BLOMINVEST SAUDI ARABIA

PILLAR III - DISCLOSURES

Report for FY 2019

March 31,2020

Blominvest Saudi Arabia ("BSA").

BSA is a Joint Stock company with a capital of SAR 245 million paid in full under CR 1010254040 date 24/07/1429 H issued from Riyadh, Saudi Arabia. BSA is licensed by the Saudi Capital Market Authority under number 37-08094 to offer the services of Dealing as Principle, Agent, Underwriting, Managing Investment Funds, Managing Client Portfolios, Arranging, Advising and Custody in Securities Business.

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1. Scope of Application

1.1 Overview

In July 27 2008, BLOMINVEST Saudi Arabia (**"BSA"**) was granted by the Saudi Capital Market Authority (CMA) a license (no 37/08094) to open and operate an investment Company in Saudi Arabia. In 19 October 2017, the license was amended to be Dealing as Principle, Agent, Underwriting, Managing Investment Funds, Managing Clients' Portfolios, Arranging, Advising and Custody in Securities Business.

The Pillar III disclosures contained herein relate to the audited financials of **"BSA"** for the period ended December 31, 2019 .

All figures presented in this report are in Saudi Riyal Thousands, unless otherwise stated.

The document has been prepared in accordance with the "Prudential Rules" issued by the Saudi Arabian Capital Market Authority "CMA ."

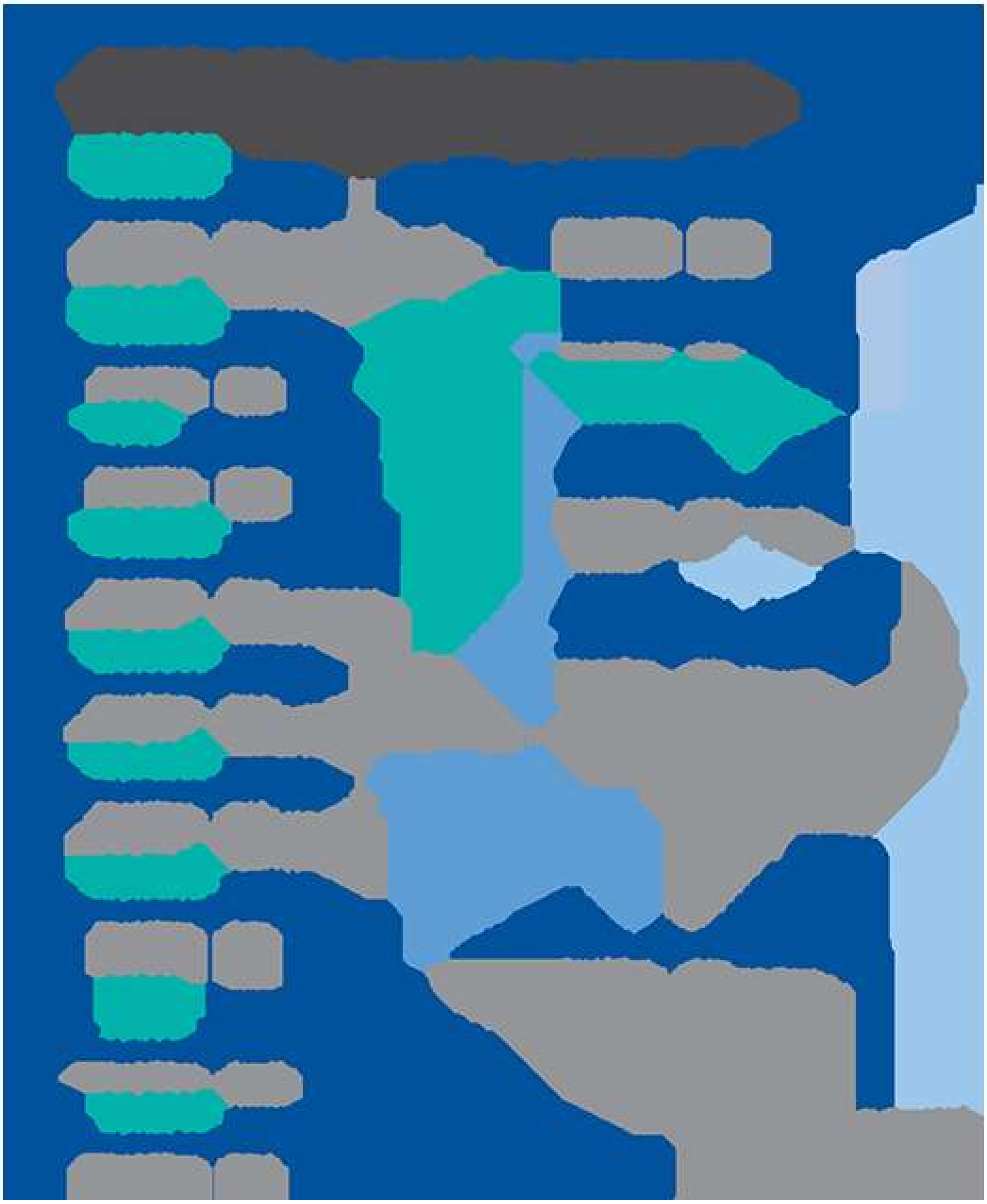
The Pillar III Disclosure is introduced under Article 68 of the said rules, and explained through Annex 10 of the same rules.

In accordance to the CMA circular number 06367/6 dated 10/01/1435 H which states that Pillar III frequency of disclosure should be on a yearly basis within ninety (90) calendar days after the financial year end, Pillar III disclosure should be published on **"BSA"** website by end of Q1 of each financial year (as per Article 69 of the Prudential Rules).

1.2 Group Structure

BLOM Bank (Group) is a Lebanese Bank with a large international branch network. Its successful business operations are based on a universal banking model that includes: Commercial Banking, Corporate Banking, Private Banking, Investment Banking, Retail Banking, Islamic Banking, Asset and Wealth Management, Capital Market Services, and Insurance Products and Services.

