

AI WASATAH AL MALIAH – WASATAH CAPITAL

PILLAR III DISCLOSURE

YEAR ENDED 31 DECEMBER 2015

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Executive Summary

The Capital adequacy report of Wasatah Capital (the “Company”) has been prepared in accordance with the requirements of Prudential Regulations and guidelines issued by the Capital Market Authority (“CMA”).

The purpose of this report is to disclose the market participants and stakeholders the strategies and process of risk management, how the risk management and compliance function is organized and structured, the scope and nature of risk reporting and measurement system in the Company.

The Company has been submitting Capital Adequacy Model in the format as prescribed by the CMA for last 3 years. In addition to that, the Company is complied with the requirement of disclosing minimum capital requirements in the notes to the audited annual financial statements and later submitted the external auditor’s report on Capital Adequacy Model to the Capital Market Authority.

In accordance with the minimum capital requirement calculation methodology as prescribed under Prudential Regulations, the Company’s capital adequacy ratio as at 31 December 2015 and a comparison thereof with the figures as of 31 December 2014 is as follows:

	December 2015	December 2014
Capital Ratio (time)	4.89	5.90

As at 31 December 2015, total risk weighted assets were SR 206.1 million against SR 220.2 million as at 31 December 2014, where capital requirement charge against credit risk total is SR 28.86 million (2014 : SR30.82 million), market risk is SR 1.51 million (2014 : SR1.51 million) and operational risk is SR 7.27 million (2014 : SR 2.87 million).

The following table depicts the total capital adequacy structure as at 31 December 2015 and 2014:

	December 2015	December 2014
	<i>“Amount in SR 000”</i>	
Total Capital base	184,231	207,726
Total minimum capital required	37,638	35,217
Surplus in Capital	146,592	172,509
Total Capital Ratio (in times)	4.89	5.90

1. SCOPE OF APPLICATION

a) Company's Background

Al Wasatah Al Maliah Company (Wasatah Capital), a Closed Joint Stock Company (the "Company") incorporated in the Kingdom of Saudi Arabia is registered under Commercial Registration No. 1010241832 dated 20 Thul Hijja 1428H (corresponding to 30 December 2007) in accordance with a licence No. 06033-35 dated 3 Sha'aban 1427H (corresponding to 27 August 2006) issued by the Capital Market Authority (CMA).

Major shareholders of the Company are as follows:

<i><u>Name of the shareholder</u></i>	<i><u>% holding</u></i>
Kenanga Investment Bank Berhad	29.60
Prince Saud Bin Fahad Bin Abdullah	10.00
Saleh AbdulAziz Al Rajhi Endowment Management	10.00
Al-Muwakaba for Industrial Dev. & Overseas Commerce	10.00
Others	40.40
	100.00

The Company's registered office is located at:

