



SEDCO
CAPITAL



سدكو
كابيتال

**Pillar III Disclosure Report
as at
31st December 2015**



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BACKGROUND

Saudi Economic and Development Company for Financial Securities (Sedco Capital); ("SC" or "the Company") is a Saudi closed joint stock company registered in Jeddah under Commercial Registration number 4030194994 on 1 Thul-Hujja 1430 (November 18, 2009).

The Company obtained the approval of the Minister of Commerce and Industry via Decree number 328/K, dated 1 Dhul-Qa'adah 1430 (October 20, 2009) to establish the Company.

The Company is an Authorised Person as defined in the authorised persons regulations issued by the Capital Market Authority. The principal activities of the Company are managing, arranging, advising, dealing and custody services with respect to the financial securities business as per license issued by the Capital Market Authority (CMA) number 9135-36 dated 23 Rabi'II 1430 (April 19, 2009). The Company obtained the CMA approval to commence conducting its approved activities starting March 29, 2010.

SC is headed by an effective Board of Directors which meets regularly and directs and controls the Company. The SC Board is responsible for providing governance, guidance and oversight to senior management. Management is responsible for carrying out board directives, including implementing strategies and policies and establishing an effective system of internal controls. It is the joint responsibility of the SC Board and management to promote integrity and high ethical standards, and to establish a culture within the organization that emphasizes to all levels of personnel the importance of internal controls.

In fulfilling its responsibilities, the SC Board chose to delegate some of these responsibilities to committees as and when required.

Investment Committee: The purpose of this Committee is, on behalf of the Board of Directors, to oversee, direct and review the management of SC's investment activities on behalf of SC's clients as well as the proprietary investments, and provide update to the Board of Directors quarterly the conclusion of the main investment activities.

Compensation Committee: The purpose of this committee is to assist the Board of Directors in reviewing and approving management recommendations regarding all forms of compensation to be provided to the CEO and other executive management of SEDCO Capital, including salary, bonus and compensation guidelines to all employees.

Audit Committee: The purpose of the Committee is to oversee, monitor, direct and manage the audit process of SC in line with established policies, procedures and audit programs and in accordance with CMA requirements and regulations. It is also responsible for improving the effectiveness of SC's audit, providing assurance on significant business processes, helping the senior management in understanding and controlling business risks to protect and enhance shareholders' value. The Audit Committee has the responsibility of reporting to the Board of Directors regularly regarding audit issues, status and related recommendations, as well as review performance of statutory auditors, discuss their findings and recommend their appointment.

Risk & Compliance Committee: The purpose of the Risk & Compliance Committee is to assist the Board of Director's in exercising its oversight of the operational activities of SC and the timely identification, mitigation, and management of those risks that could have a material impact on SC. Also, the committee assists in fulfilling its risk management responsibilities as defined by applicable laws and regulations. The committee also oversee monitor, direct and review the management of SC compliance and monitoring of its security business in line with the SC's established policies, procedures and program in accordance with CMA requirements and regulations.

Management, in supporting the SC Board and its committees, has a number of key responsibilities:

- Implement strategies and policies approved by the board.
- Develop processes that identify, measure, monitor and control risks being incurred by the company.
- Maintain a risk management organizational structure that clearly assigns responsibility, authority and reporting relationships and avoids conflict of interest situations.
- Ensure that delegated responsibilities are effectively carried out.
- Set appropriate internal control policies.
- Monitor the adequacy and effectiveness of the internal control system.

Management, while ultimately responsible to the SC Board, executes its responsibilities by appointing competent and efficient personnel to the various types of risk functions and delegating appropriate responsibilities. Monitoring the performance of these nominated individuals is a key part for the success of risk management.

An essential element of an integrated Risk Management Framework is the recognition by all employees of the need to carry out their responsibilities effectively and to communicate where policy violations and other deviations are detected. Clearly written, distributed and readily available procedures are fundamental to the detection and communication of risk issues.

1. Scope of Application

This Pillar III disclosure is prepared and issued by SEDCO Capital in accordance with the requirements of Article 68 of the Prudential Regulations issued by the Capital Markets Authority. These rules include guidelines for the annual market disclosure of the Company's capital and risk management information required to be published on SC's website.