BLOM Bank's strategy is based on measured regional expansion to markets with strong potential and on the continuous modernization and diversification of its universal services, both placing it as a leading bank in the Arab region. As a result, BLOM BANK has one of the widest foreign presence among Lebanese Banks, and is currently present in 12 countries: Lebanon, Jordan, UAE, France, UK, Switzerland, Romania, Cyprus, Egypt, Qatar, Iraq, and Saudi Arabia. It conducts its worldwide operations either directly or through its subsidiaries, which include: BLOM BANK FRANCE, BLOM BANK (SWITZERLAND), BLOM BANK EGYPT, BLOM EGYPT SECURITIES, BLOM BANK QATAR, BLOMINVEST SAUDI ARABIA, BLOMINVEST BANK, BLOM DEVELOPMENT BANK (ISLAMIC BANK), AROPE INSURANCE, AROPE INSURANCE OF PROPERTIES AND RESPONSIBILITIES – EGYPT, AROPE LIFE INSURANCE – EGYPT, BLOM SECURITIES – JORDAN, and BLOM ASSET MANAGEMENT COMPANY. In this respect, the Bank serves the niche market of Lebanese and Arab expatriates and business people in Europe, and acts as one of the trusted local full-service banks in the Middle Eastern countries in which it is present.



1.3 Company Structure

BLOMINVEST Saudi Arabia is 60% owned by BLOM Bank Group (50% by BLOMINVEST s.a.l., an investment bank licensed in Lebanon – www.blominvestbank.com, and 10% of BLOM Bank s.a.l. a bank licensed under the Lebanese law – www.blombank.com) and by 40% of Saudi Arabia partners (Al-Fozan Holding 15%, Al-Muhaidib Holding 15%, Abdulaziz Al-Saghyir Commercial Investment Co. 5% and Mr. Abdul Salam A. Al-Agil 5%)

1.4 Pillar I- Minimum Capital Requirements

Pillar I sets minimum capital requirements to meet credit, market, and operational risk as contained in chapter 4 to 16 of the Prudential Rules. **"BSA"** uses the base case approach in the calculation of the capital requirement for Credit Risk, Market Risk, and Operational Risk.

1.5 Pillar II – ICAAP

The Internal Capital Adequacy Assessment Process is introduced under Pillar II of the prudential Rules, which is contained in Part 6 (Article 66) and Annex 9 of the Prudential Rules.

Pillar II requires Authorized Persons ("Aps") to perform a thorough review of all materials risks, extensive stress testing, strategic capital planning, the internal control framework and the roles and responsibilities of departments that are critical to the implementation of framework.

The purpose and objective of the ICAAP is to ensure that the methodology to calculate the internal capital requirements takes into account all the material risks faced by **"BSA"** and is reflective of the actual risk profile of **"BSA"**.

1.6 Pillar III –Market Discipline

Pillar III aims to provide a detailed and transparent reporting framework that enhances market discipline to operate as sharing of information facilitates assessment of the AP by others, including investors, analysts, customers, and rating agencies, which leads to an improved corporate governance.

The information provided here has been reviewed and validated by the Management and is in accordance with the rules in force at the time of publication, covering both the qualitative and quantitative items.

"BSA" shall publish the Pillar III disclosures at its website www.blom.sa.

2. Capital Structure

Capital base is formed of Tier I and Tier II .

Tier I includes: share capital, reserves, audited retained earnings as well as deduction of intangibles .

Tier II includes: subordinated loan, revaluation reserves and any deductions needed to meet tier II capital limit .

Tier II should be at a maximum of 50% of Tier I.

As of December 2019, Tier I constitutes 100% of capital base and Tier II 0% as the new IFRS standards were applied in 2018, as such all Held to Maturity Bonds are classified as Amortised Cost (AC) and Held for Trading Debt Securities as Fair Value through Profit and Loss (FVTPL) and were translated into retained earnings and are included in Tier I Capital. Further, all Available for Sale Listed Equity Investments were classified as Fair Value through Other Comprehensive Income (FVTOCI) in exception for only one listed equity which was classified as FVTPL for trading purposes.

All amounts in '000

Tier 1- Capital	Dec-19	Dec-18
Paid-up capital	245,000	245,000
Reserves (other than revaluation reserves)	10,813	8, 326
Audited retained earnings	82,535	68,967

Goodwill, intangible assets & Zakat (-)	-322	-2,780
Total Tier 1 capital	**338,026**	**319,513**
Tier-2 capital	**Dec-19**	**Dec-18**
Subordinated loans	0	0
Cumulative preference shares	0	0
Revaluation reserves	0	0
Other deductions from tier 2 (-)	0	0
Deduction to meet Tier-2 capital limit (-)	0	0
Total Tier-2 capital		
Total capital base	**338,026**	**315,345**

Please refer to Appendix 1 for the detailed disclosure on capital base.

3. Capital Adequacy

"BSA" defines "Minimum Capital" as the resource necessary to cover unexpected losses and thus **"BSA"**, at all time, maintains adequate level of capital to cover risks inherent in its business operations and to support current & future activities.

3.1 Capital Adequacy Ratio and Minimum Capital Requirements

The below capital ratios convey that "**BSA**" is adequately capitalized with a Tier I capital ratio of 2.31 and a total capital ratio of 2.31 as of December 2019, which is above CMA's minimum regulatory requirement of 1 time.

The following table provides "**BSA"**'s capital adequacy ratio in December 2019 compared to December 2018:

Particulars	Dec-19	Dec-18
Tier-1 Capital Ratio	2.31	2.17
Total Capital Ratio	2.31	2.17

The following table reflects the comparative analysis of capital numbers in 2019 & 2018.

