

Pillar III Disclosure

Kamco Investment Company, Saudi

(A Subsidiary of Kamco Investment Company K.S.C.P.)

Dated: 16<sup>th</sup> March 2021

**KAMCO**  
INVEST

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## 1. Purpose of the report

The purpose of this Document is to disclose the required information under Pillar III – Disclosure and Reporting of the Prudential Rules (**PR**) issued by the Capital Markets Authority of the Kingdom of Saudi Arabia (**CMA**).

This report is intended to meet the specific qualitative and quantitative disclosure requirements of the PR's, under Chapter 21 and Chapter 22 as well as the suggested format for the Pillar III Disclosure issued by the CMA.

This Disclosure is based on the audited and approved financial statements of the Company for the year ending 31 December 2020. This Disclosure has been reviewed and approved by the Management and the Board of Directors of the Company and shall be made publicly available on the Company website.

It should be noted that some numbers have been rounded off to the nearest unit for ease of representation. The impact of such rounding off on the accuracy of this report is non-material.

## 2. Specific Disclosure Requirements

### 2.1 Scope of Application

Kamco Investment Company, Saudi (**Capital Market Institution** or **CMI** or **Company** or **Kamco Invest Saudi**), is a Saudi Joint Stock Company registered with the CMA under license number 37-07068 dated 2 Jumada Al Thani 1428H (corresponding to 17 June 2007). The objectives of the Company are to act as principal and/or to provide underwriting, portfolio management, investment fund management, arranging, advisory, and custodial services. In 2017 the Company obtained a license from CMA to act as an agent to register and market foreign funds.

The Company is a subsidiary of Kamco Investment Company K.S.C.P (**Kamco Invest** or **Parent Company**), after the merger of Global Investment House, K.S.C.C. with Kamco Investment Company K.S.C.P. in the year 2019. The Company is fully supported by its Parent Company. The department heads of the Company liaise closely with their counterparts in the Parent Company.

The Company does not have any subsidiaries in the Kingdom of Saudi Arabia or outside and as such, the issue of current or unforeseen material/legal impediments regarding the transfer of capital/liabilities among the CMI and its subsidiaries is not applicable.

### 2.2 Capital Structure

#### a. Qualitative Disclosures

The Company maintains its capital in line with the applicable laws, regulations and guidelines issued by the various regulatory authorities of the Kingdom of Saudi Arabia as well as the Risk Appetite approved by the Board of Directors. There are no additional terms, conditions, limitations, or requirements on the capital base.

**2.3 Quantitative Disclosures** (Some numbers have been rounded off for ease of presentation)

Capital Base	SAR
<b>Tier-1 capital</b>	
Paid-up capital	50,000,000
Audited retained earnings	1,344,198*
Share premium	-
Reserves (other than revaluation reserves)	1,832,424
Loss offsetting against capital reduction	-
Deductions from Tier-1 capital	-
<b>Total Tier-1 capital</b>	<b>53,176,622</b>
<b>Tier-2 capital</b>	
Subordinated loans	-
Tier 1 debt securities	-
Cumulative preference shares	-
Revaluation reserve on FVOCI investments	-
Other deductions from Tier-2 (-)	-
Deduction to meet Tier-2 capital limit (-)	-
<b>Total Tier-2 capital</b>	<b>-</b>
<b>Total Capital Base</b>	<b>53,176,622</b>

**Table 1 - Capital Base (All figures in SAR)**

\*NB 1: Dividends of SAR 10,000,000 (including taxes) were paid out during the year 2020.

### 3. Capital Adequacy

#### 3.1 Capital Adequacy Related Qualitative Disclosures

The Company's total capital base as of 31<sup>st</sup> December 2020 is SAR 53,176,622, which is well above its Minimum Capital Requirements and as such, the Company has more than the required amount of regulatory capital vis-à-vis its Minimum Capital Requirements.