The preparation of Pillar III disclosure is based on the Audited Financial Statements of SEDCO Capital, the capital adequacy figures reported in this report corresponds to the capital adequacy information as reported under section Capital Management in note "23" of the audited financial statements for year-end 2015 duly approved by the SEDCO Capital Board.

1.1. Pillar I – Minimum Capital Requirement

Pillar I sets minimum capital requirements to meet credit, market and operational risk as contained in the Part 3 chapter 4 to 16 of the Prudential Rules.

- SC uses the Standardized Approach in the calculation of the capital required for Credit risk.
- The capital charge for market risk is assessed for trading book portfolio and Foreign exchange positions in the books.
- The capital charge for operational risk is based on the expenditure indicator approach, which is calculated by applying 25% to the expenses.

1.2. Pillar II – Internal Capital Adequacy Assessment Requirement

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 AP's to perform a thorough review of all material risks, extensive stress testing, strategic capital planning, the internal control framework and the roles and responsibilities of departments/ individuals that are critical to the implementation of framework.

The Company has taken various initiatives to implement the ICAAP and assess capital requirements in accordance with the Company's risk profile, size and complexity of business.

1.3. 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. SC intends to publish the Pillar III disclosures on its website annually.

1.4. Material or Legal Impediments between AP and its Subsidiaries

SC does not have any current or foreseen material or legal impediments for transfer of capital.

2. Capital Structure

For regulatory purposes, capital is categorized into two main classes. These are Tier 1 and Tier 2, which are as described below.

2.1. Tier 1 Capital

Tier-1 capital of SC consists of paid-up capital, reserves (other than revaluation reserves) and audited retained earnings and has deductions in the form of intangible assets and loss from AFS investments. As of December 31st, 2015 the total Tier I capital of the Company is SAR 246 MM.

Tier-1 capital (SAR '000)	Dec-15	Dec-14
Paid-up capital	200,000	200,000
Reserves (other than revaluation reserves)	4,783	1,748
Audited retained earnings	43,050	15,735
Deductions (-)	(923)	(1,175)
Total Tier-1 capital	246,911	216,307

Table 1 - Tier 1 Capital

2.2. Tier 2 Capital

Tier-2 capital of the mainly consists of revaluation reserves which results from the change in fair value of AFS equity investments, however during 2015 it reserves were in negative hence does not appear.

Tier-1 capital (SAR '000)	Dec-15	Dec-14
Revaluation reserves	-	-
Total Tier-2 capital	-	-

TOTAL CAPITAL BASE (Tier-1 & 2)	246,911	216,307
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Table 2 - Tier 2 Capital and Total Base

Please refer to [Appendix 1](#) on page # 21 for the detailed disclosure on capital base.

3. Capital Adequacy

SC defines “Minimum Capital” as the resource necessary to cover unexpected losses and thus the Company, 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 Company is adequately capitalized with a Tier I capital ratio of 1.97x and similarly a total capital ratio of 1.97x which is above CMA’s minimum regulatory requirement of 1.00x.

Following table provides the Company's capital adequacy ratio:

Particulars	Dec-15	Dec-14
Tier 1 Capital	246,911	216,307
Tier 2 Capital	-	-
Total Tier-1 and Tier 2 capital	246,911	216,307

Minimum Capital Required	Dec-15	Dec-14
Market Risk	5,525	9,709
Credit Risk	98,360	90,228
Operational Risk	21,625	17,218
Total	125,510	117,156

Tier 1 Capital Ratio	1.97	1.85
Total Capital Ratio	1.97	1.85
Surplus (Deficit) in Capital Base	121,401	99,151

Table 3 - Capital adequacy and Capital numbers

Please refer to Appendix 2 on page # 22 for the details.

3.2. ICAAP

SC has an Internal Capital Adequacy Assessment Process (ICAAP), by which the Company examines its risk profile from both regulatory and internal risk capital point of view.

The ICAAP describes the Company's business strategy its risk appetite and the assessment of specific risk exposures, their mitigation and the capital allocated to these risks. In effect, the ICAAP is a crucial part of the Company’s strategic decision making process and risk management framework.