Particulars (SAR'000)	Dec-19	Dec-18
Tier 1- Capital	338,026	319,513
Tier-2 capital	-	-
Total capital base	338,026	319.513
Minimum Capital Requirement		
Credit Risk	121,326	119,582
Market Risk	19,649	21,706
Operational Risk	5,576	6,135
Total	146,551	147,423
Capital Adequacy Ratio	2.31	2.17
Surplus (Deficit) in Capital Base	191,475	172,090

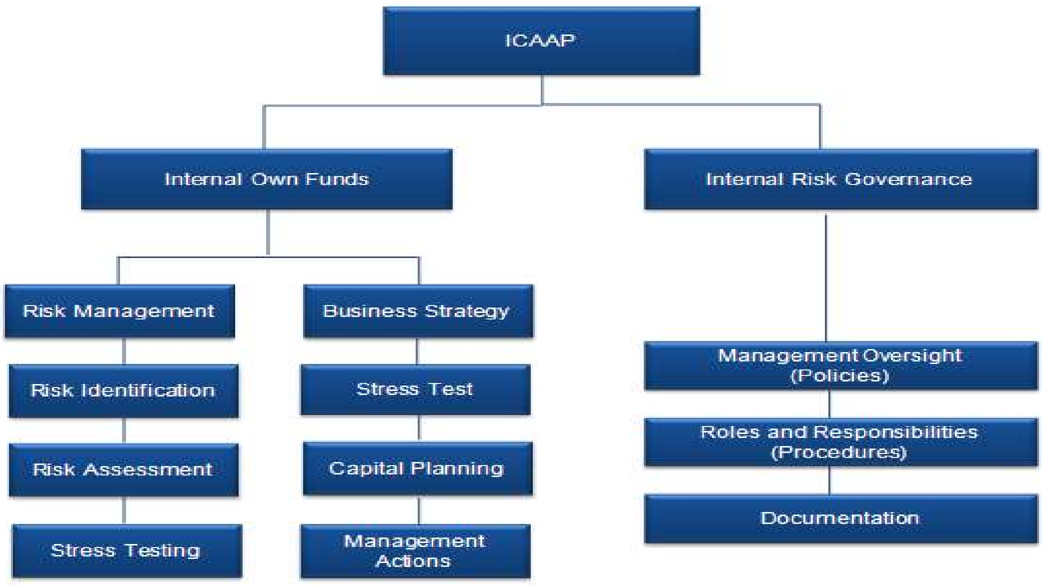
Please Refer to Appendix 2 for the detailed disclosure on capital Adequacy.

3.2 ICAAP

"BSA" capital management philosophy is aimed at maintaining an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always meeting minimum regulatory capital and sufficient liquidity requirements.

"BSA" has established an ICAAP framework (as illustrated in the Figure below). The framework entails:

- The formulation of business plan over a 3 year horizon (2020-2022) in line with **"BSA"**'s strategy;
- The assessment and measurement of the material risks in **"BSA"**'s exposures;
- The assessment of **"BSA"** governance, organization, policies and procedures and documentation;
- Stress testing of **"BSA"**'s risks to assess its impact on capital requirements and the set financial targets in cases of stress events and scenarios; and



- Regular reporting of the ICAAP results to Executive Committee, BOD and CMA.

"BSA" ICAAP framework consists of the following building blocks:

1. Internal own funds adequacy: calculating **"BSA"**'s capital adequacy by taking into consideration Pillar I risks (market, credit and operational) and Pillar II risks (concentration, interest rate risk, other risks…) through the application of internal methods of risk assessment and buffer calculations.

To be able to reach this stage, **"BSA"** shall:

a) Follow sound risk management practices;

b) Identify the risks it is exposed to or might be exposed to in the future;

c) Assess those risks;

d) Apply stress test scenarios in order to assess the ability of **"BSA"** to weather such scenarios.

This would be reflected in the ICAAP by:

a) Orienting **"BSA"**'s business plan into a risk-forward looking perspective;

b) Setting risk appetite limits in accordance with the **"BSA"** strategy and its risk-taking capacity;

c) Developing a capital plan under normal business conditions and stressful situations;

d) Elaborating contingency plans entailing management actions to be undertaken under severe business conditions to ensure alignment and restoration within **"BSA"** acceptable levels and regulatory limits.

2. Internal risk governance which consists of:

a) BOD and Senior Management oversight;

b) Assess risk governance organization and all related policies and procedures; and

c) Documentation of the ICAAP throughout its phases.

"BSA" Senior Management will be responsible for monitoring the ICAAP framework through:

a) Overseeing the capital requirements (both regulatory and internal) of **"BSA"**,

b) Monitoring the capital adequacy level on a periodic basis and escalate through the CEO to the Executive Committee and BOD, if necessary;

c) Evaluating the level and trend of material risks and their effect on capital levels;

d) Evaluating the key assumptions used in the capital assessment measurement process; and

e) Assessing the future capital requirements based on **"BSA"** reported risk profile and recommending the necessary adjustments to **"BSA"**'s strategic plan, if required.

4. Risk Management

"BSA" is exposed to different risks stemming from normal business activities. The Risk Management Department is responsible for overseeing risk-taking activities across the Company. **"BSA"** has an independent risk management function which has the authority to oversee the company's risk management activities and to report directly to the Board of Directors if needed.

"BSA" has been applying a risk management framework which is a composite of policies, procedures, guidelines, risk limits and effective risk governance structure. It has its own policies and procedures concerning risk management (Risk Management Manual, ICAAP Policy Manual, Pillar 3 Procedures Manual and KRI Policies & Procedures Manual).

These policies and procedures outline the risk management control framework that allows **"BSA"** to identify, assess, monitor, manage, mitigate and control exposure to all major risks inherent in its business activities. The purpose of the policies and procedures is to establish and communicate risk policy guidelines and control parameters related to risk and to direct activities conducted on behalf of **“BSA”**.

