



# Capital Adequacy Report

## Year of 2021

**Table of Contents**

| Description   | Page No |
|---|---------|
| Scope of Application  | 3       |
| Capital Structure   | 3       |
| Capital Adequacy Analysis and Computation                     | 4       |
| Risk Management and Compliance                                | 5       |
| Credit Risk   | 5       |
| Market Risk   | 6       |
| Operations Risk   | 7       |
| Liquidity and Cash Management                                 | 7       |
| Factors Impacting Risks and Capital                           | 7       |
| Conclusion  | 8       |
| Appendix A – Comparative Balance Sheets and Income Statements | 9       |
| Appendix 1,11,111,1V and V                                    | 12      |

## Scope of Application

Saudi Kuwaiti Finance House (the “SKFH”) is a Saudi Closed Joint Stock Company incorporated under Ministry of Commerce resolution number 71/K dated 7 Rabi Awal 1430H (corresponding to 4 March 2009). SKFH was initially registered in Al Khobar with commercial registration number 2051039562 dated 28 Rabi' I 1430H (corresponding to 25 March 2009). During 2011, SKFH changed its head office location to Riyadh and a new commercial registration was issued in Riyadh with number 1010312522 with the same date. The previous commercial registration has been cancelled.

SKFH’s principal activities according to the Capital Market Authority license numbered 08124 37 and dated 7 Dhul-Qadah 1429H (corresponding to 5 November 2008) are summarized as follows:

- 1.1. Dealing as principal and underwriting in financial securities;
- 1.2. Establishment and management of mutual funds and portfolios;
- 1.3. Arranging transactions in debt and equity securities; and
- 1.4. Providing advisory services; and custody services for financial securities.

SKFH is owned by Saudi and Kuwaiti shareholders. SKFH is a subsidiary of Kuwait Finance House, a company listed in Kuwait Stock Exchange, which represents as the main shareholder in SKFH.

Capital adequacy refers to whether SKFH has sufficient capital to meet certain risks that are usually associated with economy downturn and have conservable effect on financial assets, these risks comprise of credit, market and operations. SKFH is subject to these risks and accordingly has to monitor the capital adequacy on regular basis to ensure that the previously mentioned risks are adequately covered by sufficient capital base. In this report we analyze Saudi Kuwaiti Finance House (“SKFH”) capital adequacy based on audited financial statements for the year ended December 31, 2020 in comparison with year ended December 31, 2021.

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

## SKFH has investments in the following subsidiaries

SKFH owned below subsidiaries (“Subsidiaries”) incorporated in the Kingdom of Saudi Arabia. The subsidiaries were formed for holding investments.

| <i>Name of subsidiary</i>                           | <i>Country of incorporation</i> | <i>Percentage of ownership<br/>31 December 2021</i> |
|---|---------------------------------|---|
| <b>Food Acquisition Company</b>                     | Kingdom of Saudi Arabia         | <b>100%</b>   |
| <b>Planning and Development Real Estate Company</b> | Kingdom of Saudi Arabia         | <b>95%</b>  |
| <b>Takamul Food Investment Company</b>              | Kingdom of Saudi Arabia         | <b>65%</b>  |

SKFH also holds one investment Public domiciled in the Kingdom of Saudi Arabia, which are managed by SKFH; as below. The Funds’ investment objective is to generate returns by investing in equity instruments listed on Tadawul. As at 31 December 2021:

|                             |                                |              |
|-----------------------------|--------------------------------|--------------|
| <b>Baitk Liquidity Fund</b> | <b>Kingdom of Saudi Arabia</b> | <b>66.6%</b> |
|-----------------------------|--------------------------------|--------------|

## Capital Structure

The authorized share paid capital of SKFH is SR 500,000,000 divided into 50,000,000 shares of SR 10 par value, with each carrying one vote.

CMA has prescribed the framework and guidance regarding the minimum regulatory capital requirement and its calculation methodology as prescribed under Pillar I. In accordance with this methodology, SKFH calculate its minimum capital required and capital adequacy ratios as follows:

- Capital Base of SKFH comprise of:

- Tier-1 capital consists of paid-up share capital, retained earnings, share premium (if any), reserves excluding revaluation reserves.
- Tier-2 capital consists of subordinated loans, cumulative preference shares and revaluation reserves.
- The minimum capital requirements for market, credit and operational risk are calculated as per the requirements specified in part 3 of the Prudential Rules issued by the CMA.
- SKFH's business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA to safeguard SKFH's ability to continue as a going concern, and to maintain a strong capital base.