3.3. Scenario Analysis and Stress Testing

The effective and meaningful use of stress testing and scenario analysis by SC is a critical factor in allowing the Company to identify the risks to which they might be exposed in the future. This helps the Company to assess the appropriate capital that might be required to address those risks, thereby informing the Company's capital plans.

The statement sets out the expectations of the Company in relation to stress testing and scenario analysis including:

- scenarios appropriate to the Company's nature, scale and complexity are used to assess its potential vulnerabilities;
- the management of the Company is to be actively involved and engaged at all relevant stages; and
- the results should be fed through into the Internal Capital Adequacy Assessment Process (ICAAP).

4. Risk Management

4.1. Scope of Risk Management

Risk Management is an independent function, Head of Risk reports directly to the CEO, with the responsibility for developing adequate risk policies & limits and promoting the risk culture across the company.

Risk management covers all risks including credit, market, operational and regulatory risk. It involves the processes from origination to approval and the ongoing control, review, maintenance and optimization of exposures. Control activities is the integral part of the day-to-day activities at SC, these activities include:

Top-level reviews: This is achieved by the BoD and management receiving presentations, periodical submissions of positions, compliance and exception, and performance reports.

Activity and physical controls: Conducted more frequently than the top-level reviews and contain more details covering review of risk activities, positions and performance, and exception reports.

Compliance with exposure limits: Setting limits and ensuring they are adhered to is a fundamental risk-control function. For example, credit concentration is avoided by applying portfolio limits.

Approvals and Authorizations: Approval and authorization for transactions over certain limits, are incorporated within delegations and discretions, ensures that risk-taking is approved at the appropriate levels of management that establishes accountability for actions.

Verifications and Reconciliations: Verification and reconciliation is an important control as it is designed to detect problems in activities and/or errors. The results as required are escalated to the appropriate levels of management, and in doing so; ensures reduction in risk.

An effective internal control system ensures the following:

- An appropriate segregation of duties exists;
- Personnel are not assigned conflicting responsibilities;
- Areas of potential conflict of interest are identified, minimized and subject to thorough independent scrutiny

4.1.1. Risk Management Strategies and process

The Risk Management Framework which SEDCO Capital (SC) relies on is a well-proven methodology wherein all activities giving rise to risk are identified, measured, managed and monitored. Thus, risk management may be viewed as a “lifecycle” that includes the following four cycles:



Figure 1 - Risk Management lifecycle

- Risk Identification:**
 - Risks and sources of risks to which SC is exposed are continually identified and defined.
 - The company’s “appetite” for risk is described based on SC business objectives.
- Risk Assessment:**
 - Measurement processes is comprehensive enough to cover all significant sources of risk exposure.
 - Measurement processes is responsive to the needs of those who use the information.
 - Identified risks are assessed in terms of their probability of occurrence and impact on SC should they occur.
- Risk Addressing:**
 - Proper risk management strategies are defined to either reduce the probability of risk occurrence or reduce the impact should they occur.
 - Risk limits are consistent with SC policies and authorized exposures.
 - Risk management ensures that operational activities do not expose SC to losses that could threaten its viability.
- Risk Reporting:**
 - Reports provided are relevant, accurate and timely information about risk exposures.
 - Individuals monitoring risks is independent of those taking positions (incurring risks).
 - Risks are reported and regularly reviewed across different organizational hierarchy and during each stage of the risk management cycle.

4.1.2. Structure and organization of Risk Management and Compliance function

The Risk & Compliance functions independently are responsible for the day-to-day oversight of the operational activities concerned to various risks and regulatory compliance. Risk function is responsible for timely identifying, assessing, addressing and reporting of those risks that could have a material impact on SC and in fulfilling its risk management responsibilities as defined by applicable laws and regulations. The Compliance function monitor, direct and review the management of SC compliance and monitoring of its security business in line with the SC's established policies, procedures and program in accordance with CMA requirements and regulations.

