ALJAZIRA CAPITAL COMPANY (AJC)

(A Closed Saudi Joint Stock Company)

PILLAR III DISCLOSURE STATEMENT

As at 31 December 2021

TABLE OF CONTENTS

1. INTRODUCTION & SCOPE OF APPLICATION 3
1.1 PILLAR I – MINIMUM CAPITAL REQUIREMENTS 4
1.2 PILLAR II – INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) 4
1.3 PILLAR III -RISK REPORTING AND DISCLOSURES FRAMEWORK 4
1.4 MATERIAL OR LEGAL IMPEDIMENTS 4
2. CAPITAL STRUCTURE 4
2.1 PAID UP CAPITAL 4
2.2 AUDITED RETAINED EARNINGS 4
2.3 STATUTORY RESERVE AND OTHER RESERVES 4
3. CAPITAL ADEQUACY 5
3.1 CAPITAL ADEQUACY RATIO AND MINIMUM CAPITAL REQUIREMENTS 5
3.2 ICAAP 7
3.3 STRESS TESTING 7
4. RISK MANAGEMENT 7
4.1 GOVERNANCE STRUCTURE AT AJC 7
4.2 RISK MANAGEMENT FRAMEWORK 8
4.3 STRUCTURE AND FUNCTION OF RISK MANAGEMENT 9
4.4 RISK APPETITE 11
4.5 STRESS TESTING AND GOVERNANCE 11
5. RISK REPORTING AND DISCLOSURE 11
5.1 CREDIT RISK 11
5.2 MARKET RISK 13
5.3 OPERATIONAL RISK 15
5.4 LIQUIDITY RISK 16
6. APPENDICES 17
6.1 APPENDIX I – EXPOSURES, RISK WEIGHTED ASSETS AND CAPITAL REQUIREMENTS 17
6.2 APPENDIX II - CREDIT RISK WEIGHTS 19
6.3 APPENDIX III - CREDIT RISK RATED EXPOSURES 21
6.4 APPENDIX IV – CREDIT RISK MITIGATION 25
6.5 APPENDIX V – RESIDUAL CONTRACTUAL MATURITY OF EXPOSURES & LIQUIDITY POSITION 27

1. Introduction & Scope of Application

AlJazira Capital Company (herein after referred as "AJC" or "the Company"), the investment arm of Bank Aljazira, is a Saudi Closed Joint Stock Company incorporated under Ministerial Resolution No. S/57 dated 20 Safar 1429H (corresponding to 27 February 2008) and is registered under commercial registration number 1010351313 dated 13 Dhul Qadah 1433H (corresponding to 29 September 2012). The Company is licensed as a Capital Market Institution regulated by the Capital Market Authority (CMA) and is engaged in dealing, arranging, managing, advising and custody activities in accordance with CMA Resolution No. 2-38-2007 dated 8 Rajab 1428H, corresponding to 22 July 2007 and license number 07076-37.

The Company had following subsidiaries as at 31 December 2020:

Name of subsidiary	Principal activity
AlJazira Residential Projects Fund	Development and sale of land
AlJazira Sukuk Fund	Investment in Sukuk

Table 1: AJC Subsidiaries

The above mutual funds were consolidated as subsidiaries in the consolidated financial statements of the Company for the year ended 31 December 2020. During the year, these funds were deconsolidated as a result of lost of control on AlJazira Sukuk Fund and the liquidation of AlJazira Residential Projects Fund.

The risk disclosures contained in this statement have been prepared in accordance with the requirements of CMA Prudential Rules and cover the Pillar III qualitative and quantitative disclosures, including capital adequacy requirements and information about the risk management policies and procedures at the Company.

Further, the risk disclosures as at 31 December 2021 are based on the consolidated financial statements of the Company. The consolidated financial statements for the year ended 31 December 2021 are prepared in accordance with International Financial Reporting Standards as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements as endorsed by Saudi Organization for Chartered and Professional Accountants and in compliance with the provisions of the Regulations for Companies in the Kingdom of Saudi Arabia and the By-laws of the Company.

1.1 Pillar I – Minimum Capital Requirements
Pillar I sets minimum capital requirements to meet credit, market and operational risks. The capital charge for credit & market risk is assessed for each risk category separately in accordance with the rules prescribed by CMA. For operational risk, the Company has adopted the Expenditure Based Approach (EBA) in compliance with CMA requirements as this is a more conservative approach and leads to higher operational risk capital charge than the Basic Indicator Approach (BIA). The Capital Adequacy Report is submitted to CMA on a monthly basis.

1.2 Pillar II – Internal Capital Adequacy Assessment Process (ICAAP)
The Internal Capital Adequacy Assessment Process (ICAAP), is an internal process in which all the company's risks are identified and assessed, including risks not captured in Pillar 1. The process also includes capital planning, stress tests, corporate governance, as well as responsibilities of different departments/functions that are critical to the implementation of ICAAP.

1.3 Pillar III – Risk Reporting and Disclosures Framework
The purpose of this disclosure is to inform market participants about AJC's capital, risk exposures, governance process and capital adequacy. The information provided in this report has been prepared and reviewed by the Finance, Risk, and Compliance Departments, with additional reviews by senior management and approved by the Risk & Compliance Committee, and in accordance with the disclosure rules in effect at the time of publication, covering both the qualitative and quantitative items. The Company updates and publishes the Pillar III Risk Disclosure on its website annually.

1.4 Material or Legal Impediments between AJC and its Subsidiaries
The Company does not have any subsidiary as at 31 December 2021. Further, there was no legal impediment affecting the prompt transfer of capital or repayment of liabilities with any of its subsidiaries before their deconsolidation.

2. Capital Structure

For regulatory purposes, capital is categorized into two main classes: Tier 1 and Tier 2.

Tier 1 capital consists of Paid-up capital, audited retained earnings, statutory reserve net of deductions for zakat, intangible assets and unrealized losses, if any, on trading investments. Tier 2 capital consists of revaluation reserves which resulted from the change in fair value of equity investment classified as fair value through other comprehensive income.

2.1 Paid Up Capital
The share capital is divided into 50 million shares (31 December 2020: 50 million shares) of SAR 10 each.

2.2 Audited Retained Earnings
This represents the accumulated undistributed profits after transfer to statutory reserves that are available for future dividend distributions as recommended by the Company's Board of Directors (the Board) and approved by the General Assembly.

