |
| Deduction to meet Tier-2 capital limit (-) | - |
| Total Tier-2 Capital | 5,190 |
| | |
| Total Capital Base | 3,691,181 |

11.2 Appendix 2

Disclosure on Capital Adequacy as of 31st December 2021 as per exposure class is provided below:

| All Amounts in SAR “000” | | | | | |
|---|----------------------|-----------------------|-------------------------|----------------------|---------------------|
| Exposure Class (Dec-2021) | Exposures before CRM | | Net Exposures after CRM | Risk Weighted Assets | Capital Requirement |
| <u>Credit Risk</u> | | | | | |
| <i>On-balance Sheet Exposures</i> | | | | | |
| Governments and Central Banks | 47,261 | | 47,261 | 43,764 | 6,127 |
| CMLs and Banks (including cash) | 131,164 | | 131,164 | 83,426 | 11,680 |
| Corporates | 34,427 | | 34,427 | 186,864 | 26,161 |
| Retail | 31,683 | | 31,683 | 95,049 | 13,307 |
| Investments | 2,028,627 | | 2,028,627 | 6,857,231 | 960,012 |
| Securitization | - | | - | - | - |
| Margin Financing* | 2,589,589 | | 2,589,589 | 3,884,383 | 543,814 |
| Other Assets | 28,541 | | 28,541 | 95,870 | 13,422 |
| Total On-Balance sheet Exposures | 4,891,291 | | 4,891,291 | 11,246,587 | 1,574,522 |
| <i>Off-balance Sheet Exposures</i> | | | | | |
| 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 | 4,891,291 | | 4,891,291 | 11,246,587 | 1,574,522 |
| Prohibited Exposure Risk Requirement | - | | - | - | - |
| Total Credit Risk Exposures | | | | | 1,574,522 |
| <u>Market Risk</u> | | | | | |
| | Long Position | Short Position | | | |
| Interest rate risks | - | - | | | - |
| Equity price risks | - | - | | | - |
| Risks related to investment funds | - | - | | | - |
| Securitization/ re-securitization positions | - | - | | | - |
| Excess exposure risks | - | - | | | - |
| Settlement risks and counterparty risks | - | - | | | - |
| Foreign exchange rate risks | 287,341 | - | | | 5,747 |
| Commodities risks. | - | - | | | - |
| Total Market Risk Exposures | 287,341 | - | | | 5,747 |
| <u>Operational Risk</u> | | | | | |
| <u>Minimum Capital Requirement</u> | | | | | |
| 115,909 | | | | | |
| <u>Surplus/ (Deficit) in Capital</u> | | | | | |
| 2,738,598 | | | | | |
| <u>Total Capital Ratio (times)</u> | | | | | |
| 2.61 | | | | | |

*Net exposure for Margin Financing after Credit Risk Mitigation is considered same as the original exposure to reflect the risk weight as per the CMA guidelines, even though exposure is adequately covered by Collateral.

Disclosure on Capital Adequacy as of 31st December 2020 as per exposure class is provided below:

| All Amounts in SAR “000” | | | | | |
|---|----------------------|-----------------------|-------------------------|----------------------|---------------------|
| Exposure Class (Dec-2020) | Exposures before CRM | | Net Exposures after CRM | Risk Weighted Assets | Capital Requirement |
| <u>Credit Risk</u> | | | | | |
| <i>On-balance Sheet Exposures</i> | | | | | |
| Governments and Central Banks | 21,705 | | 21,705 | 18,096 | 2,533 |
| CMLs and Banks (including cash) | 77,873 | | 77,873 | 53,142 | 7,440 |
| Corporates | 14,063 | | 14,063 | 100,409 | 14,057 |
| Retail | 13,416 | | 13,416 | 40,247 | 5,635 |
| Investments | 1,898,138 | | 1,898,138 | 6,753,124 | 945,437 |
| Securitization | - | | - | - | - |
| Margin Financing* | 1,227,465 | | 1,227,465 | 1,841,197 | 257,768 |
| Other Assets | 651,446 | | 651,446 | 429,775 | 60,168 |
| Total On-Balance sheet Exposures | 3,904,105 | | 3,904,105 | 9,235,990 | 1,293,039 |
| <i>Off-balance Sheet Exposures</i> | | | | | |
| 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 | 3,904,105 | | 3,904,105 | 9,235,990 | 1,293,039 |
| Prohibited Exposure Risk Requirement | - | | - | - | - |
| Total Credit Risk Exposures | | | | | 1,294,090 |
| <u>Market Risk</u> | | | | | |
| | Long Position | Short Position | | | |
| Interest rate risks | - | - | | | - |
| Equity price risks | - | - | | | - |
| Risks related to investment funds | - | - | | | - |
| Securitization/ re-securitization positions | - | - | | | - |
| Excess exposure risks | - | - | | | - |
| Settlement risks and counterparty risks | - | - | | | - |
| Foreign exchange rate risks | 228,139 | - | | | 4,563 |
| Commodities risks. | - | - | | | - |
| Total Market Risk Exposures | 228,139 | - | | | 4,563 |
| <u>Operational Risk</u> | | | | | 94,862 |
| <u>Minimum Capital Requirement</u> | | | | | 1,392,463 |
| <u>Surplus/ (Deficit) in Capital</u> | | | | | 2,298,719 |
| <u>Total Capital Ratio (times)</u> | | | | | 2.65 |

*Net exposure for Margin Financing after Credit Risk Mitigation is considered same as the original exposure to reflect the risk weight as per the CMA guidelines, even though exposure is adequately covered by Collateral.