SC's Risk Management Structure:

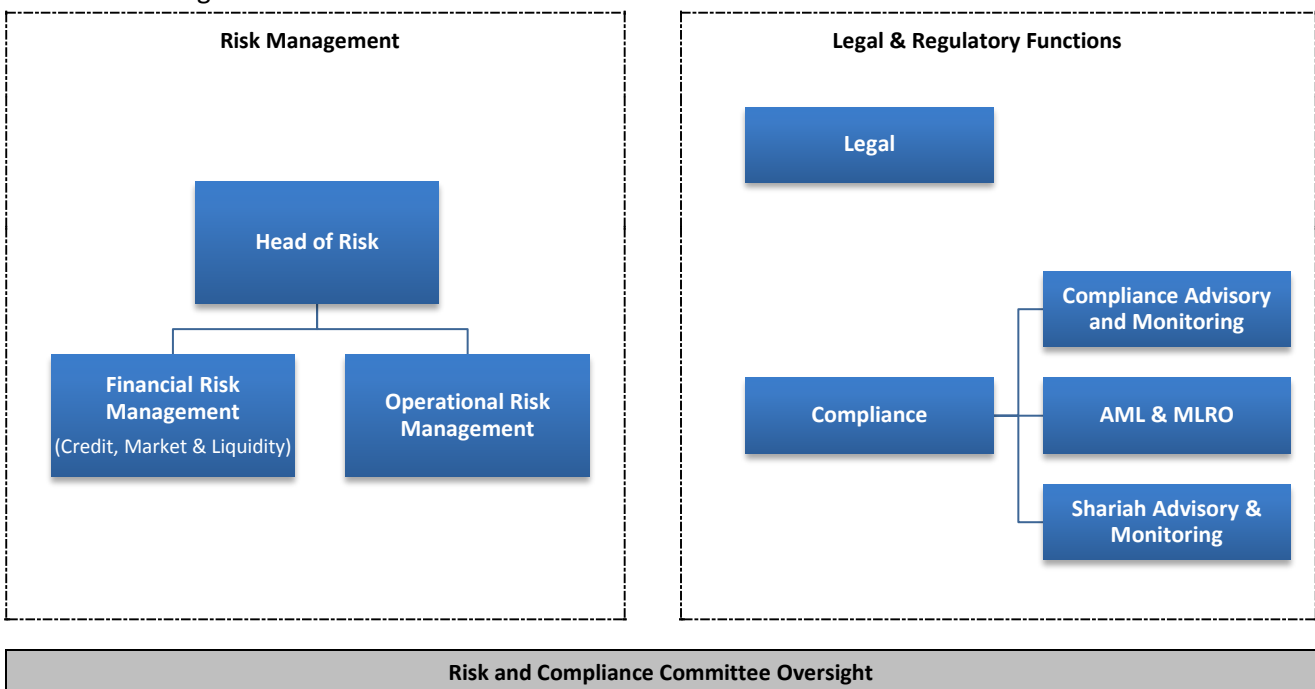


Figure 2 - Risk Management Structure at SEDCO Capital

4.1.3. Scope and nature of risk reporting and measurement systems

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

SC's risk monitoring therefore contains internal financial, operational, and compliance data, as well as external market information about events and conditions that are relevant for decision making. The reports reflect any identified problem area and motivate timely corrective action on outstanding issues.

Internal control deficiencies, whether identified by the risk function self-review; an internal audit, compliance division or other personnel, are reported in a timely manner to the appropriate management level and addressed accordingly. Any major deficiencies are reported to the Management and escalated to appropriate levels. The reports are analyzed with a view to improve existing risk management performance as well as to develop new risk management policies and procedures.

SC periodically reviews their risk limitations to ensure that the overall effectiveness in risk management remains aligned to a changing organization. Risk management policies and procedures are constantly reviewed and updated. The review covers objectives and strategies, as well as, changes relating to products, people, processes and systems.

4.1.4. Policies and guidelines for monitoring and mitigating risks

SC has established Risk policies and limits to monitor risks across the Company. Risk limits are defined to monitor the actual risk exposure and the breaches of the defined limits will deviate from the Company's Risk Appetite. Exceeding risk limits typically needs escalation at appropriate level for action. Changes in the regulatory requirements (e.g. new capital or liquidity requirements) can fundamentally lead to a revision of the Risk Appetite.