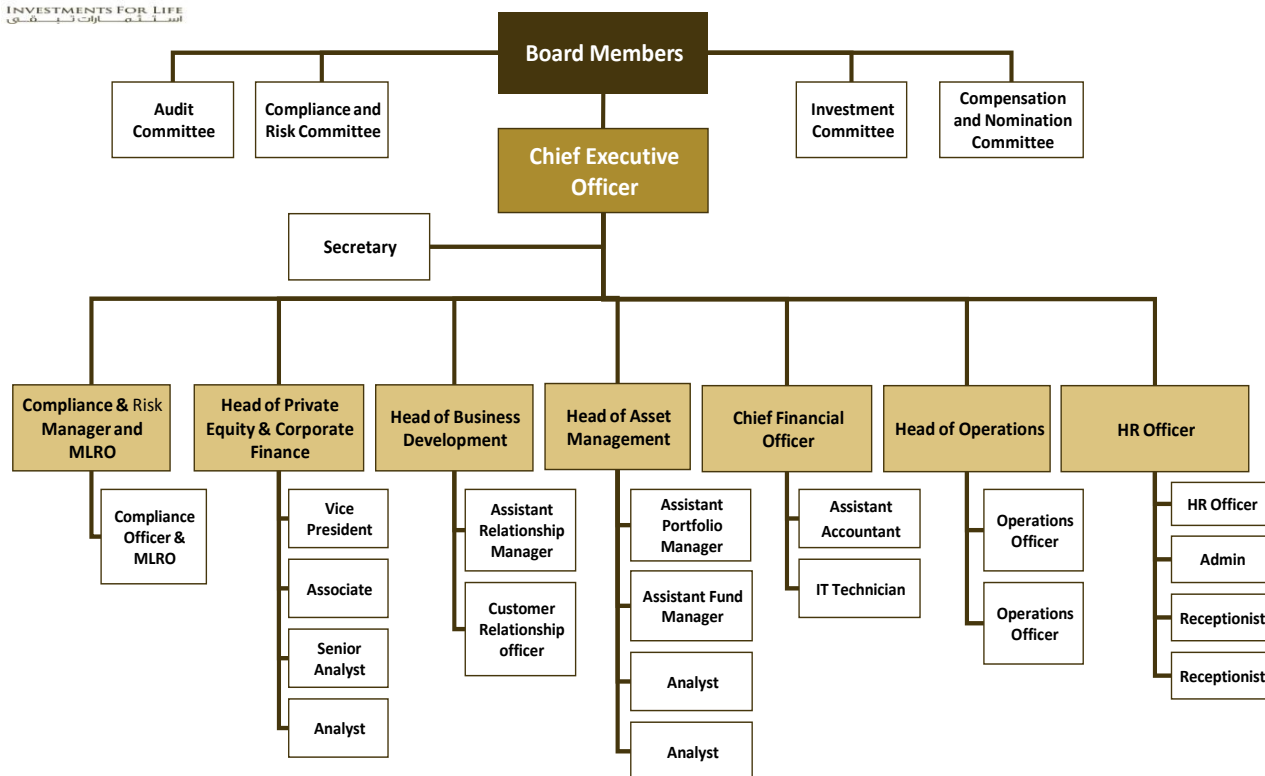
Al Olaya Street
 P.O. Box 50315
 Riyadh 11523
 Kingdom of Saudi Arabia

The Company is engaged to deal as a principal and to provide underwriting, arranging, managing investment funds and custodian services.

b) Organization Structure



Organization Chart



2. Capital Structure

a) Background

The Capital Market Authority (CMA) issued Prudential Regulation (“Regulations”) based on capital market law issued by Royal Decree # M/30 dated 2 Jumada II 1424H. The said regulations requires all authorized person (AP) in operating in the Kingdom of Saudi Arabia to report their capital adequacy requirements according to the guidelines in mentioned in the Regulations.

The Regulations adopted by the CMA is an international initiative with a view to ensure adequate capitalization of authorized persons on a more robust risk-sensitive basis providing a framework for assessment of risk and calculation of regulatory capital requirement, i.e. the minimum capital that an institution must hold, given its risk profile. The Regulations are intended to strengthen risk management practices and processes within financial institutions.

The Regulations describes the following three pillars, which are designed to be mutually re-enforcing and are meant to ensure an adequate capital base, which corresponds to the overall risk profile of the Company:

- Pillar 1: Calculation of capital adequacy ratio based on charge for credit, market and operational risks stemming from business operations.
- Pillar 2: Supervisory review process which includes:
 - Internal Capital Adequacy Assessment Process (ICAAP) to assess
 - Incremental risk types not covered under Pillar 1;
 - Quantification of capital required for these identified risks;
- Pillar 3: Market discipline through public disclosures that are designed to provide transparent information on capital structure, risk exposures, risk mitigation and the risk assessment process.

This report represents Company’s market disclosure, under the Pillar 3 requirements, of its risk profile and capital adequacy as at the end of 31st December 2015.

b) Total Capital Base

	December 2015	December 2014
	<i>“Amount in SR 000”</i>	
Paid up Capital	250,000	250,000
Audited retained earnings	(41,865)	(41,493)
Deduction	(23,904)	(781)
Total-Tier I Capital	184,231	207,726
Total -Tier II Capital	--	--

Refer Appendix I for detailed description of Capital base of the Company

3. CAPITAL ADEQUACY

a) Minimum Capital Requirements – Pillar I

Pillar I of the Regulations, as adopted and implemented by CMA, covers the minimum regulatory capital requirement that an AP is expected to maintain to cover credit, market and operational risks stemming from its business operations. It also sets out the basis for capital adequacy reporting requirements, the definition and calculations of Risk Weighted Assets (RWA) and the various options given to APs to calculate these Risk Weighted Assets.