The risk management policies and procedures were formulated to assist **“BSA”**’s Senior Management in the overall monitoring and control of the major risks arising from **“BSA”**’s business activities. **“BSA”** risk management framework is based upon the premise that business managers understand the risks inherent in their activities, each department implements its own risk management controls. The risk management policies and procedures have provided the basis for the creation of a risk management infrastructure, thus facilitating the optimisation of stakeholder value, as well as meeting the emerging regulatory compliance and industry best practice standards.

4.1 Risk Management practice at BLOMINVEST Saudi Arabia

4.1.1 Risk Management Strategies and processes:

“BSA” has maintained the following minimum risk management standards in its risk management policies and procedures:

- Risks are well defined;
- Adequate and appropriate assessment of risks are done where relevant and feasible;
- Controls are effective and active throughout the relevant business periods;
- Measures are accurate; and
- Management of risks is proactive and integrated.

4.1.2 Structure and Organization of Risk Management

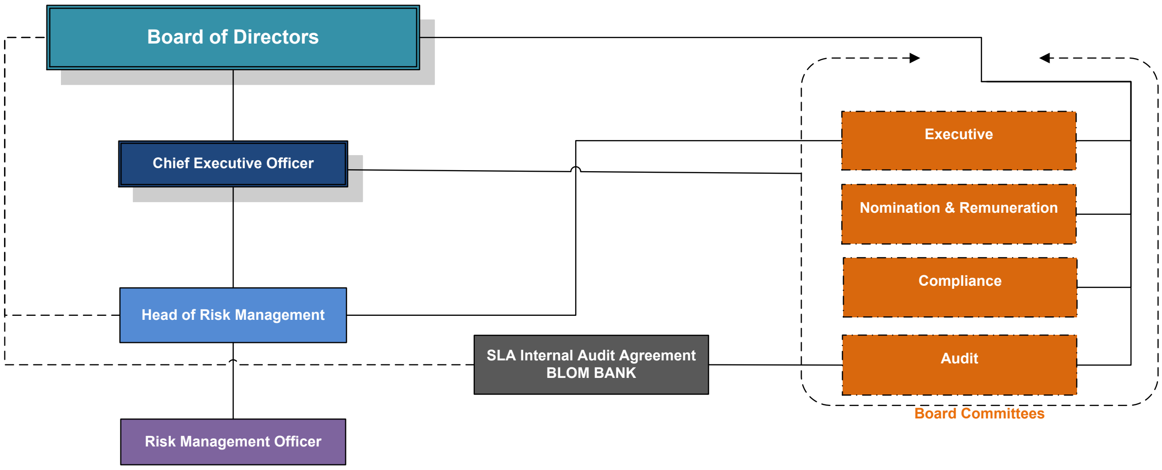
“BSA”’s Board of Directors is the governing body that sets the strategic direction of the company. **“BSA”** has an independent Risk Management Department which report directly to the CEO, Executive Committee and Board of Directors.

Risk Management Department (formed by Head of Risk Management Department and a Risk Officer) shall prepare periodic reports to **“BSA”** General Management and send copies to BLOM Group Chief Risk Officer. Risk Management Department will report annually or as the need arises to the Board and the Executive Committee on risk profile of **“BSA”** and on major risks affecting the Company.

Risk Management Department shall conduct general risk assessments to **“BSA”**’s different departments and report its findings to Executive Committee, copies of the report should be forwarded to BLOM Group Chief Risk Officer as well as BLOM Group Head of Audit.

Business line managers at **“BSA”** will be responsible for the day to day operational risk management at their departments and informing Risk Management Department of significant and/or emerging risks in their business activities.

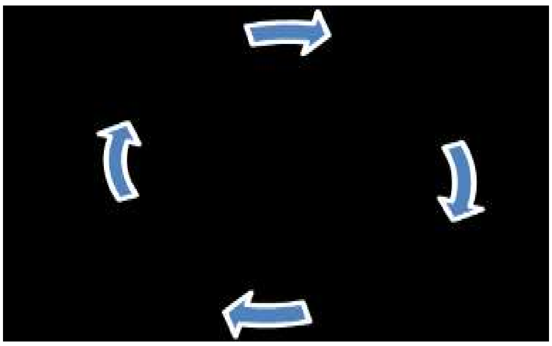
The Internal Audit shall periodically review the Risk Management Function at **“BSA”** and report to the Audit Committee its observations.



4.1.3 Scope and nature of risk reporting and measurement Systems

Risk management seeks to monitor the business risks and to keep risks within acceptable limits. Effective risk management will allow **"BSA"** greater control in achieving an appropriate balance between risks **"BSA"** wishes to accept (at a price that is appropriate to that risk) and risks **"BSA"** 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 **"BSA"**'s asset and liability profile, its 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 **"BSA"**'s capital position and financial position.



In all circumstances, all activities giving rise to risk must be identified, measured, managed and monitored. Thus, risk management may be viewed as a "continuous cycle" which includes the following four steps:

Risk Identification	**Risk Measurement**	**Risk Management & Mitigation**	**Risk Monitoring**
• Risks and sources of risks to which **"BSA"** is exposed should be identified & defined.	• Measurement process should be comprehensive enough to cover all significant sources of risk exposure.	• Risk limits should be consistent with **"BSA"** policies and authorized exposures.	• Reports should provide relevant, accurate and timely information about risk exposures to management.

• **“BSA”**’s “appetite” for risk should be described based on **“BSA”** business objectives.	• Measurement process should be responsive to the needs of the users of the information.	• Risk management should ensure that operational activities do not expose **“BSA”** to losses that could threaten its viability. • Risk management should ensure that risks are mitigated to **“BSA”**’s risk tolerance levels.	• Individuals monitoring risks should be independent of those taking positions (incurring risks).

“BSA”’s risk management is focused along 4 core steps, these are defined as follows:

Effective **risk identification** considers both internal factors (such as **“BSA”** nature of activities, and quality of human resources, organizational changes and employee’s turnover) and external factors (such as changes in the industry and technological advances) that could adversely affect the achievement of **“BSA”**’s objectives.