Based on the requirements set out in the PR's, the Company has calculated SAR 7,744,299 as its Minimum Capital Requirement for Credit Risk, Market Risk and Operational Risk. This implies surplus capital of SAR 45,432,323. This implies a Total Capital Ratio (as well as Tier 1 Capital Ratio) of 6.87x, signifying more than enough risk capital for the Company to manage its risks in normal market conditions. This assessment has been undertaken in purview of the PR's issued by the CMA.

The Company prepares a monthly Capital Adequacy Model Report as per CMA requirements, which helps the Company be aware of any significant changes or stresses in the Company's capital position and assess any potential need to increase capital.

In general, the Company is cautious with regards to deploying capital, despite its current level of capitalization. Any decisions that could materially impact the capital adequacy of the Company are pre-reviewed in context of the Company's capital adequacy regime. The Company aims to ensure that it always meets the capital adequacy ratio required by the CMA as well as its internal threshold.

The Company has an Investment Committee that oversees the proprietary investments of the Company, the Company's capital adequacy position as well as liquidity position. The decisions of the Committee take into consideration the implications of investment/divestment decisions on capital adequacy.

Additionally, the Company's capital adequacy position is also monitored by the Parent Company's Risk Management department, which also acts as the Risk Manager of the Company. The Risk Manager issues monthly reports to the Management & Investment Committee of the Company regarding investment risks, liquidity risks and capital adequacy of the Company. Given the nature of the Company's business, the following are the Minimum Capital Requirements for:

- i. Credit Risk (Risks from various balance sheet exposures, exposures in investment funds assigned as FVTPL and inclusive of associated prohibited exposure capital requirements) – SAR 5,391,489
- ii. Market Risk – The Company has an exposure of SAR 333 as USD cash (USD 88.8) in one of its bank accounts, attracting a Foreign Exchange Rate Risk Capital of SAR 7.
- iii. Operational Risk (Expenditure based approach) –SAR 2,352,803

**3.2 Capital Adequacy Related Quantitative Disclosures** (Some numbers may have been rounded off for ease of presentation)

Exposure Class	Exposures before CRM	Net Exposures after CRM	Risk Weighted Assets	Capital Requirement
<b>Credit Risk Summary</b>				
<i>On-balance Sheet Exposures</i>				
Governments and Central Banks	-	-	-	-
Administrative bodies & NPO's	-	-	-	-
CMI's and Banks	49,878,442	-	10,855,247	1,519,735
Margin Financing	-	-	-	-
Corporates	184,002	-	1,313,772	183,928
High Risk Investments	-	-	-	-
Securitized, Re-securitized	-	-	-	-
Investment Funds	13,960,982	-	20,941,473	2,931,806
Investment Funds (underlying)	-	-	-	-
Counterparty Credit Risk for Derivatives	-	-	-	-
CCP – Default Fund Contribution	-	-	-	-
CCP – Cash Margin	-	-	-	-
Listed Shares	-	-	-	-
Other Exposures	475,999	-	1,639,245	229,493
<b>Total On-Balance sheet Exposures</b>	<b>64,499,425</b>	<b>-</b>	<b>34,749,737</b>	<b>4,864,963</b>
<i>Off-balance Sheet Exposures</i>				
Guarantee	-	-	-	-
Securities Lending	-	-	-	-
Securities Pledging	-	-	-	-
Book building	-	-	-	-
Others	-	-	-	-
<b>Total Off-Balance sheet Exposures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total On and Off-Balance sheet Exposures</b>	<b>64,499,425</b>	<b>-</b>	<b>34,749,737</b>	<b>4,864,963</b>
<b>Prohibited Exposures</b>	<b>666,827</b>	<b>-</b>	<b>3,760,902</b>	<b>526,526</b>
<b>Total Credit Risk Exposures (a)</b>	<b>65,166,252</b>	<b>-</b>	<b>38,510,639</b>	<b>5,391,489</b>
<b>Market Risk</b>	<b>Long Position</b>	<b>Short Position</b>		
Interest Rate Risks for Debt Securities	-	-		-
Equity Price Risks	-	-		-
Investment Fund Risks	-	-		-
Options Risk	-	-		-
Interest Rate Risks for Securitization	-	-		-
Interest Rate Risks for Re-securitization	-	-		-
Settlement Risks	-	-		-
Foreign Exchange Rate Risk	333	-		7
Commodities Risk	-	-		-
Settlement Risk	-	-		-
<b>Total Market Risk Exposures (b)</b>	<b>333</b>	<b>-</b>		<b>7</b>
<b>Operational Risk (c)</b>				<b>2,352,803</b>
<b>Minimum Capital Requirements (a)+(b)+(c)</b>				<b>7,744,299</b>
<b>Surplus/(Deficit) in capital</b>				<b>45,432,323</b>
<b>Total Capital ratio (times)</b>				<b>6.87</b>