SKFH investment portfolio as of December 31, 2021 comprises of held for trading investments in Saudi equity market, available for sale investment in TADAWUL, ELM and NAHDI , investment in Sukuk portfolio held to maturity, investment in Murabaha deposits and money market funds and investment in private equity represented by Takamul Food Investment Co. Total of SKFH investments portfolio is approximately SR 221.8 million and other assets amounts to SR 219.8 million which brings total assets to SR approximately SR 441.6 million.

Historically, SKFH was able to manage investments as to their different risks and liquidity in a proper manner and there were no instances that SKFH faced issues that result in major risks and losses in relation to large exposure to market, credit, operations or any other risks. Please refer to appendix A for comparative balance sheets and income statements for the years 2020 and 2021.

### Capital Adequacy Analysis and Computation

SKFH's business objectives when managing capital adequacy is to comply with the capital requirements set forth by the CMA to safeguard SKFH's ability to continue as a going concern, and to maintain a strong capital base of its capital to support current and future activities through the following measure:

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

#### Our analysis of capital adequacy is summarized as follows:

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

In the following table, we illustrate the capital adequacy calculation for the years 2021 and 2020 based on the information and explanations shown above:

| Description                   | 31-Dec-21<br>SR ('000') | 31-Dec-20<br>SR ('000') | Change         | Change %       |
|-------------------------------|-------------------------|-------------------------|----------------|----------------|
| <b>Capital base:</b>          |                         |                         |                |                |
| Tier-1 capital                | 373,186                 | 393,632                 | -20,445        | -5.19%         |
| Tier-2 capital                | 27                      | 0                       | 27             | -              |
| <b>Total</b>                  | <b>373,213</b>          | <b>393,632</b>          | <b>-20,418</b> | <b>-5.19%</b>  |
| <b>Minimum Capital:</b>       |                         |                         |                |                |
| Credit risks                  | 94,203                  | 137,097                 | -42,893        | -31.29%        |
| Market risks                  | 3,097                   | 2,996                   | 101            | 3.38%          |
| Operations risks              | 4,157                   | 7,478                   | -3,321         | -44.41%        |
| <b>Total</b>                  | <b>101,457</b>          | <b>147,571</b>          | <b>-46,113</b> | <b>-31.25%</b> |
| <b>Capital adequacy ratio</b> | <b>3.68</b>             | <b>2.67</b>             | <b>1.01</b>    | <b>37.91%</b>  |
| <b>surplus</b>                | <b>271,756</b>          | <b>246,061</b>          | <b>25,695</b>  | <b>10.44%</b>  |

## Risk Management and Compliance

SKFH's objective in managing risk is the creation and protection of shareholder value. Risk is inherent in SKFH's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to SKFH's continuing profitability.

SKFH's Board of Directors has overall responsibility for the establishment and oversight of SKFH's risk management framework. These risk management policies are established to identify and analyze the risks faced by SKFH, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and SKFH's activities. SKFH, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations. SKFH's activities expose it to a variety of financial risks that include:

- Credit risk;
- Market risk;
- Operations risk;

Compliance function is an independent function whose main objectives are: to ensure that SKFH comply with the requirements of authorized person regulations; to assist the Board of Director, management, employees and the registered persons to comply with any requirement issued by CMA to appear to explain any matter or to assist in any enquiry relating to the administration of the Capital Market Law and its implementing regulations; and to assist in the efficient management of consequent risks.

### *In practice, these objectives are reached by:*

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

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

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

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

Based on above policies and procedures SKFH appropriately manages and controls capital and their adequacy.

### Credit Risk

Credit risk is the risk of suffering financial loss, should any of SKFH's customers, clients or market counterparties fail to fulfil their contractual obligations to SKFH. Credit risk arises mainly from bank balances, murabaha placements, trade receivables, amounts due from related parties and financial assets at amortized cost (Sukuk).