4.2. Credit risks

The Credit risk is defined as the risk of loss resulting from a drop in credit worthiness of issuers of securities, counterparties and any debtors to which authorized persons are exposed. It is the potential risk of a counterparty failing to meet its obligations in accordance with agreed terms.

4.2.1. Credit risk exposures

SC has complied with CMA regulations and used the Standardized Approach in the calculation of the capital required for Credit risk.

Major types of credit exposures are detailed in [Appendix 3](#) on page # 23

4.2.2. External ratings

For exposures, the relevant counterparties' rating bands are also considered as per the rating of external agencies. SC uses ratings from credit rating agencies (CRA) mentioned in the Prudential Rules.

4.2.3. Credit quality steps

In compliance with CMA, SC uses credit quality steps to determine appropriate risk weight for credit risk exposures for capital charge calculations. To identify the credit quality step the Company uses the following correspondence table between the credit rating agency's credit ratings and the steps in the credit quality scales as prescribed by CMA.

Credit Quality Step >>>	1	2	3	4	5	6
Standards & Poor's	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
Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below
Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below

Table 4 - Credit Quality Steps and CRA Rating Mapping

Please refer to [Appendix 4](#) on page # 24 for the details. Note that SC considers only long-term ratings for Capital Charge calculation

4.2.4. Past Due

Past due claims are amount that have not been settled by the counter parties on time. Generally SC invoices are settled within 45/60 days. Management considers any amount remaining unsettled after 90 days as past due. As of December 31, 2015 there are no past dues for the period.

4.2.5. Impairments and Specific Provisions

if the sum of all estimated future cash flows is less than the carrying value of the asset, then SC considers the asset to be considered impaired and would then written down to its fair value. SC adopts the following approach to determine impairments and specific provisions:

4.2.5.1. Valuation of unquoted available for sale investments

Available for sale investments are carried at fair value. However, in the absence of a reliable fair value measurement, unquoted available for sale investments are carried at cost, less impairment losses, if any.

4.2.5.2. Impairment in available for sale investments

The Company exercises judgement to calculate the impairment loss on available for sale investments. This includes the assessment of objective evidence which causes another than temporary decline in the value of investments. In case of equity instruments any significant or prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires management judgment.

4.2.5.3. Impairment in held to maturity investments

With respect to held to maturity investments, the Company recognizes an impairment loss when there is an objective evidence of deterioration in the financial health or credit rating of the investee, industry and sector performance or changes in technology that adversely affect the counterparty.

4.2.5.4. Impairment in non-financial assets

The Company assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that a non-financial asset ("asset") may be impaired. If such indications exist, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

Impairments and specific provisions are not applicable as zero impairment or provisions were recognized during 2015 or in the earlier years.

4.2.6. Geographic Distribution of Exposures

Over 82% of the assets of SC are in Kingdom of Saudi Arabia. Outside KSA they are spread across USA, UK and Luxembourg. The following table below suggests the geographic distribution of the Company's balance sheet across various regions.

Exposure Class	Total	KSA	GCC	UK	US	Rest of the World
On-balance Sheet Exposures						
Authorized Persons and Banks (including cash)	79,393	179,216	-	-	-	176
Corporates	22,454	17,172	-	-	-	5,282
Retail	101	101	-	-	-	-
Past Due Items	-	-	-	-	-	-
Investments	71,860	25,037	-	35,719	6,587	4,517
Other Assets	27,050	27,050	-	-	-	-
Total On-Balance sheet Exposures	300,857	248,576	-	35,719	6,587	9,975
Off-balance Sheet Exposures						
Other off-balance sheet exposures	31,150	31,150	-	-	-	-
Total Off-Balance sheet Exposures	31,150	31,150	-	-	-	-
Total On and Off-Balance sheet Exposures – 2015	332,007	279,726	-	35,719	6,587	9,975
Total On and Off-Balance sheet Exposures – 2014	247,714	130,970	2,170	59,935	38,130	7,411

Table 5 - Distribution of exposures by Geography

4.2.7. Residual Contractual Maturity Breakdown

The table below exhibits an analysis of the residual maturity profile of SC's assets separating them in different maturity buckets.