The Regulations requires that each AP should maintain 1.00 time of total capital base against capital assigned to Credit, market and operation risk.

The Regulation also requires that each AP should disclose surplus/ deficit of the budget against required capital assigned Credit, market and operation risk.

The Company consider capital as a necessary resource to cover unexpected losses. Therefore, the Company maintain an adequate level of capital at all time to cover any unexpected loss arising from its business operations and to support current and future business activities.

The Company is fully compliant with the minimum level of capital requirement as at 31 December 2015 and submitted its Capital Adequacy Model in the format as prescribed by the CMA.

The Company has Risk Management and Compliance Function, which is primarily responsible for monitoring and maintaining minimum capital requirements and have the following main responsibility in the Company:

- Alignment between the risk management activities and the overall corporate objectives and policies.
- A consolidated view of the Company wide risks ensuring consistent and acceptable management of risk across the company.
- A consistent approach across the Company for identifying, assessing, measuring, monitoring and reporting on risks and maintenance of minimum capital requirements in accordance with the Prudential Regulations issued by the CMA.
- Comprehensive view of the results of past strategies as an input to future strategies and enhanced governance over the enterprise wide risks across the entity.

b) Internal Capital Adequacy and Assessment Process– Pillar II

The Supervisory Review Process under Pillar 2 requires the Company to employ an Internal Capital Adequacy Assessment Process (ICAAP), therefore the Company has developed ICAAP which identified sources for raising additional capital in case of need and to provide documented plans thereof.

As part of this process the Company is required to ascertain whether credit, market and operational risk capital charges calculated under Pillar 1 are adequate to cover the Company's internal assessment of these risks or not.

The ICAAP is designed in such a way to ensure that the Company have sufficient capital cushion to meet regulatory and internal capital requirements during periods of Systemic / cyclical economic downturns or during times of financial distress – which involves employing stress testing and scenario analysis techniques.

Within the framework of the ICAAP, the Senior Management reviews the Company's annual capital plan. The ICAAP is also reviewed and approved by the Board of Directors on an annual basis.

In compliance with the regulatory requirements, the Company includes its detailed ICAAP Plan for the period 2015 -2018 to CMA.

c) Capital Requirements – Credit, Market and Operational Risk

The Company is well balanced in terms of Tier I Capital ratio, which is maintained 4.89 (2014: 5.90) exceeding CMA minimum regulatory capital requirements of 1.00.

	December 2015	December 2014
	<i>"Amount in SR 000"</i>	
Capital assigned:		
-Credit Risk	28,856	30,828
-Market Risk	1,512	1,512
-Operational Risk	<u>7,270</u>	<u>2,877</u>
Total minimum capital required	37,638	35,217
Capital Adequacy Ratio	4.89	5.90
Surplus in Capital	146,592	172,509

Refer Appendix II for detailed description on Capital Adequacy of the Company

4. RISK MANAGEMENT

In this section, risk management objective and policies are described for each type of risk as well as the principles adopted for the management and control of risk and capital.

a) Scope of Risk Management

- **Risk Management Strategies and Processes**

Risk management is a process by which the Company identified, evaluated and managed the risk. Threats are managed by a process of controlling, transferring or retaining the risk. Opportunities are managed by identifying strategies to maximise the opportunity or reward for the organisation.

The Company has developed a detailed Risk Management Manual, which provides clear guidelines of how to oversee and monitor the Company wide risks (strategic, market, credit, liquidity, operational risks, and Legal risk) with the objective of building stakeholder value within the Company's defined risk tolerance.

The manual covers all the necessary controls as approved by the Board of Directors and Audit and Compliance Committee of the Company.