Credit risk is the single largest risk for SKFH's business; therefore, the management carefully manages its exposure to credit risk. The credit risk management and control are centralized in Risk management team, which reports regularly to the Board of Directors and head of each business unit.

SKFH has the following types of financial instruments that are subject to expected credit loss:

- Cash and cash equivalents
- Trade and other receivables - receivable from corporate clients and due from related parties
- Financial assets at amortized cost (Sukuk)

SKFH applies the IFRS 9 simplified approach for measuring ECL for trade receivables, which uses a lifetime, expected loss allowance.

*Credit risks are calculated as follows:*

| Description   | 2021 SR ('000') | 2020 SR ('000') | Difference     |
|---|-----------------|-----------------|----------------|
| <b>Total risk weighted assets (see details below)</b>         | 672,880         | 979,261         | -306,381       |
| <b>Credit risk calculation as 14% of risk weighted assets</b> | 94,203          | 137,097         | -42,893        |
| <b>Capital requirement</b>                                    | <b>94,203</b>   | <b>137,097</b>  | <b>-42,893</b> |

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

| Description of exposure   | 2021 SR ('000') | 2020 SR ('000') | Difference      |
|---|-----------------|-----------------|-----------------|
| <b>Governments and central banks - bills/notes/bonds</b>        | 16,825          | 18,462          | -1,637          |
| <b>Authorized persons and banks - deposits/receivable/bonds</b> | 93,327          | 67,582          | 25,745          |
| <b>Corporates - receivables and bonds</b>                       | 76,278          | 414,227         | -337,949        |
| <b>Investment funds</b>   | 190,092         | 193,648         | -3,555          |
| <b>High risk investment</b>                                     | 278,304         | 277,674         | 630             |
| <b>Other exposures</b>  | 18,054          | 7,669           | 10,386          |
| <b>Total</b>  | <b>672,880</b>  | <b>979,261</b>  | <b>-306,381</b> |

### Market Risk

Market risks in general comprise of equity, investment funds, Sukuk, foreign exchange rate, underwriting, excess exposures and settlement. The only applicable risks to SKFH for the years 2021 and 2020 are equity price risk and foreign exchange rate that is associated with Company's investments denominated in USD.

Equity price risk is the risk related to holding equity in a particular investment. Equity price risk often refers to equity in companies through the purchase of stock. The measure of risk used in the equity markets is typically the standard deviation of a security's price fluctuations over a number of periods.

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. SKFH is subject to fluctuations in foreign exchange rates in the normal course of its business. SKFH did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars during the year. As the Saudi Riyal is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

SKFH monitors market risks related to equity price and currency risks on regular basis. The market prices of held for trading and available for sale securities are reviewed on daily basis and proper research reports are performed to identify over/under valued securities. Macroeconomic research reports are also performed on regular basis to assess systemic risks and their potential impact on the respective portfolios in the proprietary book investments.

*The calculation of this risk is summarized as follows:*

| Description   | 2021 SR ('000') | 2020 SR ('000') | Difference |
|---|-----------------|-----------------|------------|
| <b>Total assets denominated in foreign currency (USD)</b> | 154,861         | 149,799         | 5,062      |
| <b>Foreign exchange rate risk</b>                         | <b>3,097</b>    | <b>2,996</b>    | <b>101</b> |
| <b>Equity long position</b>                               | 0               | 0               | 0          |
| <b>Equity price risk</b>                                  | 0               | 0               | 0          |
| <b>Capital requirement</b>                                | <b>3,097</b>    | <b>2,996</b>    | <b>101</b> |

### Operations Risk

For operational risks, the required capital is calculated as 25% of the authorized person's overhead expenses for the previous year. The calculation is summarized as follows:

| Description  | 2021 SR ('000') | 2020 SR ('000') | Difference    |
|--|-----------------|-----------------|---------------|
| <b>Total overhead expenses for previous year</b>               | 16,628          | 29,913          | -13,285       |
| <b>Operations risk calculation as 25% of overhead expenses</b> | 4,157           | 7,478           | -3,321        |
| <b>Capital requirement</b>                                     | <b>4,157</b>    | <b>7,478</b>    | <b>-3,321</b> |

### Liquidity and Cash Management

Liquidity risk is the risk that SKFH will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. SKFH's manages its liquidity risk by monitoring investing activities and cash flows on regular basis.