The risk identification falls under the responsibility of the line managers, e.g. Human Resources Manager, who is responsible for the Human Resource function, is responsible for identifying human resource risks, the Directors of relevant business units for competitive risk in their area and so on.

Effective **risk measurement** will allow **“BSA”** to better understand its risk profile and most effectively target risk management resources.

Regular **risk management and mitigation** activities will offer **“BSA”** the advantages of quickly detecting and correcting deficiencies in the policies, processes and procedures for managing and mitigating risks. The frequency of monitoring must reflect the risks involved and the frequency and nature of changes in the operating environment.

“BSA”’s **risk monitoring** will contain internal financial, operational, and compliance data, as well as external market information about events and conditions that are relevant for decision making. **“BSA”**’s reports will be distributed to appropriate levels of management and to all areas of **“BSA”** on which areas of concern may have an impact. The reports will fully reflect any identified problem area and will motivate timely corrective action on outstanding issues. The reports will be analyzed with a view to improve existing risk management performance as well as to develop new risk management policies and practices.

4.1.4 Policies and guidelines for monitoring and mitigating risks

The Risk Management function will be responsible for the implementation of risk management within **“BSA”**, and for responding to any significant risks that may emerge and is responsible for all risk management activities within **“BSA”**. The Risk Management function has the mandate to:

- Define **“BSA”**’s risk appetite in a manner that is consistent with its overall business strategies;
- Draft risk policies, procedures and methodologies that are consistent with the Company’s risk appetite;

- Manage the portfolio of risks throughout the organization;
- Ensure that the business conducted within **"BSA"** is consistent with the risk appetite of the Company;
- Propose credit risk, market risk and operational risk limits to the Executive Committee for approval;
- Develop and implement risk management infrastructures and systems.
- Ensure that control and support functions operate independently from the business generating functions.

"BSA" risk appetite statement constitutes both quantitative and qualitative parameters. Defined metrics were set to monitor capital, employee turnover and ethical behavior, internal controls and risk governance, regulatory compliance and reputational impact. **"BSA"** strives to keep its risk exposure within its risk appetite thresholds.

The below table represents **"BSA"** risk appetite metrics for the year 2020:

Risk Metrics	Description	Targets / KRIs
Capital	Capital to be maintained in line with regulatory requirements	• Capital Ratio: Min 1.4 • Internal Capital Ratio: Min 1.2
Employee turnover	**"BSA"** aims to retain the best human resources and to ensure that turnover is kept at the lowest possible level	• Employee turnover equal to or less than 20%
Internal controls and risk governance	**"BSA"** will ensure that adequate/sufficient controls are in place to detect errors/discrepancies in day-to-day operations, and that policies and procedures are developed. This in return will ensure that risk governance is well maintained within **"BSA"**.	• Low tolerance
Employee ethical behavior	**"BSA"** aims to maintain the highest ethical and professional standard for its employees.	• Zero tolerance
Regulatory compliance	No regulatory compliance breaches	• Zero tolerance
Reputational impact	**"BSA"** will strive to maintain/enhance its reputation in the marketplace	• Low tolerance

4.2 Credit Risks

Credit risk is the risk that counterparties and clients fail to fulfil their obligations towards **"BSA"**. It arises from all transactions that give rise to actual, contingent or potential claims against any counterparty, obligor or borrower (which we refer to collectively as "counterparties").

"BSA" will mainly be exposed to credit risk when providing leverage (margin trading) for clients (at present time, no margin lending is given to any client) and/or investing with counterparties in form of placements or fixed income investments. These investments will expose **"BSA"** to the following credit risks:

- Default risk is the risk that counterparties fail to meet contractual payment obligations.
- Country risk is the risk that counterparties are unable to fulfill their payment obligations as a result of government measures or country-specific economic factors.
- Settlement risk is the risk that the settlement or clearance of transactions will fail. It arises whenever the exchange of cash, securities and/or other assets is not simultaneous.

In order to mitigate credit risks, the use of investments in unregulated markets and OTC shall be limited and limits of such transactions shall be approved by the BOD. An Investment Policy has been drafted and approved by the BoD in November 2018. The policy aims to guide the investment decisions and monitoring of proprietary account investments of "**BSA"**. Risk Management Department performs quarterly risk review on the Proprietary Investment limits and monitors the portfolios by summarizing the key risk issues which in turn are presented to ExCom and Senior Management.

Prior to setting counterparty limits, the risk management function shall conduct a pre-trade risk assessment and due diligence on proposed counterparties.

The risk management function shall continuously monitor the counterparty risk ratings and changes in market condition in order to detect potential changes in counterparty credit worthiness. This early detection of adverse changes in counterparties is used to mitigate credit risk exposures. Material changes to counterparty credit exposures shall be presented to the Executive Committee in order to approve or take corrective action.

The credit risk is defined as the risk of loss resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which authorized persons are exposed.

By the time of writing this report, there is no policy to lend any client and to give margin to his portfolio.

"BSA" calculates the capital requirement for credit risk as stipulated by the regulatory body Capital Market Authority "CMA".

"BSA" calculated capital required against the following credit exposures:

- Authorized persons and banks - deposits/receivable;
- Private equity investments/unlisted shares;
- Holdings of listed shares;
- Investment funds;
- Authorized persons and banks – bonds;
- Real estate investments;
- High risk investment funds;
- Tangible assets;

- Other assets;
- Deferred expenditure / accrued income.
- Prohibited exposure; and

4.2.1 External Ratings

"BSA" uses ratings from Credit ratings agencies (CRA) mentioned in the Prudential Rules.

4.2.2 Credit Quality Steps

Credit risk forms the prominent part of the Company's risk exposures. It arises due to the exposures in listed equity kept under available for sale investments, and investments in mutual funds. The deposits placed with banks also have some credit risk, though minimal.