- **Structure and Organization of Risk management and Compliance Function**

The Company has Audit and Compliance Committee, which has the objective to assist the Board of Directors in fulfilling its responsibilities with respect to the internal control system and Risk Management system of the Company, to manage the accounting and financial reporting, and to ensure compliance with legal and organizational requirements of the Company.

The main duties and responsibilities of the Audit and Compliance Committee are as follows:

- Overseeing the internal audit management of the Company to ensure the efficiency and effectiveness in the performance of activities and tasks assigned by the Board of Directors.
- The Committee must take reasonable steps to ensure that the operations of the various departments and their products and services are compatible with the Saudi Arabian rules and international law and regulations of the Capital Market Authority.
- Should support the implementation of the compliance program and promotes the creation of a true commitment culture.
- Maintaining sound and effective credit risk management architecture and process.
- Examines components of the capital plan and proposes the internal capital adequacy targets for approval by the Board of Directors.

- **Scope and nature of risk reporting and measurement systems**

The Audit and Compliance Committee is reportable to Board of Directors and oversees the Internal Audit, Compliance, and Anti-Money Laundering functions. The Committee supervises the establishment and implementation of the Frameworks for the above functions to ensure effective identification, management and mitigation of risks resulting from non-compliance with regulatory requirements.

- Policies and guidelines for mitigating and monitoring risk

The Company's Risk Management Manual ensures that:

- Alignment between the risk management activities and the overall corporate objectives and policies.
- A consolidated view of the enterprise wide risks ensuring consistent and acceptable management of risk across the company
- A consistent approach across the organization for identifying, assessing, measuring, monitoring and reporting on risks.
- Comprehensive view of the results of past strategies as an input to future strategies and enhanced governance over the enterprise wide risks across the entity.

This manual is subject to periodical review after every one year for any specific policies, Risk Management and Compliance Function is responsible for such review and Board has the ultimate power to approve the modification.

b) Credit Risk

Credit risk is the risk that one party may fail to discharge an obligation and will cause the other party to incur a financial loss. For Wasatah Capital Credit risk may arise out of all products and services offered where third parties have or might have a payment obligation towards the Company.

The Company has credit risk balances with banks, Murabaha placements and commission receivable thereon, fee receivable, and held-to-maturity investments are the significant class of financial assets that carry credit risk. Balances with banks, Murabaha placements, and held-to-maturity investments are placed with different banks having good credit rating and, hence, the credit risk is limited.

The Company has established various kinds of control to mitigate credit risk such as limits, which are in place for each credit exposure, these limits are:

- Country limits
- Industry / Sector limits
- Product limits
- Counter party limits

The Company also reviews financial health and rating against each counter party.

The Company has complied with CMA regulations and used the Standardized Approach for calculation of the capital required for Credit risk. The Company's credit risk exposures and their distribution by risk weights are detailed in Appendix III.

Past Due Loans

The Company classified a receivable as a past due where:

- Payment past due for at least 180 days.
- Inaccuracies in representations and warranties made by the client
- Customer's failure to abide by a covenant.
- Bankruptcy
- Invalidity of a guarantee or security agreement
- Impairment of collateral resulting in collateral coverage ratio falling below 125%.
- Customer's failure to pay other indebtedness when due.

A specific provision of at least 100% of the total outstanding debt will be established where it is deemed possible that the occurrence of one or more of the above events will adversely affect the counterparty's position to repay its credit facility.

Name of Credit Rating Agencies

The Company uses credit ratings to determine the credit quality step of the correspondence exposure. The Company uses ratings from credit rating agencies prescribed by CMA in the prudential rules and maps it to the appropriate credit quality step. The Company then uses the credit quality step to determine appropriate risk weight for credit risk exposures for capital charge calculations.

The Company uses the following mapping table between rating agencies' credit ratings and the steps in the credit quality scales as prescribed by CMA.

	1	2	3	4	5	6
Standards & Poors	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below
Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below
Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below
Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below

Please refer to Appendix IV for the details of distribution of exposures by credit quality steps.