2.3 Statutory Reserve and Other Reserves
As required by Regulations for Companies in the Kingdom of Saudi Arabia, 10% of the net income for the financial year is transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve equals 30% of the share capital. This statutory reserve is not available for distribution.

The capital base of the Company as at 31 December 2021 is composed as follows:

Capital Base as at 31 December		
Capital Base, SAR '000	**2021**	**2020**
Tier-1 capital		
Paid-up capital	500,000	500,000
Audited retained earnings	426,401	319,955
Share premium	-	-
Reserves (other than revaluation reserves)	124,084	111,547
Tier-1 capital contribution	-	-
Deduction - intangible assets, net	(3,868)	(4,895)
Deduction - deferred tax asset, net	(318)	(298)
Total Tier-1 capital	**1,046,299**	**926,309**
Tier-2 capital		
Subordinated loans	-	-
Cumulative preference shares	-	-
Revaluation reserves	23,481	26,775
Other deductions from Tier-2	-	-
Deduction to meet Tier-2 capital limit	-	-
Total Tier-2 capital	**23,481**	**26,775**
TOTAL CAPITAL BASE	**1,069,780**	**953,084**

Table 2: Capital Base as at 31 December 2021 & 2020

3. Capital Adequacy

Effective January 2013, the Company has implemented the Prudential Rules issued by the Board of the Capital Market Authority dated 30 December 2012.

3.1 Capital Adequacy Ratio and Minimum Capital Requirements

In accordance with these new Prudential Rules, the Company's Capital Adequacy Management (CAM) report is furnished to the CMA on a monthly basis which outlines minimum capital required under Pillar 1. The Company:

- Seeks to obtain the best return on its capital taking into account its conservative risk appetite,
- Complies with the regulatory capital requirements set by CMA to safeguard the Company's ability to continue as a going concern and in order to maintain a strong capital base, and
- Monitors the adequacy of its capital using ratios established by the CMA.

These ratios established by the CMA measure capital adequacy by comparing the Company's eligible capital with its minimum capital requirements. The Company's minimum capital requirements are calculated after applying CMA prescribed risk weights to the Company's exposures. Capital Adequacy and the use of regulatory capital are constantly monitored by the Company's management. As at 31 December 2021, the Company's capital ratio is 1.71 times (31 December 2020: 2.11 times). The minimum required ratio is 1.0 time.

The Company, at end December 2021, employed 174 employees with a Saudization ratio of 82%. The Company continue to hold one of the leading market position in the local brokerage business since its incorporation in 2008. The Company also offers sell side research services covering various corporate sectors and issues other economic briefings on a regular basis to its clients. The Company's primary focus is to maintain brokerage market leadership, whilst diversifying sources of income through the expansion of its asset management business and growing its investment banking service capabilities.

Details of the minimum capital requirements of the Company's exposures to various risks are as follows:

SAR'000	2021	2020
Capital base		
Tier -1 capital	1,046,299	926,309
Tier -2 capital	23,481	26,775
Total capital base	**1,069,780**	**953,084**
Minimum capital requirement		
Market Risks	38,351	71,146
Credit Risks	540,071	342,654
Operational Risk	47,429	37,500
Total minimum capital requirement	**625,851**	**451,300**
Total capital ratio (time)	**1.71**	**2.11**
Tier -1 capital ratio (time)	1.67	2.05
Surplus in Capital	**443,929**	**501,784**
Large exposure		
Large exposure limit 10%	106,978	95,308
Large exposure limit 25%	267,445	238,271

Table 3: Total Capital Base & Minimum Capital requirements as at 31 Dec 2021&2020

The Company's exposures, risk weighted assets and capital requirements as at 31 December 2021 are detailed in **Section 6 Appendix 1** of this Disclosure Statement.

The management of capital is a Board level priority. The Board is responsible for assessing and approving the Company's capital management strategy. The Company's capital management framework and polices serve to ensure that the Company is adequately capitalized in line with its risk profile, regulatory requirements, and capital ratios approved by the Board. The Company's capital management objectives are to:

- Maintain sufficient capital resources to meet minimum regulatory capital requirements set by CMA Prudential Rules,
- Allocate capital to support the Company's strategic plans,
- Ensure that the Company has sufficient capital to cover the current and future risks of its business and support its future development,
- Apply stress tests to assess the Company's capital adequacy under stress scenarios,
- Develop, review and approve ICAAP, and
- Conduct capital planning and forecasting to ensure that capital ratios are always within acceptable thresholds.

Both, the executive management and the Board, review the Company's risk appetite periodically and analyze the impacts of stress scenarios to understand and manage the Company's projected future capital needs. The framework for capital management ensures that sufficient capital levels for legal and regulatory compliance purposes are always maintained. Management seeks to ensure that sound governance and good business practices are always followed.

3.2 ICAAP

Management monitors the use of capital through its internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is a key component of the Company's capital risk management framework and assures the Board and executive management that the Company maintains sufficient capital resources to:

- Meet minimum regulatory requirements,
- Support the parent's credit rating, and
- Support future business growth.

Management evaluates the Company's business strategy on a regular basis. The impact of management evaluations are evaluated against the Company's risk appetite. The ICAAP reflects changes in the Company's risk-weighted asset forecasts, assesses specific risk exposures and mitigation of such exposures, and ensures appropriate allocation of capital to the net exposures. In effect, the ICAAP is a crucial part of the Company's strategic decision-making process and risk management framework. This framework and the results are updated and reviewed by the Board on an annual basis.

3.3 Stress Testing

Management ensure that, at any point in time, the Company's capital adequacy ratio is above the minimum limit prescribed by CMA. Stress tests are conducted periodically to ensure that adequate capital is available for continuity of business under defined stress scenarios. Senior management is responsible for the escalations of any concerns regarding the adequacy of the Company's capital adequacy to the Board.