There are no funding requirements for other investments or a pressure to liquidate any existing investment during a short period and therefore no liquidity risk is associated thereto.

### Factors Influencing Risks and Capital

#### Fall in TASI

If we assume certain percentage decline in TASI and apply the same effect on SKFH portfolio to identify the impact on financial position and capital, we believe that this downturn is fully covered by risk calculation and capital adequacy. However, several economic research reports expect TASI to continue the same trend during 2021.

#### Devaluation in Saudi Real Estate Market

If we assume certain percentage devaluation in Saudi real estate market and apply the same effect on SKFH real estate investment and capital, we believe that this downturn is fully covered by risk calculation and capital adequacy. The impact of new regulations issued by Saudi government and the expected supply from Ministry of Housing may have negative impact on real estate values although there is no clear consensus on this matter.

#### Fall in Asset under Management NAV

If we assume a certain percentage decline in asset under management NAV that is different from the previously mentioned forecasted downturn in TASI and Saudi real estate, and apply the same effect on financial position and capital, we believe

that this decline is fully covered by risk calculation and capital adequacy. The reason for the previously mentioned inconsistency is that we assume the fund manager will exercise skills and experience in asset selection and allocation to mitigate effect of the any downturn effect in overall economy.

#### ***Default on Sukuk Portfolio***

If we assume a certain default percentage on the total of the Sukuk portfolio and apply the same effect on financial positions and capital, we believe that this default is fully covered by risk calculation and capital adequacy. However, it is remote that this risk takes place taken into account the nature of Sukuk issues but we would like to apply more conservative analysis for capital adequacy.

#### ***Increase in LIBOR – Impact on Sukuk Values***

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

#### ***Murabaha Deposits and Operations***

Commission rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market commission rates. SKFH is subject to commission rate risk on its commission bearing assets including Murabaha investments, investments in syndicated Murabaha operations and investment in real estate fund. SKFH manages its exposure to commission rate risk by continuously monitoring movement in commission rate. As shown in the audited financial statements for the previous years, SKFH had significant amounts invested in Murabaha deposits and syndicated Murabaha operations. We assume that the downturn economy effect on market will expectedly result in a decrease in profit rate on these Murabaha deposits. We do not see the Murabaha deposits to suffer from any credit risk since the capital is guaranteed and that SKFH deals with only reputable banks in the region. Additionally, these deposits are liquid and are classified in the balance sheet under cash and cash equivalents.

#### ***Conclusion***

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Based on the results of the analysis, the capital adequacy ratio is 3.67 for 2021 compared to 2.67 for 2020 hence SKFH has proper management of credit, market and operational risks, and the level of these risks appears to be acceptable. In addition, SKFH appeared to be liquid and have sufficient capital to continue their operations during macroeconomic downturn.



## Appendix A

**Comparative Balance Sheets and Income Statements for 2021, 2020.**

Saudi Kuwaiti Finance House and its Subsidiaries  
(A Saudi Closed Joint Stock Company)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