Table 2 – Capital Adequacy (All figures in SAR)

#### 4. Risk Management

##### 4.1 General Qualitative Disclosure for Risks

- a. The Company's risk management activities are undertaken by the Risk Management Department (RM or Risk Management Department of the Parent Company).
- b. The Risk Management process implemented by RM comprises the following:
  - i. Risk Identification
  - ii. Risk Measurement
  - iii. Risk Mitigation
  - iv. Risk Monitoring and Reporting
- c. The above is affected through a Board approved risk management manual, that covers the key financial & non-financial risks that the Company may face. In addition, an appropriate risk appetite statement also exists for the Company.
- d. RM has unrestricted access to the Investment Committee of the Company, Board of Directors of the Company, and Board Risk Committee of the Parent Company to ensure that key risk concerns identified during its processes are escalated to the highest levels.
- e. Given the scale and size of the Company, the risk related processes undertaken by RM for the Company are facilitated by a local risk coordinator.
- f. The Company has an in-house Compliance Department that reports directly to the Compliance Committee of the Company.
- g. In undertaking its responsibilities, the Compliance Department has unrestricted access to the CEO and the Board of the Company.
- h. The Company's Compliance Committee is responsible for implementation of compliance programs, policies and procedures that are designed to respond to the various compliance and regulatory risks facing the Company.

##### 4.2 Credit Risk Disclosure

###### a. Qualitative Disclosures

Given the nature of the business and the financial position of the Company, credit risk for Kamco Invest, Saudi arises primarily out of the deposits placed with banks, corporates and other authorized persons (portfolio managers and related parties) and investments held at Fair Value Through Profit & Loss (FVTPL) as of 31<sup>st</sup> December 2020 by the Company. These FVTPL investments include investments in the Company's own fund. This aspect of the Company's credit risk is subject to monthly review and monitoring by RM. RM reports its analysis, along with key risk concerns to the Investment Committee of the Company as well as the stakeholders of the Parent

Company monthly.

Since the Company does not undertake any lending activities, default risk is not applicable to the Company.

The following is an overview of the Company's credit risk exposure classes along with the Credit Rating Agencies (**CRA**) used and the credit quality steps:

Exposure Class	Nature of Exposure	CRA	Credit Quality Step	Risk Weight
CMI and Banks	Cash Deposited with local banks	Unrated	1*	20%
CMI and Banks	Accrued Income	Unrated	Not Applicable	150%
Corporates	Advances to suppliers & account receivables	Unrated	Not Applicable	714%
Investment Funds	Exposures to unrated investment funds held at FVTPL	Unrated	Not Applicable	150%
Tangible Assets	Fixed assets of the Company	Unrated	Not Applicable	300%
Deferred Expenditure/ Accrued Income	Prepaid expenses	Unrated	Not Applicable	300%
Other Assets	Advances to employees	Unrated	Not Applicable	714%
Prohibited Exposures	Exposures in Investment Funds held at FVTPL exceeding 25% of the Capital Base	Unrated	Not Applicable	564%**

**Table 3 – Credit Risk Exposure Mapping**

\*NB 1: In line with Annexure 3 (Section 7) of the PR's

\*\*NB 2: 714%-150% = 564% (Differential Risk Weights for Prohibited Exposure in Investment Funds)

Given the absence of ratings by CRA's, the Company has considered its exposure to its own funds as unrated, as of 31<sup>st</sup> December 2020. Also, given that none of the other exposures are rated, the Company has referred to the individual requirements under the PR's for unrated exposures, to assign the risk weights.