11.3 Appendix 3

Disclosure on Credit's Risk Weight as of 31st December 2021 is provided below:

| Risk Weights | Exposures after netting and credit risk mitigation (Dec -21) | | | | | | | | | | | (All amounts in SAR "000") | |
|-----------------------------|--|-------------------------------|---------------|------------------|------------|--------|----------------|-------------|----------------|--------------|-------------------------------|---|----------------------------|
| | Governments and central banks | Administrative bodies and NPO | CMI 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% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 20% | - | - | 27,441 | - | - | - | - | 8,785 | - | - | - | 36,226 | 7,245 |
| 50% | 6,994 | - | 51,570 | - | 5,035 | - | - | 12,615 | - | - | - | 76,214 | 38,107 |
| 100% | 40,267 | 226 | 52,153 | - | - | - | - | 26,078 | - | - | - | 118,724 | 118,724 |
| 150% | - | - | - | 2,589,589 | - | - | - | 297,282 | - | - | - | 2,886,871 | 4,330,306 |
| 200% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 300% | - | - | - | - | - | 31,683 | - | 358,301 | - | 25,731 | - | 415,715 | 1,247,146 |
| 400% | - | - | - | - | 8,124 | - | - | 1,325,565 | - | - | - | 1,333,690 | 5,334,758 |
| 500% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 714% | - | - | - | - | 21,267 | - | 2,584 | - | - | - | - | 23,852 | 170,301 |
| Average Risk Weight | 93% | 100% | 64% | 150% | 543% | 300% | 714% | 338% | NA | 300% | NA | 230% | |
| Deduction from Capital Base | | | | | | | | | | | | | |

Disclosure on Credit's Risk Weight as of 31st December 2020 is provided below:

| Risk Weights | Exposures after netting and credit risk mitigation (Dec -20) | | | | | | | | | | | (All amounts in SAR "000") | |
|-----------------------------|--|-------------------------------|-----------------|------------------|------------|--------|----------------|-------------|----------------|--------------|-------------------------------|---|----------------------------|
| | Governments and central banks | Administrative bodies and NPO | CMI's 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% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 20% | - | - | 26,118 | - | - | - | - | 251,586 | - | - | - | 277,704 | 55,541 |
| 50% | 7,219 | - | 7,672 | - | - | - | - | 198,121 | - | - | - | 213,013 | 106,506 |
| 100% | 14,486 | 310 | 44,083 | - | - | - | - | 142,799 | - | - | - | 201,677 | 201,677 |
| 150% | - | - | - | 1,227,465 | - | - | - | 233,798 | - | - | - | 1,461,263 | 2,191,894 |
| 200% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 300% | - | - | - | - | - | 13,416 | - | 358,818 | - | 11,344 | - | 383,578 | 1,150,733 |
| 400% | - | - | - | - | - | - | - | 1,347,076 | - | - | - | 1,347,076 | 5,388,305 |
| 500% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 714% | - | - | - | - | 14,063 | - | 5,732 | - | - | - | - | 19,795 | 141,333 |
| Average Risk Weight | 83% | 100% | 68% | 150% | 714% | 300% | 714% | 281% | NA | 300% | NA | 237% | - |
| Deduction from Capital Base | | | | | | | | | | | | | |

11.4 Appendix 4

Disclosure on Credit Risk's Rated Exposure as of 31st December 2021 is provided below:

| Exposure Class (Dec – 2021) | Long term Ratings of counterparties (All amounts in SAR "000") | | | | | | | |
|---|--|------------|----------------|---------------|------------|---------------|----------------|------------------|
| | 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 | | - | - | 6,994 | - | 40,267 | - | - |
| CMLs and Banks (including cash) | | - | 79,011 | 52,153 | - | - | - | 226 |
| Corporates | | - | 5,035 | - | - | 8,124 | - | 21,267 |
| Retail | | - | - | - | - | - | - | 31,683 |
| Investments ⁵ | | - | 61,764 | 6,330 | - | - | - | 1,960,533 |
| Securitization | | - | - | - | - | - | - | - |
| Margin Financing | | - | - | - | - | - | - | 2,589,589 |
| Other Assets | | - | - | - | - | - | - | 28,315 |
| Total | | - | 145,810 | 65,476 | - | 48,391 | - | 4,631,613 |