|  |              | <i>31 December</i> | <i>31 December</i> |
|--|--------------|--------------------|--------------------|
|  | <i>Notes</i> | <i>2021</i>        | <i>2020</i>        |
|  |              | <i>SR</i>          | <i>SR</i>          |
| <b>ASSETS</b>  |              |                    |                    |
| Property and equipment   | 7            | 392,905            | 809,018            |
| Intangible assets  | 8            | 819,880            | 1,264,804          |
| Right-of-use asset   | 9            | 3,584,434          | 1,112,856          |
| Investments in associates  | 10           | 69,575,878         | 69,418,405         |
| Investments at fair value through other comprehensive income (FVOCI) |              | 48,942             | 20,000             |
| Financial assets at fair value through profit or loss (FVTPL)        | 11           | 73,492,241         | 73,786,384         |
| Financial assets at amortized cost                                   | 12           | 78,665,435         | 108,472,996        |
| Trade and other receivables  | 14           | 12,405,224         | 11,434,097         |
| Bank balances  | 15           | 202,631,529        | 178,389,602        |
| <b>TOTAL ASSETS</b>  |              | <b>441,616,468</b> | <b>444,708,162</b> |
| <b>LIABILITIES</b>   |              |                    |                    |
| Employees' defined benefit liabilities                               | 16           | 2,022,289          | 2,251,071          |
| Zakat payable  | 17           | 30,741,266         | 15,989,182         |
| Trade and other payables   | 18           | 3,229,310          | 22,810,125         |
| Lease liability  | 9            | 3,040,526          | 593,756            |
| <b>TOTAL LIABILITIES</b>   |              | <b>39,033,391</b>  | <b>41,644,134</b>  |
| <b>EQUITY</b>  |              |                    |                    |
| <b>EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY</b>        |              |                    |                    |
| Share capital  | 19           | 500,000,000        | 500,000,000        |
| Statutory reserve  |              | 2,505,272          | 2,505,272          |
| Actuarial valuation reserve  |              | 1,997,092          | 1,652,986          |
| Investment Revaluation Reserve                                       |              | 27,405             | -                  |
| Accumulated losses   |              | (130,495,996)      | (108,148,562)      |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                    |              | <b>374,033,773</b> | <b>396,009,696</b> |
| Non-controlling interest   |              | 28,549,304         | 7,054,332          |
| <b>TOTAL EQUITY</b>  |              | <b>402,583,077</b> | <b>403,064,028</b> |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                  |              | <b>441,616,468</b> | <b>444,708,162</b> |



Saudi Kuwaiti Finance House and its Subsidiaries  
(A Saudi Closed Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
For the year ended 31 December 2021

|  | Notes | 2021<br>SR          | 2020<br>SR          |
|--|-------|---------------------|---------------------|
| <b>REVENUE</b>   |       |                     |                     |
| Income from corporate finance activities   |       | 2,761,000           | 5,325,691           |
| Dividend income  |       | 2,839,990           | 3,672,587           |
| Income from asset management activities  |       | 8,413,118           | 11,013,741          |
| Commission income  |       | 4,737,287           | 7,740,162           |
| Share in net results of associates   | 10    | 157,473             | (1,213,663)         |
| Net gains on financial assets FVTPL  | 11    | (5,602,216)         | 319,814             |
| Gain from disposal an associate  | 10    | -                   | 89,537              |
| Gain from disposal a subsidiary  | 2.2   | -                   | 628,128             |
| <b>TOTAL REVENUE</b>   |       | <b>13,306,652</b>   | <b>27,575,997</b>   |
| <b>EXPENSES</b>  |       |                     |                     |
| Operating expenses   | 20    | (6,153,951)         | (10,038,851)        |
| General and administrative expenses  | 21    | (10,474,118)        | (14,871,347)        |
| <b>TOTAL EXPENSES</b>  |       | <b>(16,628,069)</b> | <b>(24,910,198)</b> |
| <b>OPERATING (LOSS) INCOME</b>   |       | <b>(3,321,417)</b>  | <b>2,665,799</b>    |
| Other income, net  |       | 476,746             | 149,953             |
| <b>(LOSS) INCOME BEFORE ZAKAT</b>  |       | <b>(2,844,671)</b>  | <b>2,815,752</b>    |
| Zakat expense  | 17    | (19,865,440)        | (5,002,727)         |
| <b>LOSS FOR THE YEAR</b>   |       | <b>(22,710,111)</b> | <b>(2,186,975)</b>  |
| <b>Other comprehensive income</b>  |       |                     |                     |
| <i>Items that will not be reclassified to profit or loss in subsequent periods</i> |       |                     |                     |
| Investment Revaluation Reserve   |       | 27,405              | -                   |
| Re-measurements: actuarial gains on employees' defined benefit liabilities         | 16    | 344,106             | 433,515             |
| <b>Total other comprehensive income</b>  |       | <b>371,511</b>      | <b>433,515</b>      |
| <b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>                                       |       | <b>(22,338,600)</b> | <b>(1,753,460)</b>  |
| Attributable to:   |       |                     |                     |
| Equity holders of the Company  |       | (22,463,063)        | (1,722,648)         |
| Non-controlling interest   |       | 124,463             | (30,812)            |
|  |       | <b>(22,338,600)</b> | <b>(1,753,460)</b>  |