4. Risk Management

The risk management functions is responsible for developing adequate risk policies, as well as setting risk limits and promoting risk culture across the organization. It is an independent function and reports to Risk & Compliance Committee

4.1 Governance Structure at AJC

AJC's complete corporate governance structure and framework is shown in Figure below:

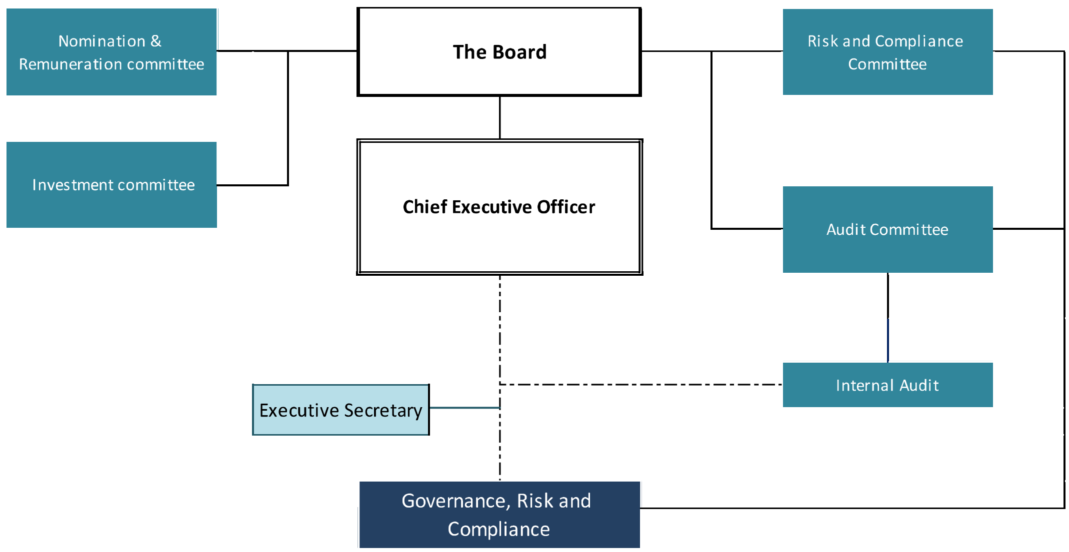

Figure 1 – Governance Structure at AJC

4.2 Risk management Framework

Risk management seeks to monitor business risks and maintain it within acceptable limits. Effective risk management will allow greater control in achieving an appropriate balance between risks AJC wishes to accept (at a price that is appropriate to that risk) and risks AJC wishes to mitigate. When risks are properly managed, the benefits to be gained from those risks can be maximized, by accepting, reducing, eliminating, mitigating, or transferring the risk associated with any activity.

The primary goal of risk management is to ensure that the Company's asset and liability profile, it's trading positions, its credit and operational activities do not expose it to losses that could threaten its viability. Risk management helps ensure that risk exposures do not become excessive relative to Company's capital position and its financial position.

In all circumstances, all activities giving rise to risk must be identified, measured, managed and monitored.

AJC risk management is based on ISO 31000's critical components of effective risk management. The below chart illustrates the Principles, Framework and Process for effective risk management as prescribed by ISO 31000, the international standard on risk management:

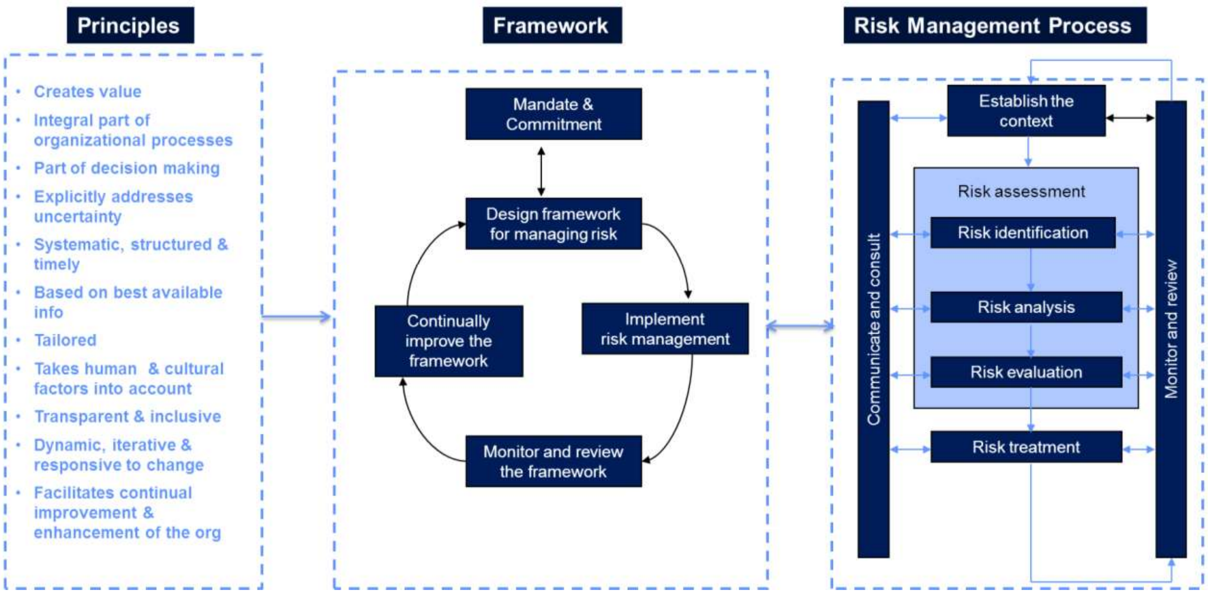

Figure 2 – Principles, Framework and Process of Risk Management at AJC

The key risk management responsibilities at AJC is segregated between the business units and the governance functions, with a primary focus as per below:

Business Units	✓ Responsible for risk management as first line of defense ✓ Ongoing process of assessing, evaluating and measuring risk into the day-to-day activities of the business ✓ Accountable for reporting to the governance bodies within the Company
Risk Management	✓ Risk management monitoring and reporting and providing oversight ✓ Independent reporting to management and the Board ✓ Setting ideal and tolerance risk limits on business activities with direction from the Board
Internal Audit	✓ Independent assessment of the adequacy and effectiveness of the overall risk management framework and governance structures ✓ Reporting to the Board through the BOD Audit Committee
Compliance & AML	✓ Monitoring and assessment of business compliance with CMA Prudential Rules, including Anti Money Laundering & Counter terrorist financing regulations ✓ CMA reporting on regulatory requirements

4.3 Structure and function of Risk Management

AJC's approach to risk management is aligned with the organizational objectives submitted to AJC Board. It focuses on the following main lines:

- Management of market risks and credit risks across major businesses – Proprietary Investments, Brokerage, Margin Lending, Asset Management & Investment Banking.
- Monitoring AJC's performance as per Risk Appetite policy and providing feedback to senior management for possible tightening or enhancing the risk limits.
- Risk Monitoring & Review tools for key risks across all businesses and key support functions.
- Monitoring liquidity risk at organizational level as well as business unit levels.
- Development and implementation of the ICAAP framework (Pillar II) at the Firm as well as development and update of the Risk Disclosures (Pillar III)

Adequate policies and monitoring procedures are drawn to cover the above focus areas. Units would employ efficient and improved tools to manage the risks based on globally accepted best practices. Monitoring tools and components will be subject to ongoing improvement during the course of business.