**b. Quantitative Disclosures** (Some numbers may have been rounded off for ease of presentation)

The Company has also calculated its gross average credit exposures through the year. The exposures have been calculated in line with the monthly Capital Adequacy Models submitted to the CMA.

The average exposures disclosed in **Table 5** below are the average of the Company's credit risk positions at the end of each financial quarter. The Company believes that the exposures at the end of each financial quarter are a reasonable representation of the Company's operations through the year.

The exposures of the Company are not contract bound and hence, residual contractual maturity is not applicable for any of the exposures.

In terms of geographic distribution, it should be noted that entire credit risk exposure of the Company lies within Kingdom of Saudi Arabia. Also, given the nature of these exposures, credit protection arrangements such as netting and collateral and issues pertaining to impairment and exposure specific provisions are not applicable to either gross or average exposures as shown in **Table 4** and **Table 5** respectively. The average risk weights calculated for **Table 4** and **Table 5** are calculated on a weighted average basis, with the exposure value being the weight.

PILLAR III DISCLOSURE - KAMCO INVESTMENT COMPANY, SAUDI

Risk Weights	Exposures after netting and credit risk mitigation (Some numbers may have been rounded off for ease of presentation)														
	Govts. and central banks	Admin. bodies & NPOs	CMIs and Banks	Margin Financing	Corporates	High Risk Investments	Securitization / Re-securitization	Investment Funds	CCP – Cash Margin	Listed Shares	Other Exposures	Prohibited Exposure	Off-balance sheet Exposures	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	49,201,859	-	-	-	-	-	-	-	-	-	-	49,201,859	9,840,372
50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	676,584	-	-	-	-	13,960,982	-	-	-	-	-	14,637,566	21,956,349
200%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
300%	-	-	-	-	-	-	-	-	-	-	424,972	-	-	424,972	1,274,917
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
500%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
564%*	-	-	-	-	-	-	-	-	-	-	-	666,827**	-	666,827	3,760,902
714%	-	-	-	-	184,002	-	-	-	-	-	51,026	-	-	235,028	1,678,099
<i>Average Risk Weight</i>	-	-	22%	-	714%	-	-	150%	-	-	344%	564%	-	59%	38,510,639
<i>Deduction from Capital Base</i>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Table 4 – Credit Risk Positions as of 31<sup>st</sup> December 2020 (All figures in SAR)

\*Risk Weight for exposures subject to Prohibited Risk Capital Requirement is 714%-150% = 564%; \*\* Prohibited Exposures arise from excess in holding in Investment Funds, beyond the 25% of Capital Base threshold

PILLAR III DISCLOSURE - KAMCO INVESTMENT COMPANY, SAUDI

Risk Weights	Exposures after netting and credit risk mitigation (Some numbers may have been rounded off for ease of presentation)														
	Govts. and central banks	Admin. bodies & NPOs	CMI and Banks	Margin Financing	Corporates	High Risk Investments	Securitization / Re-securitization	Investment Funds	CCP – Cash Margin	Listed Shares	Other Exposures	Prohibited Exposure	Off-balance sheet Exposures	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	24,151,289	-	-	-	-	-	-	-	-	-	-	24,151,289	4,830,258
50%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	1,304,740	-	-	-	-	14,446,679*	-	-	-	-	-	15,751,420	23,627,129
200%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
300%	-	-	-	-	-	-	-	-	-	-	525,284	-	-	525,284	1,575,852
400%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
500%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
564%**	-	-	-	-	-	-	-	-	-	-	-	12,474,070	-	12,474,070	70,353,755
714%	-	-	-	-	366,056	-	-	-	-	-	209,461	-	-	575,517	4,109,192
<b>Average Risk Weight</b>	-	-	<b>27%</b>	-	<b>714%</b>	-	-	<b>150%</b>	-	-	<b>418%</b>	<b>564%</b>	-	<b>195%</b>	<b>104,496,186</b>
<b>Deduction from Capital Base</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Table 5 – Credit Risk Average Positions for 2020 (All figures in SAR)