## Appendixes 1, 11, 111, 1V and V

## Illustrative Disclosures on Pillar 3 Capital Base and Risks

## App 1: Illustrative Disclosure on Capital Base

| Capital Base                               | SAR '000       |
|--|----------------|
| <b><u>Tier-1 capital</u></b>               |                |
| Paid-up capital                            | 500,000        |
| Audited retained earnings                  | -107,661       |
| Share premium                              |                |
| Reserves (other than revaluation reserves) | 4,502          |
| Verified interim profit/(loss)             | -22,835        |
| Tier-1 capital contribution                |                |
| Deductions from Tier-1 capital             | -820           |
| <b>Total Tier-1 capital</b>                | <b>373,186</b> |
|  |                |
| <b><u>Tier-2 capital</u></b>               |                |
| Subordinated loans                         | 0              |
| Cumulative preference shares               | 0              |
| Revaluation reserves                       | 27             |
| Other deductions from Tier-2 (-)           | 0              |
| Deduction to meet Tier-2 capital limit (-) | 0              |
| <b>Total Tier-2 capital</b>                | <b>27</b>      |
|  |                |
| <b>TOTAL CAPITAL BASE</b>                  | <b>373,213</b> |

App II: Illustrative Disclosure on Capital Adequacy

| Exposure Class                                  | Exposures before CRM<br>SAR '000 | Net Exposures<br>after CRM SAR '000 | Risk Weighted<br>Assets SR '000 | Capital<br>Requirement SAR<br>'000 |
|---|----------------------------------|-------------------------------------|---------------------------------|------------------------------------|
| <b>Credit Risk</b>                              |                                  |                                     |                                 |                                    |
| <i>On-balance Sheet Exposures</i>               |                                  |                                     |                                 |                                    |
| Governments and central banks                   | 16,825                           | 16,825                              | 16,825                          | 2,356                              |
| Administrative bodies and NPO                   | -                                | -                                   | -                               | -                                  |
| CMI's and banks                                 | 256,126                          | 256,126                             | 93,327                          | 13,066                             |
| Margin financing                                | -                                | -                                   | -                               | -                                  |
| Corporates                                      | 14,849                           | 14,849                              | 76,278                          | 10,679                             |
| High risk investments                           | 69,576                           | 69,576                              | 278,304                         | 38,962                             |
| Securitisation and resecuritisation             | -                                | -                                   | -                               | -                                  |
| Investment funds                                | 77,213                           | 77,213                              | 190,092                         | 26,613                             |
| Listed shares                                   | -                                | -                                   | -                               | -                                  |
| Others exposures                                | 5,951                            | 5,951                               | 18,054                          | 2,528                              |
| <b>Total On-Balance sheet Exposures</b>         | <b>440,540</b>                   | <b>440,540</b>                      | <b>672,880</b>                  | <b>94,203</b>                      |
| <i>Off-balance Sheet Exposures</i>              |                                  |                                     |                                 |                                    |
| OTC/Credit Derivatives                          |                                  |                                     |                                 |                                    |
| Repurchase agreements                           |                                  |                                     |                                 |                                    |
| Securities borrowing/lending                    |                                  |                                     |                                 |                                    |
| Commitments                                     |                                  |                                     |                                 |                                    |
| Other off-balance sheet exposures               |                                  |                                     |                                 |                                    |
| <b>Total Off-Balance sheet Exposures</b>        |                                  |                                     |                                 | <b>-</b>                           |
| <b>Total On and Off-Balance sheet Exposures</b> | <b>440,540</b>                   | <b>440,540</b>                      | <b>672,880</b>                  | <b>94,203</b>                      |
| <b>Prohibited Exposure Risk Requirement</b>     |                                  |                                     |                                 |                                    |
| <b>Total Credit Risk Exposures</b>              |                                  |                                     |                                 |                                    |
| <b>Market Risk</b>                              |                                  |                                     |                                 |                                    |
|   | Long Position                    | Short Position                      |                                 |                                    |
| Equity Risk                                     | -                                |                                     |                                 | -                                  |
| Fund Risk                                       | -                                |                                     |                                 | -                                  |
| Interest Rate Risk                              | -                                |                                     |                                 | -                                  |
| Commodities Risk                                | -                                |                                     |                                 | -                                  |
| FX Risk   | 154,861                          |                                     |                                 | 3,097                              |
| Underwriting Risk                               | -                                |                                     |                                 | -                                  |
| Excess Exposure Risk                            | -                                |                                     |                                 | -                                  |
| Settlement Risk                                 | -                                |                                     |                                 | -                                  |
| <b>Total Market Risk Exposures</b>              | <b>154,861</b>                   |                                     |                                 | <b>3,097</b>                       |
| <b>Operational Risk</b>                         |                                  |                                     |                                 |                                    |
|   |                                  |                                     |                                 | <b>4,157</b>                       |
| <b>Minimum Capital Requirements</b>             |                                  |                                     |                                 | <b>101,457</b>                     |
| <b>Capital base</b>                             |                                  |                                     |                                 | <b>373,213</b>                     |
| <b>Surplus/(Deficit) in capital</b>             |                                  |                                     |                                 | <b>271,756</b>                     |
| <b>Total Capital ratio (time)</b>               |                                  |                                     |                                 | <b>3.68</b>                        |