Exposure Class	Total	1 Day to 1 month	> 1 month to 3 months	> 3 months to 6 months	> 6 months to 1 year	> 1 year	Non Maturity
On-balance Sheet Exposures							
Governments and Central Banks	-	-	-	-	-	-	-
Authorized Persons and Banks (including cash)	179,393	3,393	171,000	-	-	5,000	-
Corporates	22,454	-	14,454	-	-	8,000	-
Retail	101	-	-	101	-	-	-
Past Due Items	-	-	-	-	-	-	-
Investments	71,860	5,251	20,000	-	24,650	21,194	764
Other Assets	27,050	16	21,372	-	-	-	5,662
Total On-Balance sheet Exposures	300,857	8,659	226,826	101	24,650	34,194	6,427
Off-balance Sheet Exposures							
Other off-balance sheet exposures	31,150	-	-	-	-	-	31,150
Total Off-Balance sheet Exposures	31,150	-	-	-	-	-	31,150
Total On & Off-Balance sheet Exposures 2015	332,007	8,659	226,826	101	24,650	34,194	37,577
Total On & Off-Balance sheet Exposures 2014	247,714	99,793	17,976	6,175	52,549	65,159	6,063

Table 6 - Residual Maturity Analysis

4.3. Credit Risk Mitigation

Any Credit risk mitigation related transaction comes under purview of Risk Management Department, risk function conducts an internal credit assessment before engaging in transactions with any counterparty. Credit guidelines at SC ensure that limits are approved for only those counterparties that meet the appropriate credit criteria and credit assessment is conducted annually.

4.3.1. Credit Risk Exposures before/ after Credit Risk mitigation

Please refer to [Appendix 5](#) on page # 25 for the details.

4.4. Counterparty Credit Risk and Off Balance Sheet Exposures

SC does not have exposures to securities borrowing/lending; hence this section does not have any disclosure on counterparty credit risk.

In terms of off-balance sheet items, SC has SAR 31.2 million as off-balance sheet as of 31st Dec 2015. These are the promissory note for currency hedging amounting to SAR 30M and future commitments arising from leasehold commitments amounting to SAR 1.2M.

4.5. Market Risk

Market risk is the risk of losses in on-and off-balance sheet 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.

4.5.1. Market Risk Management

SCs' exposure to financial risk is limited by the nature of its business, the fact that it manages assets on a fiduciary basis, does not trade securities on its own account and does not underwrite issues of financial instruments on a firm commitment basis.

However, Market risk is actively monitored through periodic analysis of the impacts from changes in market risks. The Company manages Market Risk through the establishment of risk limits. These risk limits are established using a variety of risk measurement tools, including sensitivity analysis and stress test methodologies.

SC is exposed to foreign currency risk exposure and is monitored periodically.

4.5.2. Market Risk Capital Charge

In compliance with CMA guidelines, SC has used Standardized approach to determine capital requirement for the Market risk. Capital required for FX Risk amounts SAR 5.5MM

4.6. 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.

4.6.1. Operational Risk Management

The Company's operational risk is its primary source of risk and arises mainly through the investment process, distribution channels, product development, information technology and operations, including potential risks arising from business disruption and reliance on third party suppliers and outsourcing partners.

The Company considers breakdowns in internal controls and corporate governance as the most important aspect of Operational risk as such breakdowns can lead to financial losses through error, fraud, or failure to perform in a timely manner. The Company recognizes that good management information systems (MIS) and a strong internal control culture and contingency planning are all crucial elements of effective operational risk management and takes measures to continually develop procedures and systems to support such requirements.

Operational risks are reviewed quarterly to delete expired risks and add newly emerging risks in order to ensure that internal controls are proactively realigned to mitigate these emerging risks. Individual Head of Departments/Divisions along with Head of Risk are responsible for identifying and assessing the operational risks area.

The Company follows a structured method to identify and mitigate Operational Risk and this includes identifying, assessing, addressing and reporting.

The Company has developed a comprehensive Business Continuity Management (BCM) program in order to maintain and enhance the operational resilience within SC. Various plans and procedures are in place to deal with the continuity of critical Business processes and support functions that form part of the BCM framework.

4.6.2. Operational Risk capital charge

In compliance with CMA requirements, the Company has adopted the Expenditure based approach (EBA). This is a more conservative approach as it leads to a higher capital charge than the Basic Indicator Approach (BIA). The summary is in the below table.