\*Investments Funds held at FVTPL were considered part of Credit Risk after the issuance of CMA's DMC CAM Model version 7.1, prior to which they were considered part of Market Risk. This number reflects the average of exposures considered as Credit Risk only.

\*\*Risk Weight for exposures subject to Prohibited Risk Capital Requirement is 714%-150% = 564%

It should be noted that none of the above exposures were assigned either long-term or short-term ratings by CRA's.

Additionally, since credit risk protection is not applicable for these exposures, they should be considered as gross exposures as of 31<sup>st</sup> December 2020.

Exposure Class	Exposures by Short Term/Long Term Ratings by CRA's (Some numbers may have been rounded off for ease of presentation)		
	Credit quality step	Unrated	
	S&P	Unrated	
	Fitch	Unrated	
	Moody's	Unrated	
	Capital Intelligence	Unrated	
<b>On and Off-balance-sheet Exposures*</b>			
Governments and Central Banks		-	
Administrative bodies & NPO's		-	
CMLs and Banks		49,878,442	
Margin Financing		-	
Corporates		184,002	
High Risk Investments	<b>None of the Counterparties of the Company were assigned either Long Term or Short-Term Ratings by any CRA's. Hence, all exposures have been considered unrated</b>	-	
Securitization / Re-securitization		-	
Investment Funds		13,960,982	
CCP – Cash Margin		-	
Listed Shares		-	
Other Exposures**		475,999	
Prohibited Exposures***		666,827	
<b>Total</b>			<b>65,166,252</b>

Table 6 – Credit Risk's Rated Exposure (All figures in SAR)

NB:

\*There were no Off-Balance-Sheet exposures

\*\*Includes - Tangible Assets, Deferred Expenditure and Accrued Income and other assets

\*\*\* Prohibited Exposures arise from excess in holding in Investment Funds, beyond the 25% of Capital Base threshold

**c. Credit Risk Mitigation Exposure** (Some numbers may have been rounded off for ease of presentation)

Given the nature of Credit Risk exposures, Credit Risk Mitigation techniques are not applicable for the management of Credit Risk. Consequently, as of 31 December 2020, there was no additional impact of Credit Risk Mitigation on the Credit Risk of the Company. Additionally, the Company does not have any Off-Balance Sheet exposures as of 31 December 2020.

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
<b>Credit Risk</b>						
<i>On-balance Sheet Exposures</i>						
Governments and Central Banks	-	-	-	-	-	-
Administrative bodies & NPO's	-	-	-	-	-	-
CMLs and Banks	49,878,442	-	-	-	-	49,878,442
Margin Financing	-	-	-	-	-	-
Corporates	184,002	-	-	-	-	184,002
High Risk Investments	-	-	-	-	-	-
Securitizations, Re-securitizations	-	-	-	-	-	-
Investment Funds	13,960,982	-	-	-	-	13,960,982
CCP – Cash Margin	-	-	-	-	-	-
Listed Shares	-	-	-	-	-	-
Other Exposures	475,999	-	-	-	-	475,999
Prohibited Exposures	666,827	-	-	-	-	666,827
<b>Total On-Balance sheet Exposures</b>	<b>65,166,252</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65,166,252</b>
<i>Off-balance Sheet Exposures</i>						
Guarantee	-	-	-	-	-	-
Securities Lending	-	-	-	-	-	-
Securities Pledging	-	-	-	-	-	-
Book building	-	-	-	-	-	-
Others	-	-	-	-	-	-
<b>Total Off-Balance sheet Exposures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total On and Off-Balance sheet Exposures</b>	<b>65,166,252</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65,166,252</b>

Table 7 – Credit Risk's Mitigation (All figures in SAR)

#### **4.3 Counterparty Credit Risk (CCR) and Off-Balance Sheet Disclosure**

As of 31<sup>st</sup> December 2020 Kamco Invest Saudi did not have exposure to Counterparties via OTC derivatives, repos and reverse repos and securities borrowing / lending. Additionally, the Company also did not have any exposure to FX contracts, interest rate contracts, equity contracts, commodity contracts or derivative products such as credit default swaps, total return swaps, credit options etc.