A robust senior management oversight structure is established through the following committees which meet on regular basis, to perform their responsibilities as summarized below in accordance with the respective charters.

Risk & Compliance Committee

The Risk & Compliance Committee has been established by the Board to assist the Board in discharging its risk management and compliance oversight. The Committee's principal activities, responsibilities are to focus on the supervision of the activities of management with respect to:

- Risk management policy and practices, taking into account operational, market, credit, liquidity, fiduciary, systemic, reputational and non-financial risks,
- The risk appetite and risk profile (Risk Appetite Framework)
- The adequacy of capital and liquidity requirements and consistency with approved risk appetite,
- Models developed by Risk to assist in the management of operational, market or/and credit risk,
- Compliance with CMA regulations with respect to risk reporting (including ICAAP and Pillar III reporting)
- Monitoring and reviewing the implementation of all Compliance Programs,
- Reviewing and approving annual Compliance Plans,
- Overseeing and reviewing the effectiveness of AML & CTF programs; and
- Ensure management periodically reviews employees compliance with the Code of Conduct.

Other Committees and Governance processes

In addition to the above, there are various committees responsible for crucial decision making process:

Management Committee steers and monitors the implementation of existing strategic plans by divisions. It further reviews management performance and present appropriate recommendations to the CEO for final approval.

Investment Committee, is responsible for prop-book management and oversight, including capital and liquidity management, evaluating Investment banking transactions and new asset management product, discussing and approving the annual budget of the company and the annual business plan.

Audit Committee monitors assurance and auditing, thus providing assurance evaluation to the Board, in addition to feedback from the senior management team. Recommendations for improvement are identified by:

- **Internal audit and Compliance reviews** undertaken to identify any weaknesses in the Company's risk management policies, business systems and / or IT systems and any breaches in compliance.

- **External audits** are undertaken by the Company's appointed External Auditor to express an opinion on the truth and fairness of the financial statements and capital adequacy return; and provide a report on compliance with CMA client money regulations.

IT security is reviewed periodically by independent third party service providers to ensure the strength of data access controls and protection against loss of data at the Company.

4.4 Risk Appetite

The Company's risk appetite is defined as the level of risk the Board is prepared to sustain whilst pursuing its strategic objectives, recognizing that there is a range of possible outcomes due to uncertain future. The Company's risk appetite framework seeks to encourage appropriate risk taking to ensure that risks are aligned with business strategy and objectives. The Company currently classifies material risks into various categories including credit risk, market risk, and operational risk.

Risk appetite is defined by reference to the nature of identified business risks. Appropriate measures are in place at business unit level to ensure effective control and risk mitigation so that the risk profile of the Company remains appropriate to its business strategy. This framework enables the Company to:

- Improve risk and return characteristics across the business,
- Meet growth targets within an overall risk appetite and protect the Company's performance,
- Improve management confidence and debate regarding our risk profile,
- Improve executive management control and co-ordination of risk-taking across businesses, and
- Identify unused risk capacity, and thus highlight profitable opportunities.

4.5 Stress Testing and Governance

Stress testing is a key element of the risk appetite framework, providing management with an insight on potential high risk areas. It provides an important link between risk and capital management within the Company. The risk management and finance functions of the Company support the Board in executing these responsibilities. Annual reports are submitted to senior management and the CMA in this regard.

The Company applies stress testing to supplement its risk assessment processes and to meet regulatory requirements. The objective of stress testing is to assess the Company's exposure to extreme, but plausible events. The Company undertakes periodic stress tests in accordance with the requirements of the Capital Markets Authority Prudential Rules.

The Board and senior management have ultimate responsibility for the governance of all risk taking activity in the Company. Risk Management is embedded in the Company as an intrinsic process and is a core requirement for all its employees in the conduct of their responsibilities.

The Compliance and Internal Audit functions oversee the Company's businesses and report to the Risk &Compliance and Audit Committees respectively. This provides independent validation of the business unit's compliance with risk policies and procedures and the adequacy and effectiveness of the risk management framework.

5. Risk Reporting and Disclosure

5.1 Credit Risk

Credit risk is the risk that one party will fail to discharge an obligation and may cause the other party to incur a financial loss. The Company is exposed to credit risk mainly arising from cash and cash equivalents, margin finance receivables, due from related party and other current assets.

The Company's risk management policies and processes are designed to identify and analyze risk, to set appropriate limits and controls, and to monitor the risks and adherence to limits by means of timely and reliable management information data.

5.1.1 Cash at bank and other current assets

Bank balances are maintained with banks having sound credit ratings. Other current assets represent asset management fees receivable mainly from mutual funds and portfolios managed by the Company, advance against investment, and receivables from corporate clients, which are considered as low credit risk by the Company. As at 31 December 2020, the Company had Sukuk placements through its investment in the Sukuk fund; with majority counterparties above investment grade rating.

5.1.2 Margin finance receivables

Lending for margin finance is done with initial coverage of at least 200%. This coverage is actively monitored and margin calls and liquidation calls are performed at specific predefined thresholds to ensure that the margin lending is sufficiently collateralized at all times. Customer portfolios are liquidated to cover the loan amounts if the collateral coverage ratio drops below the liquidation level. Even though there might be a small probability of default, the Expected Credit Loss (ECL) results in zero impairment provision as the pledged collateral (in the form of cash or liquid securities) adequately covers the exposure. The over-collateralized nature of the exposure, coupled with the Company's monitoring process, results in a loss given default (LGD) of zero.

Given the nature and extent of the collateral pledged against the Company's margin finance receivables, the management considers the credit risk of the exposures to be minimal.