* Most of the investments are in Real Estate, Real Estate funds and Islamic Money Market fund, which are unrated

| Exposure Class (Dec – 2021) | Short term Ratings of counterparties (All amounts in SAR “000”) | | | | | |
|--|---|-----------|-----|-----|-----------|---------|
| | 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 | - | - | - | - | - | - |
| CMLs and Banks (including cash) | - | - | - | - | - | - |
| Corporates | - | - | - | - | - | - |
| Retail | - | - | - | - | - | - |
| Investments | - | - | - | - | - | - |
| Securitization | - | - | - | - | - | - |
| Margin Financing | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - |
| Total | - | - | - | - | - | - |

Disclosure on Credit Risk's Rated Exposure as of 31st December 2020 is provided below:

| Exposure Class (Dec – 2020) | Long term Ratings of counterparties (All amounts in SAR "000") | | | | | | | |
|---|--|------------|---------------|--------------|------------|-------------|----------------|------------------|
| | 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 | - | - | 21,705 | - | - | - | - | - |
| CMI's and Banks (including cash) | - | - | 78,183 | - | - | - | - | - |
| Corporates | - | - | - | - | - | - | - | 14,063 |
| Retail | - | - | - | - | - | - | - | 13,416 |
| Investments* | - | - | - | - | - | - | - | 2,532,198 |
| Securitization | - | - | - | - | - | - | - | - |
| Margin Financing | - | - | - | - | - | - | - | 1,227,465 |
| Other Assets | - | - | - | - | - | - | - | 17,076 |
| Total | - | - | 99,888 | - | - | - | - | 3,804,217 |

* Most of the investments are in Real Estate, Real Estate funds and Islamic Money Market fund, which are unrated

| Exposure Class (Dec – 2020) | Short term Ratings of counterparties (All amounts in SAR “000”) | | | | | |
|---|---|-----------|-----|-----|-----------|---------|
| | 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 | - | - | - | - | - | - |
| CMLs and Banks (including cash) | - | - | - | - | - | - |
| Corporates | - | - | - | - | - | - |
| Retail | - | - | - | - | - | - |
| Investments | - | - | - | - | - | - |
| Securitization | - | - | - | - | - | - |
| Margin Financing | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - |
| Total | - | - | - | - | - | - |

11.5 Appendix 5

Disclosure on Credit Risk Mitigation (CRM) as of 31st December 2021 is provided below:

(All amounts in SAR "000")

| Exposure Class (Dec-2021) | 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> | | | | | | |
| <i>On-balance Sheet Exposures</i> | | | | | | |
| Governments and Central Banks | 47,261 | - | - | - | - | 47,261 |
| CMIs and Banks (including cash) | 131,164 | - | - | - | - | 131,164 |
| Corporates | 34,427 | - | - | - | - | 34,427 |
| Retail | 31,683 | - | - | - | - | 31,683 |
| Investments | 2,028,627 | - | - | - | - | 2,028,627 |
| Securitization | - | - | - | - | - | - |
| Margin Financing* | 2,589,589 | - | - | - | 2,589,589 | 2,589,589 |
| Other Assets | 28,541 | - | - | - | - | 28,541 |
| Total On-Balance sheet Exposures | 4,891,291 | - | - | - | 2,589,589 | 4,891,291 |
| <i>Off-balance Sheet Exposures</i> | | | | | | |
| 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 | 0 | - | - | - | - | - |
| Total On and Off-Balance sheet Exposures | 4,891,291 | - | - | - | 2,589,589 | 4,891,291 |

*Net exposure for Margin Financing after Credit Risk Mitigation is considered same as the original exposure to reflect the risk weight as per the CMA guidelines, even though exposure is adequately covered by Collateral.

Disclosure on Credit Risk Mitigation (CRM) as of 31st December 2020 is provided below:

(All amounts in SAR "000")

| Exposure Class (Dec-2020) | 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 |
|---|----------------------|---|---|--|---|---------------------|
| <i>Credit Risk</i> | | | | | | |
| <i>On-balance Sheet Exposures</i> | | | | | | |
| Governments and Central Banks | 21,705 | - | - | - | - | 21,705 |
| CMI and Banks (including cash) | 77,873 | - | - | - | - | 77,873 |
| Corporates | 14,063 | - | - | - | - | 14,063 |
| Retail | 13,416 | - | - | - | - | 13,416 |
| Investments | 1,898,138 | - | - | - | - | 1,898,138 |
| Securitization | - | - | - | - | - | - |
| Margin Financing* | 1,227,465 | - | - | - | 1,227,465 | 1,227,465 |
| Other Assets | 651,446 | - | - | - | - | 651,446 |
| Total On-Balance sheet Exposures | 3,904,105 | - | - | - | 1,227,465 | 3,904,105 |
| <i>Off-balance Sheet Exposures</i> | | | | | | |
| 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 | 3,904,105 | - | - | - | 1,227,465 | 3,904,105 |

*Net exposure for Margin Financing after Credit Risk Mitigation is considered same as the original exposure to reflect the risk weight as per the CMA guidelines, even though exposure is adequately covered by Collateral.