Hence, the Company has not undertaken any assessment of its Minimum Capital Requirements under Counterparty Credit Risk and Off-Balance Sheet items.

#### **4.4 Market Risk Disclosure**

##### **a. Qualitative Disclosures**

The Company's overall approach towards Market Risk comprises the following steps:

- i. Risk Identification
- ii. Risk Measurement
- iii. Risk Mitigation
- iv. Risk Monitoring and Reporting

Since the Company does not have an active trading book, Market Risk is not one of the key risks that the Company faces. Price risks emanating from the Company's holdings in Investment Funds have been included in the Minimum Capital Requirements for Credit Risk. Adequate Market Risk Management infrastructure, such as Policies, Procedures, etc. exist at a Group Level, such that they can be readily implemented to measure and monitor Market Risk, should the Company be exposed to such risks in the future.

As of 31<sup>st</sup> December 2020, the only source of Market Risk for the Company was a small exposure of SAR 333 in cash denominated in USD, which incurs a Foreign Exchange Rate Risk.

##### **b. Quantitative Disclosures** (Some numbers may have been rounded off for ease of presentation)

As of 31<sup>st</sup> December 2020, the Company had a net long USD position of SAR 333 (worth USD 88.8) through one of its bank accounts. This position attracts a capital requirement of 2%, implying a Minimum Capital Requirement of SAR 7.

Foreign Currency Exposures	Asset & Off-Balance Sheet Commitment	Liability & Provision
USD	333	-
GCC - AED	-	-
GCC - BHD	-	-
GCC - KWD	-	-
GCC - OMR	-	-
GCC - QAR	-	-
GBP	-	-
Euro	-	-
Others	-	-

Table 8 – Foreign Currency Exposures (All figures in SAR)

Foreign Exchange Rate Risk	Net position	Position (long or short)	Total of Net long position	Total of Net short position	Capital Requirement factor	Capital Requirement
USD & GCC currencies	333	Net Long	333	-	2%	7
All other currencies	-	-	-	-	-	-
Gold	-	-	-	-	-	-
<b>Minimum Capital Requirement for Foreign Exchange Rate Risk</b>						<b>7</b>

Table 9 – Foreign Exchange Rate Risks (All figures in SAR)

#### 4.5 Operational Risk Disclosure

##### a. Qualitative Disclosures

Kamco Invest, Saudi's overall approach towards Operational Risk comprises the following steps:

- i. Risk Identification
- ii. Risk Measurement
- iii. Risk Mitigation
- iv. Risk Monitoring and Reporting

Given the size and scale of the Company, there is no in-house Operational Risk Management Department. However, RM liaises directly with each Department Head regarding Operational Risk issues. Additionally, RM has full and unrestricted access to the CEO and the Board of Directors of the Company, as well the Board Risk Committee of the Parent Company to escalate any key Operational Risk related concerns to the highest levels.

The Operational Risk Assessment Process for the Company is governed by the Operational Risk Policies and Procedures of RM. These Operational Risk Policies and Procedures ensure a consistent and standardized approach towards Operational Risk Assessment.

As part of its Operational Risk Management framework, the Company has policies, procedures, delegation of authorities and appropriate governance mechanisms in place.

**b. Quantitative Disclosures** (Some numbers may have been rounded off for ease of presentation)

The Company assesses its capital requirements for Operational Risk under requirements of the PR's using the

- i. Basic Indicator Approach; and
- ii. Expenditure Based Approach

Based on the requirements assessed under the two approaches, the Company identifies its capital requirements as the higher of the two, as required by the PR's.