The Company's risk management policies and processes are designed to identify and analyze risk, to set appropriate limits and controls, and to monitor the risks and adherence to limits by means of timely and reliable management information data.

Risk weighted exposure amounts (RWA) for a position is calculated as the exposure value multiplied by a risk weight factor which depends on exposure class and the perceived credit worthiness of the counterparty based on its credit rating. These rates are outlined in the Prudential Rules published by the CMA. The minimum capital requirements for non-trading activities correspond to not less than 14% of the Company's RWA. RWA's as at 31 December 2021 amounted to SAR 3,857.6 million (31 December 2020: SAR 2,447.5 million). The resulting Pillar 1 & 2 minimum capital requirements for credit risk is SR 540.1 million as at 31 December 2021 (31 December 2020: SR 342.7 million). The Company's Credit Risk Weights are detailed in **Section 6 Appendix 2** of this Disclosure Statement.

5.1.3 Counterparty Risk

The Company is exposed to counterparty risk arising from the conduct of its brokerage, margin finance and asset management business activities. In order to mitigate this risk, the Company conducts periodic assessments of all counterparties to evaluate their creditworthiness and acceptability to the Company. External credit ratings are considered only from Nationally Recognized Statistical Rating Organizations (NRSCO) such as Standards & Poor's (S&P), Moody's and Fitch. As part of the Company's counterparty review process, country risk is also taken into consideration and limits marked against different countries where counterparties are incorporated. Client money is held on behalf of the Company's customers in Omnibus accounts with Bank Al Jazira in accordance with CMA regulations. Foreign asset managers, international brokers and custodians are subject to an initial assessment and re-assessed on a periodic basis to ensure that they remain acceptable counterparties for the Company.

5.1.4 Past due

The Company defines financial assets as “Past Due” when a counterparty has failed to make a payment that is contractually due. Risk Management review of on and off balance sheet exposures ensure that all exposures are settled in a timely manner. As at 31 December 2021, the Company does not have any past due items (31 December 2020: no past dues) giving rise to credit risk.

5.1.5 Impairment and Specific Provisions

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognized in the statement of income for the Company.

As at 31 December 2021, the Company’s financial assets did not require any impairment loss provisions. Detailed information on impairment provision related to margin finance receivables is stated in section 5.1.2

5.1.6 Geographic Distribution of Exposures

The Company’s credit risk exposure as at 31 December 2021, is mainly in the Kingdom of Saudi Arabia except for the exposure amounting to SAR 194.1 million, which is in the North America.

5.1.7 Credit Risk Exposures by Credit Quality

The Company’s Credit Risk Rated Exposures are detailed in **Section 6 Appendix 3** of this Disclosure Statement.

5.1.8 Credit Risk Mitigation

Bank balances and investment in short term deposits, amounting to SAR 8.0 million at 31 December 2021 (31 December 2020: SAR 24.5 million), are held with the Parent Company, Bank AlJazira. Bank AlJazira enjoys stable credit ratings. As at 31 December 2021, the Company exposure to margin finance receivables is adequately secured by the collaterals. The Company’s Credit Risk Mitigation disclosures are detailed in **Section 6 Appendix 4** of this Disclosure Statement.

5.1.9 Residual Contractual Maturity Breakdown

The residual contractual maturity of the Company’s exposures is detailed in **Section 6 Appendix 5** of this Disclosure Statement.

5.1.10 Counterparty Credit Risk and Off Balance Sheet Exposures

The Company’s only off balance sheet exposure as at 31 December 2021, is due to the un-utilized Margin Finance loan facilities provided to its customers.

5.2 Market Risk

Market risk is the risk that changes in market process, such as special commission rate, equity prices and foreign exchange rates, will affect the Company’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

The Investment Committee ensures that the proprietary investments are diverse and balanced, and seeks investment opportunities consistent with the investment strategy. The overriding investment objective is to generate an approved minimum rate of return whilst adhering to the approved investment strategy. The Investment Committee approves investment limits consistent with the risk appetite approved by the Board.

Realized gains, losses and market-to-market movements of investment and trading portfolio positions are calculated and monitored by management; appropriate action is taken in the event that any losses and / or mark-to-market movements are determined to be inconsistent with the risk appetite of the Company.

5.2.1 Foreign exchange risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Arabian Riyals (SAR) and US Dollar (USD). As the SAR is pegged to the USD, the Company is not exposed to any significant foreign exchange risk.

5.2.2 Commission rate risk

Commission rate risk arises from the possibility that the changes in commission rates will affect either the fair values or the future cash flows of financial instruments.

The Company's commission bearing financial instruments are margin finance receivables and short-term deposits maintained with the Bank and short-term borrowings. The commission is fixed for the period for which these commission bearing financial instruments are issued or obtained. No significant commission rate risk exists for existing financial instruments.

5.2.3 Price risk

Price risk is the risk that the value of the Company's financial instruments will fluctuate because of changes in market prices caused by factors other than foreign currency and commission rate movements.

The Company's price risk exposure relates to its investment in quoted equities and mutual funds units whose value will fluctuate because of changes in market prices.

The Company closely monitors the price movement of its listed financial instruments. The Investment Committee ensures that the proprietary investments are diverse and balanced, and seeks investment opportunities consistent with the investment strategy. The Investment Committee has approved limits for proprietary investments consistent with the risk appetite of the Company.

The Company manages this risk through diversification of its investment portfolio in terms of industry concentration.

Capital is required for trading book exposures. For market risk, both specific and general risks are calculated. Specific risks refer to non-systematic risks, whereas general risks refer to systematic risks. The amount of capital required for equity risk primarily depends on the type of instrument and on the amount of diversification. The amount of capital required for profit rate risk mainly depends on the credit quality of the issuer of the instrument and the maturity or duration of the exposure. Pillar 1 & 2 minimum capital requirements for market risk is SAR 38.4 million as at 31 December 2021 (31 December 2020: SAR 71.1 million).