Geographical Distribution of Credit Risk Exposure

The Company has credit exposure in Saudi Arabia, Bahrain and Malaysia. The breakdown is as follows:

	December 2015	December 2014
	<i>"Amount in SR 000"</i>	
Kingdom of Saudi Arabia	115,147	140,630
Bahrain	37,519	37,523
Malaysia	38,159	38,151
	190,756	216,304

Residual Contractual maturity

The Company has segregated all of its assets based on residual maturity profile into different buckets. The residual contractual maturity of the Company's exposures is given in the table below:

	Less than three months	Three months to six months	Six months to One year	More than one year	No maturity	Total
	<i>"Amount in SR 000"</i>					
Authorized Persons and Banks	10,322	37,500	38,164			85,986
Corporate		1,240		25		1,265
Retail	230				59	289
Investment					102,315	102,315
Others					901	901
Total – on Balance sheet exposure	10,552	38,740	38,164	25	103,275	190,756

Credit Risk Mitigation

The Company does not have any exposures covered by financial collateral, guarantees or netting agreements as of December 31, 2015, hence does not claim any reduction in capital requirements via credit risk mitigation.

Please refer to Appendix V for the details.

Counterparty Credit Risk and Off Balance Sheet Exposures

The Company does not have exposures to OTC derivatives, other credit derivatives, repos and reverse repos and securities borrowing or lending. The Company also does not have any off-balance sheet exposures.

c) Market Risk

Market risk is the risk that the fair value or future cash flows of the financial instruments of the Company may fluctuate due to changes in market variables such as special commission rates, equity prices, and currency risk.

The Company has a Risk Management Manual, which broadly lays down the philosophy and approaches that govern how Company's investments are managed. The policy seeks to establish a clear understanding of its investment goals and objectives with respect to investable assets.

As at 31 December 2015, the Company is exposed foreign exchange risk where it has a long position in USD currency. The Company complies with the requirements of CMA and uses the Standardized Approach to arrive at Market Risk capital under Pillar I. The Market Risk charge computation as at 31st December 2015 is SAR 1,512,373.

d) **Operational Risk**

Operational risk arises from the potential that inadequate information systems, technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems may result in unexpected losses or reputation problems.

The overall responsibility for managing operational risk is with the risk management department within the Company.

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

Basic Indicator Approach: Under the Basic Indicator Approach, 15% capital charge is calculated on average operating income of the last three audited financials.

Expenditure Based Approach: Under the Expenditure Based Approach, 25% capital charge is calculated on all overhead expenses except extraordinary expenses as per the most recent audited annual financial statements.

Basic Indicator Approach	Year	Gross income	Average Gross Income	Risk Capital Charge %	Capital Required
	<i>"Amount in SR 000"</i>				
Operational Risk Charge	2015	17,659	12,529	15%	1,879
	2014	10,351			
	2013	9,577			

Expenditure Based Approach	Year	Overhead Expenses	Risk Capital Charge %	Capital Required
	<i>"Amount in SR 000"</i>			
Operational Risk Charge	2015	29,080	25%	7,270

Capital requirement for Operational Risk for 2015 (Higher of Basic Indicator Approach and Expenditure Based Approach) is SR 7,269,915.

e) Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Financial assets of the Company as at year-end mainly include cash, balances with banks, Murabaha placements, and available-for-sale investments, which can be utilised to meet changing liquidity requirements.

Liquidity risk is managed by monitoring on a regular basis as per guidelines provided in the Risk management Manual that sufficient funds are available to meet the Company's future commitments.

The treasury department is responsible for managing, maintaining, and monitoring liquidity of the Company on a daily basis. The department is directly reportable to Investment Committee and Board of Directors of the Company.

The Board has provided the limits for certain liquidity ratios, these are calculated on a daily basis and revised on a quarterly basis, where required.