App III: Illustrative Disclosure on Credit Risk's Risk Weight

| Risk Weights                       | Exposures after netting and credit risk mitigation |                               |               |                  |            |                       |                                      |                  |               |                  |   | Total Risk Weighted Assets |
|------------------------------------|--|-------------------------------|---------------|------------------|------------|-----------------------|--------------------------------------|------------------|---------------|------------------|---|----------------------------|
|                                    | Governments and central banks                      | Administrative bodies and NPO | CMI and banks | Margin financing | Corporates | High risk investments | Securitisation and resecruritisation | Investment funds | Listed shares | Others exposures | Total Exposure after netting and Credit Risk Mitigation |                            |
| 0%                                 | -  | -                             | -             | -                | -          | -                     | -                                    | -                | -             | -                | -   | -                          |
| 20%                                | -  | -                             | 202,577       | -                | -          | -                     | -                                    | -                | -             | -                | 202,577   | 40,515                     |
| 50%                                | -  | -                             | 9,833         | -                | -          | -                     | -                                    | -                | -             | -                | 9,833   | 4,916                      |
| 100%                               | 16,825   | -                             | 35,358        | -                | -          | -                     | -                                    | -                | -             | -                | 52,183  | 52,183                     |
| 150%                               | -  | -                             | 8,358         | -                | -          | -                     | -                                    | 27,699           | -             | -                | 36,057  | 54,085                     |
| 200%                               | -  | -                             | -             | -                | -          | -                     | -                                    | -                | -             | -                | -   | -                          |
| 300%                               | -  | -                             | -             | -                | -          | -                     | -                                    | 49,515           | -             | 5,902            | 55,416  | 166,249                    |
| 400%                               | -  | -                             | -             | -                | 9,472      | 69,576                | -                                    | -                | -             | -                | 79,048  | 316,193                    |
| 500%                               | -  | -                             | -             | -                | -          | -                     | -                                    | -                | -             | -                | -   | -                          |
| 714% (include prohibited exposure) | -  | -                             | -             | -                | 5,377      | -                     | -                                    | -                | -             | 49               | 5,425   | 38,738                     |
| Average Risk Weight                | -  | -                             | -             | -                | -          | -                     | -                                    | -                | -             | -                | -   | -                          |
| Deduction from Capital Base        | -  | -                             | -             | -                | -          | -                     | -                                    | -                | -             | -                | -   | -                          |