The capital requirements under the two approaches are given below.

1. Capital Requirement based on Basic Indicator approach (Some numbers may have been rounded off for ease of presentation)			
Items	Year 1	Year 2	Year 3
	2020	2019	2018
Interest Receivable income	-	204,588	-
Dividends Received	302,565	613,975	409,762
Fees and commissions receivable	5,586,425	11,836,809	10,601,468
Other Operating Income	1,719,536	4,256,665	891,866
<b>Total Operating Income</b>	<b>7,608,525</b>	<b>16,912,037</b>	<b>11,903,096</b>
Income Indicator			12,141,219
<b>Capital required under Basic Indicator Approach</b>			<b>1,821,183</b>

**Table 10 – Operational Risk Disclosure (Basic Indicator Approach; All figures in SAR)**

2. Capital requirements for Expenditure Based Approach Items 2020	
Overall overhead Expenses including extraordinary expenses	9,411,210
Less: Extraordinary Expense	-
Overhead expenses for calculating capital requirement	9,411,210
<b>Capital required under Expenditure Based Approach</b>	<b>2,352,803</b>
<b>Minimum Capital Required for Operational Risk ( Higher of 1 or 2)</b>	<b>2,352,803</b>

**Table 11 – Operational Risk Disclosure (Expenditure Based Approach; All figures in SAR)**

Consequently, the Company has identified SAR 2,352,803 (under the Expenditure Based Approach, as it yields higher capital requirements) as its Minimum Capital Requirement for Operational Risk.



#### 4.6 Liquidity Risk Disclosure

##### a. Qualitative Disclosures

The Company has sufficient cash and relatively liquid assets (open ended funds) that it can access swiftly or convert to cash to meet any unforeseen liquidity needs/crises. The Company remains completely debt free and as such, is unlikely to run into significant and unforeseen liquidity challenges in its day to day business.

The Company undertakes regular monthly MIS reporting to the Parent Company for the regular monitoring of its overall performance, as well as liquidity. The MIS reports contain details on the financial performance of the Company, including but not limited to, monthly financial reports (income statement, balance sheet and cash position), as well as business performance of the Company.

Risk Management monitor adherence of market risk exposures to the limits defined in the Investment Policy, performs monthly reviews of the Company's liquidity exposures (including stress testing across high stress and severe stress scenarios), and reports it to the Investment Committee.

Additionally, the liquidity position of the Company is regularly monitored by the Financial Manager and CEO of the Company as well as the Risk Manager.

The Company does not rely on any external funding. As of 31<sup>st</sup> December 2020, the Company has sufficient cash and liquid assets at its disposal. The Company assumes that a stressed liquidity position could be an unforeseen increase in its cash-based expenses (tripling the avg. monthly expenses of SAR 0.638mn). If such a stress scenario occurs, the Company will have enough cash on the balance sheet to meet such expenses.

##### b. Quantitative Disclosures (Some numbers may have been rounded off for ease of presentation)

The Company's Cash and Cash Equivalents amount to SAR 49,201,859 as of 31<sup>st</sup> December 2020. This amount is enough to manage the Company's overall liquidity requirements. Considering the Company's cash burn rate as 2020, the Company can survive for a period of 77.09 months on its current cash balances without any additional funding support. On a severe stress basis, the Company can survive for a period of 25.69 months.

It should also be noted that the Company has more than enough cash to meet all its liabilities. The following are some ratios that measure the adequacy of the Company's liquidity reserves to its liabilities:

Ratios	Percentage
Cash and Cash Equivalents to Total Assets (times)	0.76
Survival Period (Months)	77.09
Severe Stressed Survival Period (Months)	25.69
Current Ratio	6.48
Cash and Cash Equivalents to Current Liabilities (times)	4.95
Cash and Cash Equivalents to Total Liabilities (times)	4.35

Table 11 – Liquidity Disclosures