4.2.3 Credit risk Exposure

"BSA" has complied with CMA regulations and used the Standardized Approach in the calculation of the capital required for Credit risk. The 31-Dec-2019 numbers represents the risk positions of **"BSA"** during the period.

The major types of credit exposures are detailed in Appendix 3.

4.2.4 Impairment, past due and provisions

An impaired exposure is an outstanding sum of money owed to **"BSA"** that has not been paid, despite repeated efforts to collect.

An assessment is made to determine whether there is objective evidence that a specific asset may be impaired. If there is any evidence, the impairment loss is recognized in the income statement. **As the new IFRS standards were effectively applied in 2018, "BSA" has not recognized an impairment loss as of 31st of December 2019.** The table below illustrates the movement in the provision during the year 2019:

Impairment Reconciliation (SAR'000)		
Exposure Class	**As of 31st of December 2019**	**As of 31st of December 2018**
Opening Balance	**0.00**	**0.00**
Provision	**0.00**	**0.00**
Reversal Provision	**0.00**	**0.00**
Closing Balance	**0.00**	**0.00**

4.2.5 Risk Concentrations

"BSA" internally calculates a capital charge for concentration risk based on:

- Geographic concentration, and
- Real estate investments concentration.

Regional Concentration (SAR'000)						
Region	**Investment**	**Limit as a % of total assets**	**Excess in %**	**Excess in amount**	**RW for excess funding**	**Additional RWAs**
Local	98.56%	100%	0.00%	0.00		
GCC	0.00%	20%	0.00%	0.00		
Non-GCC	1.44%	5%	0.00%	0.00		
Total	**100%**		**0.00%**	**0.00**	**400%**	**0.00**

Real Estate Concentration (SAR'000)	
Percentage of Total Assets	23.9%
Limit on Real Estate concentration	20.00%
Excess over Limit	3.9%
Excess Amount	14,942.967
RWA for Excess Real Estate Exp.	414.00%
Additional RWAs	**61,863.88**

4.2.6 Credit Risk Exposures by credit Quality

Please refer to Appendix 4 for the details.

4.3 Credit Risk Mitigation

Collaterals are securities, cash or assets that are offered to secure a financing or a credit sales transaction. Collateral becomes subject to seizure on default. It is a form of security to the financier/seller in case the purchaser fails to pay back the finance amount. **"BSA"** does not deal in margin lending and as such has no eligible or non-eligible financial collaterals user for credit risk mitigation purposes.

Credit risk mitigations are managed by each of the relevant business as follows:

Open ended funds:

A detailed study is undertaken to verify new product feasibility and risks are assessed through a due diligence exercise. New product ideas are presented to the CEO, Executive committee and the Board of Directors (in some case), and further to the risk and compliance before being introduced to the market. The risk limits of all equity based funds are monitored against approved benchmarks on a regular basis.

Holdings in Listed Stock:

"BSA"'s proprietary investments in stock involve meticulous fundamental analysis of stock prices and are spread across fundamentally sound, highly liquid stocks as outlined in the proprietary charter.

Exposures to Authorized Persons and Banks:

"BSA" places deposits with highly rated banks limiting the Company's credit risk in deposits and current account balances considerably. In order to mitigate credit risk, **"BSA"** employs the following broad principles:

- The limits for exposures in each of the asset class are pre-established.
- Every exposure to any counterparty requires approvals at the appropriate (pre-established) seniority level.
- Credit ratings of the Banks where **"BSA"** places its deposits are constantly monitored.

4.4 Market Risk

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

4.4.1 Market Risk Management

"BSA" calculates the capital requirement for market risk as stipulated by the regulatory body "CMA".

"BSA" is exposed to equity price risk resulting from shares held at fair value through P&L, requiring a capital of SAR 654 thousands.

"BSA" has a net position in USD resulting from investments in foreign bonds nominated in USD and amounted to the equivalent of SAR 3.015 Million.

In addition, **"BSA"** is exposed to Investment Fund risk (FVTPL) amounted to the equivalent of only SAR 116.427 Million.

4.4.2 Market Risk – Capital

Market Risk Capital requirement is as indicated below

Risk	Capital Required
Equity	654
Investment funds (FVTPL excluding fund underlying)	18,628
Settlement risks and counterparty risks	-
Foreign exchange rate risks	367
Commodities risks.	-
Total Market Risk Exposures	19,649

4.5 Operational Risk

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

4.5.1 Operational Risk Management and mitigation

"BSA" risk management Policy & Procedures establish the principles which ensure that operational risks are identified, assessed, monitored and mitigated.

The Company maintains a risk register which follows a structured method to identify and mitigate risk. The high level steps involved in the creation of the risk register are identification, quantification and mapping of risks.

"BSA" monitors and identifies events which could materially impact its assets, operations and reputation.

"BSA" has taken a Professional Indemnity Insurance policy (PII) from a reputed insurance company, which insures the Company for a reasonable sum.

"BSA" has in place a documented Business Continuity Planning (BCP), which comes under the oversight of the Risk Management Department and serves to ensure that the Company has in place resources to manage unexpected crises and ensure continued effective operations.

4.5.2 Operational Risk Capital Charge

"BSA" calculates the capital requirement for operational risk as stipulated by the regulatory body "CMA".