**App IV: Illustrative Disclosure on Credit Risk's Rated Exposure**

| Exposure Class                            | INVESTMENTS `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        |         |
| <b>On and Off-balance-sheet Exposures</b> |                     |            |          |              |            |             |                |         |
| Governments and Central Banks             | -                   | -          | -        | -            | 16,638     | -           | -              | -       |
| CMI's and banks                           | -                   | -          | 9,325    | -            | 6,348      | 24,975      | -              | -       |
| Corporates                                | -                   | -          | -        | -            | -          | 9,292       | -              | -       |
| High risk investments                     | -                   | -          | -        | -            | -          | -           | -              | 69,576  |
| Investment funds                          | -                   | -          | -        | -            | -          | -           | -              | 73,236  |
| Securitisation                            | -                   | -          | -        | -            | -          | -           | -              | -       |
| Margin Financing                          | -                   | -          | -        | -            | -          | -           | -              | -       |
| Other Assets                              | -                   | -          | -        | -            | -          | -           | -              | -       |
| <b>Total</b>                              | -                   | -          | 9,325    | -            | 22,986     | 34,267      | -              | 142,812 |

| Exposure Class                            | Short term Ratings of counterparties `000 |           |      |           |          |
|---|---|-----------|------|-----------|----------|
|   | 1   | 2         | 3    | 4         | Unrated  |
| <b>Credit quality step</b>                |   |           |      |           |          |
| <b>S &amp; P</b>                          | A-1+, A-1                                 | A-2       | A-3  | Below A-3 | Unrated  |
| <b>Fitch</b>                              | F1+, F1                                   | F2        | F3   | Below F3  | Unrated  |
| <b>Moody's</b>                            | P-1                                       | P-2       | P-3  | Not Prime | Unrated  |
| <b>Capital Intelligence</b>               | A1  | A2        | A3   | Below A3  | Unrated  |
| <b>On and Off-balance-sheet Exposures</b> |   |           |      |           |          |
| Governments and Central Banks             | -   | -         | -    | 186.97    | -        |
| CMI's and banks                           | 137,285.37                                | 65,319.07 | 1.04 | 4,514.58  | 8,358.01 |
| Corporates                                | -   | -         | -    | 180.18    | 5,376.51 |
| Retail                                    | -   | -         | -    | -         | -        |
| Investment Funds                          | -   | -         | -    | -         | 3,977.40 |
| Securitisation                            | -   | -         | -    | -         | -        |
| Margin Financing                          | -   | -         | -    | -         | -        |
| Other Assets                              | -   | -         | -    | -         | 5,950.53 |
| <b>Total</b>                              | 137,285                                   | 65,319    | 1    | 4,882     | 23,662   |

## App V: Illustrative Disclosure on Credit Risk Mitigation (CRM)

| Exposure Class                                  | Exposures before CRM `000 | Exposures covered by Guarantees/ Credit derivatives | Exposures covered by Financial Collateral | Exposures covered by Netting Agreement | Exposures covered by other eligible collaterals | Risk Weighted Assets SR '000 |
|---|---------------------------|---|---|--|---|------------------------------|
| <b><u>Credit Risk</u></b>                       |                           |   |   |  |   |                              |
| <i>On-balance Sheet Exposures</i>               |                           |   |   |  |   |                              |
| Governments and central banks                   | 16,825                    | -   | -   | -                                      | -   | 16,825                       |
| Administrative bodies and NPO                   | -                         | -   | -   | -                                      | -   | -                            |
| CMLs and banks                                  | 256,126                   | -   | -   | -                                      | -   | 93,327                       |
| Margin financing                                | -                         | -   | -   | -                                      | -   | -                            |
| Corporates                                      | 14,849                    | -   | -   | -                                      | -   | 76,278                       |
| High risk investments                           | 69,576                    | -   | -   | -                                      | -   | 278,304                      |
| Securitisation and resecuritisation             | -                         | -   | -   | -                                      | -   | -                            |
| Investment funds                                | 77,213                    | -   | -   | -                                      | -   | 190,092                      |
| Listed shares                                   | -                         | -   | -   | -                                      | -   | -                            |
| Others exposures                                | 5,951                     | -   | -   | -                                      | -   | 18,054                       |
| <b>Total On-Balance sheet Exposures</b>         | <b>440,540</b>            | <b>-</b>  | <b>-</b>                                  | <b>-</b>                               | <b>-</b>  | <b>672,880</b>               |
| <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              | -                         | -   | -   | -                                      | -   | -                            |
| <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>440,540</b>            | <b>-</b>  | <b>-</b>                                  | <b>-</b>                               | <b>-</b>  | <b>672,880</b>               |