The Company's Market Risk exposures are as follows:

As at 31 December 2021			
Exposure Class	Exposures before CRM SAR '000		Capital Requirement
Market Risk	Long Position	Short Position	
Interest rate risks	-	-	-
Equity price risks	4,349	-	783
Risks related to investment funds	203,901	-	32,624
Underwriting risk	-	-	-
Excess exposure risks	-	-	-
Settlement risks and counterparty risks	-	-	-
Foreign exchange rate risks	247,188	-	4,944
Commodities risks	-	-	-
Total Market Risk Exposures	**455,438**	**-**	**38,351**

As at 31 December 2020			
Exposure Class	Exposures before CRM SAR '000		Capital Requirement
Market Risk	Long Position	Short Position	
Interest rate risks	46,828	-	6,864
Equity price risks	760	-	137
Risks related to investment funds	392,250	-	62,760
Underwriting risk	-	-	-
Excess exposure risks	-	-	-
Settlement risks and counterparty risks	-	-	-
Foreign exchange rate risks	65,795	-	1,385
Commodities risks	-	-	-
Total Market Risk Exposures	**505,633**	-	**71,146**

Table 4 – Total Market Risk Exposure

5.3 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the processes, people, technology and infrastructure supporting the Company's activities either internally or externally at the Company's service provider level and from external factors other than credit, liquidity, currency and market risks such as those arising from the legal and regulatory requirements.

Operational risk is a distinct risk category which the Company manages within acceptable levels through sound operational risk management practices that are part of the day-to-day responsibilities of management at all levels. The objective of managing operational risk is to ensure control of the Company's resources by protecting the assets of the Company and minimizing the potential for financial loss.

The Company's risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with operations. Qualitative and quantitative methodologies and tools are used to identify and assess operational risks and to provide management with information for determining appropriate mitigating factors. These tools include a loss database of operational risks events categorized according to CMA Prudential Rules, business lines, operational risk event types and a risk and control assessment process to analyze business activities and identify operational risks related to those activities. The management of operational risk has a key objective of minimizing the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (unexpected) loss. High impact risks and issues of critical importance are reported to the Board of Directors, which then set resolution priorities.

To minimize the financial impact of operational loss incidents, Company has obtained following insurance policies:

- Professional Indemnity Insurance;
- Directors and Officers Liability insurance; and
- Cybercrime Risk Liability Insurance.
-

Articles 39 - 44 and Annex 4 of the CMA Prudential Rules set out two approaches to calculate capital for operational risk requirements. Under the Basic Indicator Approach, followed by the Company, 15% of the Company's average gross operating income is calculated over the last 3 years. CMA Prudential Rules also require a calculation for Operational Risk equal to 25% of Overhead Expenses (known as Expenditure Based Approach). The actual capital requirement for operational risk is the greater of these two methods of calculation. On this basis, Pillar 1 & 2 minimum capital requirements for operational risk is SR 47.4 million as at 31 December 2021 (31 December 2020: SR 37.5 million).

5.4 Liquidity Risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The Company maintains a Murabaha loan facility of SAR 2.3 billion from Parent Company, Bank AlJazira to satisfy its liquidity requirements. The utilization of the facility as of 31 December 2021 is 59% (31 December 2020: 41%).

The Company's approach to managing liquidity is to ensure it always has sufficient liquidity (or access to sufficient liquidity) to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable costs or risking damage to the Company's reputation.

All of the Company's financial liabilities as at 31 December 2021 are payable within 12 months of the balance sheet date except for Lease liabilities, which is payable after one year. The Company's liquidity position is detailed in **Section 6 Appendix 5** of this Disclosure Statement. Apart from maturity profile analysis, following ratio is monitored to maintain appropriate liquidity.

Indicators	2021	2020	Inference
Current Ratio (Short term assets/short term Liabilities)	1.7 times	2.2 times	This reflect the fair amount of comfort level in meeting its short-term liability and fixed cost payment

Table 5 – Liquidity Risk – Ratio Analysis

6. Appendices

6.1 Appendix I – Exposures, Risk Weighted Assets and Capital Requirements

As at 31 December 2021

Exposure Class	Exposures before CRM SAR '000		Net Exposures after CRM SAR '000	Risk Weighted Assets SAR '000	Capital Requirement SAR '000
Credit Risk					
On-balance Sheet Exposures					
Governments and Central Banks	-		-	-	-
CMIs and Banks	13,545		13,545	4,368	611
Corporates	5,961		5,961	42,562	5,959
Retail	2,191		2,191	6,573	920
Investments	99,522		99,522	180,190	25,227
Securitization	-		-	-	-
Margin Financing*	1,945,957		1,945,957	2,918,936	408,651
Other Assets	290,542		290,542	572,445	80,142
Total On-Balance sheet Exposures	**2,357,718**		**2,357,718**	**3,725,074**	**521,510**
Off-balance Sheet Exposures					
OTC/Credit Derivatives	-		-	-	-
Repurchase agreements	-		-	-	-
Securities borrowing/lending	-		-	-	-
Commitments	88,384		88,384	132,575	18,561
Other off-balance sheet exposures	-		-	-	-
Total Off-Balance sheet Exposures	**88,384**		**88,384**	**132,575**	**18,561**
Total On and Off-Balance sheet Exposures	**2,446,102**		**2,446,102**	**3,857,649**	**540,071**
Prohibited Exposure Risk Requirement	-		-	-	-
Total Credit Risk Exposures	**2,446,102**		**2,446,102**	**3,857,649**	**540,071**
Market Risk	**Long Position**	**Short Position**			
Interest rate risks	-	-			-
Equity price risks	4,349	-			783
Risks related to investment funds	203,901	-			32,624
Underwriting risk	-	-			-
Excess exposure risks	-	-			-
Settlement risks and counterparty risks	-	-			-
Foreign exchange rate risks	247,188	-			4,944
Commodities risks	-	-			-
Total Market Risk Exposures	**455,438**	**-**			**38,351**
Operational Risk					**47,429**
Minimum Capital Requirements					**625,851**
Surplus in capital					**443,929**
Total Capital ratio (time)					**1.71**

* Net exposure to margin finance after Credit Risk Mitigation is considered same as the original exposure to reflect the risk weight as per the CMA guidelines, even though the exposure is adequately covered by collateral.