Operational risk charge is based on the highest capital charge of the two following approaches: 1) Basic Indicator Approach as per Basel II and 2) Expenditure Based approach

SAR' 000

Approach 1	YEAR	Operating Income	Average Income	Risk Capital Charge (%)	Capital Requirement
Basic Indicator Approach (BIA)	2017	38,620	37,174	15%	5,576
	2018	27,730			
	2019	45,171			
Approach2	**YEAR**	**Overhead Expenses**	**Risk Capital Charge (%)**		**Capital Requirement**
Expenditure Based Approach	2019	21,444	25%		5,361
Capital requirement For Operational Risk (Max)					5,576

4.6 Liquidity Risk

Liquidity risk is the volatility in the economic value of, or in the income derived from, **"BSA"**'s positions due to inability to meet obligations out of readily available liquid resources or to execute a transaction in the market at the prevailing prices. Such an inability may force **"BSA"** to borrow at unattractive conditions or to liquidate assets at unattractive prices when it would be better to avoid such liquidations. It is the risk to the earnings and capital arising from potential inability to meet obligations when they are due without incurring unacceptable losses.

The main objective of liquidity risk management is to ensure that **"BSA"** can always meet its payment obligations punctually and in full.

4.6.1 Liquidity Risk Management

The risk management function shall ensure that limits compliance is continuously monitored and that **"BSA"** maintains adequate liquidity in order to meet on and off balance sheet obligations.

Liquidity risk management is a key function and an integral part of the assets and liabilities management process. Liquidity refers to the condition where the financial institution has the ability to fund on an on-going basis, any decreases in its liabilities or increases in its assets by either obtaining new liabilities or selling or leveraging on existing assets.

Additional capital allocation for liquidity risks do not serve as a cushion in times of liquidity crises.

"BSA" pursues a policy of high levels of liquidity through active and prudent management of assets and liabilities.

"BSA" monitors the following for a better management of liquidity risk:

- Cash inflows and outflows (cash management)
- Expected liabilities from **"BSA"** contracts and agreements
- Maturity date for any of **"BSA"**'s loans, in case they existed
- Placement of excess cash is placed with money market funds, and local banks, with a view of gaining income and preserving capital. In case BSA's Executive Committee decided to enter into an investment opportunity, the units' redemption of open-ended funds takes four business days indicating the liquidity and security of such investments..

4.6.2 Liquidity Contingency Plan

In reference to Sections 18 & 19 of Annex 8 of CMA Prudential Rules and as part of the Risk Management Policies and Procedures as well as ICAAP Policy, **"BSA"** has put in place a liquidity contingency plan that addresses alternative funding if initial projections of funding sources and uses did not meet expectations or if a liquidity crisis arises, such as trouble meeting its near obligations etc. Such an inability may force "**BSA"** to borrow at unattractive conditions or to liquidate assets at unattractive prices. It is the risk to the earnings and capital arising from potential inability to meet obligations when they are due without incurring unacceptable losses .
A Liquidity Contingency Plan helps ensure that "**BSA"** can prudently and efficiently manage routine and extraordinary fluctuations in liquidity. Such a plan also helps management monitor liquidity risk, ensure that an appropriate amount of liquid assets is maintained, measure and estimate future funding requirements under various scenarios, and manage access to funding sources.

4.6.3 Risk Measures

"BSA" prepares a statement of expected cash flow arising at the time of settlement of its assets and liabilities and allocates them into different time intervals in which they are expected to occur. The times and intervals are defined as per the prudential rules of CMA. For more details please check Appendix 6: Illustrative Disclosure on Liquidity Risk.

The assets with no maturity are placed in a separate category "No Maturity". The net cash flows across all time intervals were accumulated to observe the quantum of cumulative net cash flow in each category. **"BSA"** always maintains adequate liquidity to meet its day to day obligations and cash outflows.

"BSA" has a contingency funding plan if there is any liquidity shortfall which is met through a short-term draw down facility with BLOM Bank s.a.l..

4.6.4 Stress Testing and Capital Planning

Stress testing is an integral part of **"BSA"**'s risk management systems and is used to evaluate the potential vulnerability to some unlikely but plausible events or movements in financial variables.

"BSA" will stress relevant parameters at three levels of increasing adversity –mild, medium, and severe – with reference to the normal situation and estimate the financial resources needed under each of the circumstances to:

- Meet the risk as it arises and for mitigating the impact of manifestation of that risk;
- Meet the liabilities as they fall due; and
- Meet the regulatory and risk appetite limits.

"BSA" has built-in two types of stress testing in its ICAAP model, namely Individual and Overall.

Under individual stress testing, **"BSA"** assesses the effect of a particular stress event in isolation (without taking other stress events into consideration).

Under overall stress testing, **"BSA"** assumes an economic downturn situation which impacts several factors at the same time.

Under both, individual and overall, three levels of severity are assumed (mild, medium and severe).

"BSA" has assumed that all the relevant stress events take place as of 31 December 2019.

Any breaches resulting from the stress test are rectified through appropriate and feasible remedial management actions.

Appendix 1: Disclosure on Capital Base

Capital Base December 2019	SAR'000
Tier-1 capital	
Paid-up capital	245,000
Audited retained earnings	82,535
Share premium	-
Reserves (other than revaluation reserves)	10,813
Tier-1 capital contribution	-
Deductions from Tier-1 capital	(322)
Total Tier-1 capital	**338,026**
Tier-2 capital	
Subordinated loans	-
Cumulative preference shares	-
Revaluation reserves	-
Other deductions from Tier-2 (-)	-
Deduction to meet Tier-2 capital limit (-)	-
Total Tier-2 capital	**0**
TOTAL CAPITAL BASE	**338,026**