Following are the ratio that measure the liquidity of the Company:

Indicator	December 2015	December 2014
Current ratio (in times)	2.67	5.18
Liquid assets / total assets	7%	18%
Liquid assets/ total liabilities (in times)	2.1	4.6

APPENDIX I – CAPITAL BASE

Capital Base	SAR “000”
<u>Tier-1 capital</u>	
Paid-up capital	250,000
Audited retained earnings	(41,865)
Share premium	-
Reserves (other than revaluation reserves)	-
Tier-1 capital contribution	(23,904)
Deductions from Tier-1 capital	-
Total Tier-1 capital	184,231
<u>Tier-2 capital</u>	
Subordinated loans	-
Cumulative preference shares	-
Revaluation reserves	-
Other deductions from Tier-2 (-)	
Deduction to meet Tier-2 capital limit (-)	
Total Tier-2 capital	
TOTAL CAPITAL BASE	184,231

APPENDIX II – DISCLOSURE ON CAPITAL ADEQUACY

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				
Authorised Persons and Banks	85,986	85,986	39,901	5,586
Corporates	1,265	1,265	9,035	1,265
Retails	289	289	866	121
Investments	82,599	82,599	123,898	17,346
Investment Funds	19,716	19,716	29,710	4,159
Margin Financing				-
Other Assets	902	902	2,704	379
Total On-Balance Sheet Exposures	190,756	190,756	206,114	28,856
	Net Long Position	Net Short Position		
Market Risk				
Interest rate risks				
Equity price risks				
Risk related to investment funds				
Securitisation/resecuritisation positions				
Excess exposure risks				
Settlement risks and counterparty risks				
Foreign exchange rate risks	75,619			1,512
Commodities risks				
Total Market Risk Exposures				
Operational Risk				7,270
Minimum Capital Requirements				37,638
Surplus/(Deficit) in capital				146,592
Total Capital ratio (time)				4.89

APPENDIX III – DISCLOSURE ON CREDIT RISK'S RISK WEIGHT

Risk Weights	Exposure after netting and credit risk mitigation												Total Risk Weighted Assets
	Governments and central banks	Administrative bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	Retails	Past due items	Investments	Investment Funds	Other assets	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	
0%										5		5	-
20%			10,308									10,308	2,062
50%			75,678									75,678	37,839
100%												-	-
150%								82,599	19,625			102,223	153,335
200%												-	-
300%									91	1,190		1,281	3,844
400%												-	-
500%												-	-
714% (Include prohibited exposure)					1,265							1,265	9,035
Average Risk Weight												-	-
Deduction from Capital Base												-	-

APPENDIX IV – DISCLOSURE ON CREDIT RISK'S RATED EXPOSURE

Exposure Class	Short 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
<u>On and off-balance Sheet Exposures</u>								
Governments and central banks								
Authorised Persons and Banks		10,303	38,164		37,519			
Corporates								1,265
Retails								289
Investments								
Investment Funds								811
Margin Financing								
Other Assets								
Total	-	10,303	38,164	-	37,519	-	-	2,365

Exposure Class	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
<u>On and off-balance Sheet Exposures</u>								
Governments and central banks								
Authorised Persons and Banks								
Corporates								
Retails								
Investments								82,599
Investment Funds								18,904
Margin Financing								
Other Assets								902
Total	-	-	-	-	-	-	-	102,405

APPENDIX V – DISCLOSURE ON CREDIT RISK MITIGATION

Exposure Class	Exposures before CRM SAR'000	Exposures covered by Guarantees/Credit derivatives	Exposures covered by Financial Collateral	Exposures covered by Netting Agreement	Exposures covered by other eligible collaterals	Net Exposures after CRM
Credit Risk						
<i>On-balance Sheet Exposures</i>						
Governments and central banks						
Authorised Persons and Banks	85,986					85,986
Corporates	1,265					1,265
Retails	289					289
Investments	82,599					82,599
Investment Funds	19,716					19,716
Margin Financing						-
Other Assets	902					902
Total On-Balance Sheet Exposures	190,756	0	0	0	0	190,756
<i>Off-balance sheet Exposure</i>						
OTC/Credit Derivatives						
Exposure in the form of repurchase agreement						
Exposure in the form of securities lending						
Exposure in the form of commitments						
Other off-balance sheet exposures						
Total Off-Balance Sheet Exposures	-	0	0	0	0	0
Total On and Off-Balance sheet Exposures	190,756	0	0	0	0	190,756