As at 31 December 2020

Exposure Class	Exposures before CRM SAR '000		Net Exposures after CRM SAR '000	Risk Weighted Assets SAR '000	Capital Requirement SAR '000
Credit Risk					
On-balance Sheet Exposures					
Governments and Central Banks	-		-	-	-
CMIs and Banks	54,886		54,886	12,242	1,714
Corporates	658		658	2,883	404
Retail	2,817		2,817	8,451	1,183
Investments	48,778		48,778	79,922	11,189
Securitization	-		-	-	-
Margin Financing*	1,173,523		1,173,523	1,760,285	246,440
Other Assets	96,655		96,655	276,108	38,655
Total On-Balance sheet Exposures	**1,377,317**		**1,377,317**	**2,139,891**	**299,585**
Off-balance Sheet Exposures					
OTC/Credit Derivatives	-		-	-	-
Repurchase agreements	-		-	-	-
Securities borrowing/lending	-		-	-	-
Commitments	205,092		205,092	307,638	43,069
Other off-balance sheet exposures	-		-	-	-
Total Off-Balance sheet Exposures	**205,092**		**205,092**	**307,638**	**43,069**
Total On and Off-Balance sheet Exposures	**1,582,409**		**1,582,409**	**2,447,529**	**342,654**
Prohibited Exposure Risk Requirement	-		-	-	-
Total Credit Risk Exposures	**1,582,409**		**1,582,409**	**2,447,529**	**342,654**
Market Risk	**Long Position**	**Short Position**			
Interest rate risks	46,828	-			6,864
Equity price risks	760	-			137
Risks related to investment funds	392,250	-			62,760
Underwriting risk	-	-			-
Excess exposure risks	-	-			-
Settlement risks and counterparty risks	-	-			-
Foreign exchange rate risks	65,795	-			1,385
Commodities risks	-	-			-
Total Market Risk Exposures	**505,633**	**-**			**71,146**
Operational Risk					**37,500**
Minimum Capital Requirements					**451,300**
Surplus in capital					**501,784**
Total Capital ratio (time)					**2.11**

* Net exposure to margin finance after Credit Risk Mitigation is considered same as the original exposure to reflect the risk weight as per the CMA guidelines, even though the exposure is adequately covered by collateral.

6.2 Appendix II - Credit Risk Weights

As at 31 December 2021

Risk Weights SAR'000	Exposures after netting and credit risk mitigation												
	Governments and central banks	Administrative bodies and NPO	CMIs and Banks	Margin Financing	Corporates	Retail	Past due items	Investments	Securitization	Other assets	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	12,269	-	-	-	-	-	-	-	-	**12,269**	**2,454**
50%	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	1,276	1,945,957	-	-	-	78,917	-	199,454	88,384	**2,313,988**	**3,470,982**
200%	-	-	-	-	-	-	-	-	-	-	-	-	-
300%	-	-	-	-	-	2,191	-	20,605	-	91,088	-	**113,884**	**341,652**
400%	-	-	-	-	-	-	-	-	-	-	-	-	-
500%	-	-	-	-	-	-	-	-	-	-	-	-	-
714% (include prohibited exposure)	-	-	-	-	5,961	-	-	-	-	-	-	**5,961**	**42,561**
Average Risk Weight	**-**	**-**	**32%**	**150%**	**714%**	**300%**	**-**	**181%**	**-**	**197%**	**150%**	**-**	**-**
Deduction from Capital Base	-	-	-	-	-	-	-	-	-	-	-	-	-

As at 31 December 2020

Risk Weights SAR'000	Exposures after netting and credit risk mitigation												
	Governments and central banks	Administ-rative bodies and NPO	CMIs and Banks	Margin Financing	Corporates	Retail	Past due items	Investments	Securitization	Other assets	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	53,913	-	21	-	-	-	-	-	-	53,934	10,787
50%	-	-	-	-	110	-	-	-	-	-	-	110	55
100%	-	-	-	-	108	-	-	-	-	-	-	108	108
150%	-	-	973	1,173,523	-	-	-	44,275	-	9,237	205,092	1,433,100	2,149,650
200%	-	-	-	-	22	-	-	-	-	-	-	22	44
300%	-	-			-	2,817	-	4,503	-	87,418	-	94,738	284,214
400%	-	-	-	-	52	-	-	-	-	-	-	52	208
500%	-	-	-	-		-	-		-	-	-	-	-
714% (include prohibited exposure)	-	-	-	-	345	-	-	-	-	-	-	345	2,463
Average Risk Weight	**-**	**-**	**22%**	**150%**	**438%**	**300%**	**-**	**164%**	**-**	**286%**	**150%**	**-**	**-**
Deduction from Capital Base	**-**	**-**	-	-	-	-	-	-	-	-	-	-	-

6.3 Appendix III - Credit Risk Rated Exposures

As at 31 December 2021

Exposure Class SAR'000	Long term Ratings of counterparties								Total
	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									
Governments and Central Banks		-	-	-	-	-	-	-	-
CMIs and Banks		212	-	12,057	-	-	-	1,276	**13,545**
Corporates		-	-	-	-	-	-	5,961	**5,961**
Retail		-	-	-	-	-	-	2,191	**2,191**
Investments		-	-	-	-	-	-	99,522	**99,522**
securitization		-	-	-	-	-	-	-	-
Margin Financing		-	-	-	-	-	-	2,034,341	**2,034,341**
Other Assets		-	-	-	-	-	-	290,542	**290,542**
Total		**212**	**-**	**12,057**	**-**	**-**	**-**	**2,433,833**	**2,446,102**

Exposure Class SAR'000	Short term Ratings of counterparties						Total
	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		-	-	-	-	-	**-**
CMIs and Banks		212	12,057	-	-	1,276	**13,545**
Corporates		-	-	-	-	5,961	**5,961**
Retail		-	-	-	-	2,191	**2,191**
Investments		-	-	-	-	99,522	**99,522**
Securitization		-	-	-	-	-	**-**
Margin Financing		-	-	-	-	2,034,341	**2,034,341**
Other Assets		-	-	-	-	290,542	**290,542**
Total		**212**	**12,057**	**-**	**-**	**2,433,833**	**2,446,102**

As at 31 December 2020

Exposure Class SAR'000	Long term Ratings of counterparties								Total
	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		-	-	-	-	-	-	-	**-**
CMIs and Banks		35	3,040	50,838	-	-	-	973	**54,886**
Corporates		21	110	108	22	52	28	317	**658**
Retail		-	-	-	-	-	-	2,817	**2,817**
Investments		-	-	-	-	-	-	48,778	**48,778**
Securitization		-	-	-	-	-	-	-	**-**
Margin Financing		-	-	-	-	-	-	1,378,615	**1,378,615**
Other Assets		-	-	-	-	-	-	96,655	**96,655**
Total		**56**	**3,150**	**50,946**	**22**	**52**	**28**	**1,528,155**	**1,582,409**