Appendix 2: Disclosure on Capital Adequacy

Exposure Class (SAR'000)	Exposures before CRM		Net Exposures after CRM	Risk Weighted Assets	Capital Requirement
Credit Risk	-		-	-	-
On-balance Sheet Exposures	-		-	-	-
Governments and Central Banks	10,000		10,000	0	0
Authorised Persons and Banks	18,370		18,370	17,181	2,405
Corporates	-		-	-	-
Retail	-		-	-	-
Investments	188,666		188,666	539,944	75,592
Securitisation	-		-	-	-
Margin Financing	-		-	-	-
Other Assets	45,735		45,735	309,488	43,328
Total On-Balance sheet Exposures	262,771		262,771	866,613	121,326
Off-balance Sheet Exposures	-		-	-	-
OTC/Credit Derivatives	-		-	-	-
Repurchase agreements	-		-	-	-
Securities borrowing/lending	-		-	-	-
Commitments	-		-	-	-
Other off-balance sheet exposures	-		-	-	-
Total Off-Balance sheet Exposures	-		-	-	-
Total On and Off-Balance sheet Exposures	262,771		262,771	866,613	121,326
Prohibited Exposure Risk Requirement	0		0	0	0
Total Credit Risk Exposures	262,771		262,771	866,613	121,326
Market Risk	Long Position	Short Position			
Interest rate risks	-	-			-
Equity price risks	3,633	-			654
Risks related to investment funds	116,427	-			18,628
Securitisation/re-securitisation positions	-	-			-
Excess exposure risks	-	-			-
Settlement risks and counterparty risks	-	-			-
Foreign exchange rate risks	18,337	-			367

Commodities risks.	-	-		-
Total Market Risk Exposures	138,397	-		19,649
Operational Risk				5,576
Minimum Capital Requirements				**145,786**
Surplus/(Deficit) in capital				**190,418**
Total Capital ratio (time)				**2.31**

Appendix 3: Disclosure on Credit Risk's Risk Weights

Risk Weights	Exposures after netting and credit risk mitigation (All amounts in SAR '000)										
	Gov. and Central Banks	Admin. Bodies and NPO	Authorised Persons and Banks	Margin Financing	Corporates	Retail	Investments	Other assets	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	10,000	-	-	-	-	-	-	1	-	10,001	0
20%	-	-	7,980	-	-	-	-	-	-	7,980	1,596
50%	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	10,390	-	-	-	41,218	-	-	51,608	77,412
200%	-	-	-	-	-	-	-	-	-	-	-
300%	-	-	-	-	-	-	111,674	4,119	-	115,793	347,379
400%	-	-	-	-	-	-	35,774	-	-	35,774	143,096
500%	-	-	-	-	-	-	-	-	-	-	-
714% (include prohibited exposure)	-	-	-	-	-	-	-	41,615	-	41,615	297,131
Average Risk Weight	-	-	93.53%	-	-	-	286.19%	692.33%	-	-	-
Capital Requirements	-	-	2,406	-	-	-	75,622	42,580	-	-	-

Appendix 4: Disclosure on Credit Risk's Rated Exposure

Exposure Class SAR'000	Long term Ratings of counterparties							
	Credit quality step	1	2	3	4	5	6	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	CCC+ and below	Unrated
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to Ba3	B1 to B3	Caa1 and below	Unrated
	Capital Intelligence	AAA	AA to A	BBB	BB	B	C and below	Unrated
On and Off-balance-sheet Exposures	-	-	-	-	-	-	-	-
Governments and Central Banks	-	10,000	-	-	-	-	-	-
Authorised Persons and Banks	-	-			-	-	-	
Corporates	-	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	-
Investments	-	3,015	-	-	-	-	-	34,766
Securitisation	-	-	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-	-	-
Other Assets *	-	-	-	-	-	-	-	-
Total	**-**	**13,015**	**-**	**-**	**-**	**-**	**-**	**34,766**

*Investments in closed ended funds

Exposure Class SAR'000	Short term Ratings of counterparties							
	Credit quality step	1	2	3	4	5	6	Unrated
	S & P	AAA to A-	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	-		-	-	-	-	-	-
Authorised Persons and Banks	-	4,965	-	-	-	-	10,390	-
Corporates	-	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-
Securitisation	-	-	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	76,350
Total	-	**4,965**	**-**	-	-	**-**	**10,390**	**76,350**

Appendix 5: Disclosure on Credit Risk Mitigation (CRM)

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	10,000	-	-	-	-	10,000
Authorised Persons and Banks	18,370	-	-	-	-	18,370
Corporates	-	-	-	-	-	-
Retail	-	-	-	-	-	-
Investments	188,666	-	-	-	-	188,666
Securitisation	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	45,735	-	-	-	-	45,735
Total Credit Risk On-Balance sheet Exposures	**262,771**					**262,771**
Off-balance Sheet Exposures	-	-	-	-	-	-
OTC/Credit Derivatives	-	-	-	-	-	-
Exposure in the form of repurchase agreements	-	-	-	-	-	-
Exposure in the form of securities lending	-	-	-	-	-	-
Exposure in the form of commitments	-	-	-	-	-	-
*Other Off-Balance sheet Exposures	-	-	-	-	-	-
Total Off-Balance sheet Exposures	-	-	-	-	-	-
Total Credit Risk On and Off-Balance sheet Exposures	**262,771**	**-**	**-**	**-**	**-**	**262,771**

Appendix 6: Disclosure on Liquidity Risk

In SAR'000 As of December 2019	Up to 1 Year	1 to 5 Years	>5 Years	No fixed Maturity	Total
Cash and Cash Equivalents	15,356				**15,356**
Accounts receivable, prepayments and other current assets	119,856				**119,856**
Loans					**0**
Investments	161,836			83,555	**245,391**
Property and equipment				2,228	2,228
Intangible assets				322	**322**
Total assets	**297,048**			**86,105**	**383,153**
Accounts payable and accruals	17,854				**18,936**
Dividend payable					**0**
Accrued expenses and deferred income	4,166				**3,115**
Zakat and Income tax payable	17,765				**17,765**
Employees' terminal benefits				3,167	**3,167**
Other Liabilities	911			942	
Total Liabilities	**40,696**	**0**	**0**	**4,109**	**44,805**
Shareholders' Equity				338,348	**338,348**
Total Liabilities and Shareholders' Equity	**40,696**	**0**	**0**	**342,457**	**383,153**
Liquidity Gap	**256,352**	**0**	**0**	**81,996**	
Cumulative Gap	**256,352**	**256,352**	**256,352**	**338,348**	