Exposure Class SAR'000	Short term Ratings of counterparties						Total
	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		-	-	-	-	-	**-**
CMIs and Banks		35	53,878	-	-	973	**54,886**
Corporates		-	-	-	-	658	**658**
Retail		-	-	-	-	2,817	**2,817**
Investments		-	-	-	-	48,778	**48,778**
Securitization		-	-	-	-	-	**-**
Margin Financing		-	-	-	-	1,378,615	**1,378,615**
Other Assets		-	-	-	-	96,655	**96,655**
Total		**35**	**53,878**	**-**	**-**	**1,528,496**	**1,582,409**

6.4 Appendix IV – Credit Risk Mitigation

As at 31 December 2021

Exposure Class SAR'000	Exposures before CRM	Exposures covered by Guarantees/ Credit Derivatives	Exposures covered by Financial Collateral	Exposures covered by Netting Agreement	Exposures covered by other Eligible Collaterals	Exposures after CRM
Credit Risk						
On-balance Sheet Exposures						
Governments and Central Banks	-	-	-	-	-	-
CMIs and Banks	13,545	-	-	-	-	13,545
Corporates	5,961	-	-	-	-	5,961
Retail	2,191	-	-	-	-	2,191
Investments	99,522	-	-	-	-	99,522
Securitization	-	-	-	-	-	-
Margin Financing *	1,945,957	-	-	-	1,945,957	1,945,957
Other Assets	290,542	-	-	-	-	290,542
Total On-Balance sheet Exposures	**2,357,718**	**-**	**-**	**-**	**1,945,957**	**2,357,718**
Off-balance Sheet Exposures						
OTC/Credit Derivatives	-	-	-	-	-	-
Exposure in the form of repurchase agreements	-	-	-	-	-	-
Exposure in the form of securities lending	-	-	-	-	-	-
Exposure in the form of commitments	88,384	-	-	-	-	88,384
Other Off-Balance sheet Exposures	-	-	-	-	-	-
Total Off-Balance sheet Exposures	**88,384**	**-**	**-**	**-**	**-**	**88,384**
Total On and Off-Balance sheet Exposures	**2,446,102**	**-**	**-**	**-**	**1,945,957**	**2,446,102**

* Net exposure to margin finance after Credit Risk Mitigation is considered same as the original exposure to reflect the risk weight as per the CMA guidelines, even though the exposure is adequately covered by collateral.

As at 31 December 2020

Exposure Class SAR'000	Exposures before CRM	Exposures covered by Guarantees/ Credit Derivatives	Exposures covered by Financial Collateral	Exposures covered by Netting Agreement	Exposures covered by other Eligible Collaterals	Exposures after CRM
Credit Risk						
On-balance Sheet Exposures						
Governments and Central Banks	-	-	-	-	-	-
CMIs and Banks	54,886	-	-	-	-	54,886
Corporates	658	-	-	-	-	658
Retail	2,817	-	-	-	-	2,817
Investments	48,778	-	-	-	-	48,778
Securitization	-	-	-	-	-	-
Margin Financing *	1,173,523	-	-	-	1,173,523	1,173,523
Other Assets	96,655	-	-	-	-	96,655
Total On-Balance sheet Exposures	**1,377,317**	-	-	-	**1,173,523**	**1,377,317**
Off-balance Sheet Exposures						
OTC/Credit Derivatives	-	-	-	-	-	-
Exposure in the form of repurchase agreements	-	-	-	-	-	-
Exposure in the form of securities lending	-	-	-	-	-	-
Exposure in the form of commitments	205,092	-	-	-	-	205,092
Other Off-Balance sheet Exposures	-	-	-	-	-	-
Total Off-Balance sheet Exposures	**205,092**	**-**	**-**	**-**	**-**	**205,092**
Total On and Off-Balance sheet Exposures	**1,582,409**	**-**	**-**	**-**	**1,173,523**	**1,582,409**

* Net exposure to margin finance after Credit Risk Mitigation is considered same as the original exposure to reflect the risk weight as per the CMA guidelines, even though the exposure is adequately covered by collateral.

6.5 Appendix V – Residual Contractual Maturity of Exposures & Liquidity Position

As at 31 December 2021

SAR'000	Within 3 months	3 to 12 months	Over 1 year	No fixed maturity	Total
Financial Assets					
Cash and cash equivalents	-	-	-	8,071	**8,071**
Margin finance receivables	572,218	1,373,739	-	-	**1,945,957**
Due from related party	4,004	-	-	-	**4,004**
Investments	-	-	-	307,773	**307,773**
Other current assets	212,028	42,170	-	-	**254,198**
Total Financial Assets	**788,250**	**1,415,909**	**-**	**315,844**	**2,520,003**
Financial Liabilities					
Short-term borrowings	562,122	769,422	-	-	**1,331,544**
Due to related parties	7,400	-	-	-	**7,400**
Lease liabilities	101	3,002	16,007	-	**19,110**
Other current liabilities	28,864	3,937	-	-	**32,801**
Total Financial Liabilities	**598,487**	**776,361**	**16,007**	**-**	**1,390,855**
Net position	**189,763**	**639,548**	**(16,007)**	**315,844**	**1,129,148**

As at 31 December 2020

SAR'000	Within 3 months	3 to 12 months	Over 1 year	No fixed maturity	Total
Financial Assets					
Cash and cash equivalents	24,505	-	-	-	**24,505**
Margin finance receivables	486,736	686,787	-	-	**1,173,523**
Due from related party	27,677	-	-	-	**27,677**
Investments	-	-	-	488,616	**488,616**
Other current assets	17,104	34,442	-	-	**51,546**
Total Financial Assets	**556,022**	**721,229**	**-**	**488,616**	**1,765,867**
Financial Liabilities					
Short-term borrowings	103,683	594,865	-	-	**698,548**
Due to related parties	1,429	-	-	-	**1,429**
Lease liabilities	2,133	2,615	19,256	-	**24,004**
Other current liabilities	17,296	3,340	-	-	**20,636**
Total Financial Liabilities	**124,541**	**600,820**	**19,256**	**-**	**744,617**
Net position	**431,481**	**120,409**	**(19,256)**	**488,616**	**1,021,250**