Approach 1	Year	Gross Income	Avg. Gross Income	Risk Capital Charge (%)	Capital Required Dec-15	Capital Required Dec-14
Basic Indicator Approach (BIA)	2013	68,518	92,558	15%	13,884	10,785
	2014	89,081				
	2015	120,076				
Approach 2	Year	Expenses	Risk Capital Charge (%)		Capital Required - 2015	Capital Required - 2014
Expenditure Based Approach (EBA)	2015	86,502	25%		21,625	17,218
Capital requirement for Operational Risk (Maximum of BIA or EBA)					21,625	17,218

Table 7 - Operational Risk Capital

4.7. Liquidity Risk

Liquidity risk is an adverse financial outcome arising from having insufficient liquid resources to meet liabilities when they fall due. The adverse outcome may include financial losses caused by having to realize assets at sub-optimal prices. The adverse outcomes may also be reputational or business-related.

4.7.1. Liquidity Risk Management

The overall liquidity adequacy requires SC at all times to maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. The primary liquidity risk arises in that the nature of illiquid investments held within SC's cash and cash equivalents, and other assets may prevent efficient investment exit strategies being adopted, especially in a downturn situation.

The Company at all times maintain liquidity resources which are adequate, both as to the amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

4.7.2. Liquidity Reserves

Significant portion of the assets (defined as cash in hand and banks, due from financial institutions and quoted investments) to total assets at 31st December, 2015 are highly liquid in nature.

4.7.3. Funding Sources

SC has no significant short term liabilities and earning assets are funded by equity. The Company does not use debt or other instruments to fund its assets.

Although the analysis of the impact of future plans does not highlight any expected pressure on the SC's capital adequacy position. A one-off exceptional loss event may have capital adequacy implications. It is still important, therefore, that SC has available options to increase its capital in the event of a shortfall in supporting its future operating plans. Future share capital increases remain an option.

5. Appendices

5.1. Appendix 1 – Disclosure on Capital Base

Capital Base (SAR '000)	Dec-15	Dec-14
Tier-1 capital		
Paid-up capital	200,000	200,000
Audited retained earnings	43,050	15,735
Share premium	-	-
Reserves (other than revaluation reserves)	4,783	1,748
Tier-1 capital contribution	-	-
Deductions from Tier-1 capital	(923)	(1,175)
Total Tier-1 capital	246,911	216,307
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	-	-
Total Capital Base (Tier 1 & Tier 2)	246,911	216,307

5.2. Appendix 2 – Disclosure on Capital Adequacy

					SAR '000	
Exposure Class	Exposures before CRM	Net Exposures after CRM	Risk Weighted Assets	Capital Requirement Dec-15	Capital Requirement Dec-14	
Credit Risk						
<i>On-balance Sheet Exposures</i>						
Governments and Central Banks	-	-	-	-	-	
Authorized Persons and Banks (including cash)	179,393	179,393	37,379	5,233	2,958	
Corporates	22,454	22,454	160,322	22,445	17,248	
Retail	101	101	303	42	637	
Past Due Items	-	-	-	-	4,521	
Investments	77,277	77,277	206,283	28,797	59,281	
Securitization	-	-	-	-	-	
Margin Financing	-	-	-	-	-	
Other Assets	21,633	21,633	76,763	10,704	4,590	
Total On-Balance sheet Exposures	300,857	300,857	480,155	67,222	89,235	
<i>Off-balance Sheet Exposures</i>						
OTC/Credit Derivatives	-	-	-	-	-	
Repurchase agreements	-	-	-	-	-	
Securities borrowing/lending	-	-	-	-	-	
Commitments	-	-	-	-	-	
Other off-balance sheet exposures	31,150	31,150	222,413	31,138	993	
Total Off-Balance sheet Exposures	31,150	31,150	222,413	31,138	993	
Total On and Off-Balance sheet Exposures	332,007	332,007	703,568	98,360	90,228	
Prohibited Exposure Risk Requirement	-	-	-	-	-	
Total Credit Risk Exposures	332,007	332,007	703,568	98,360	90,228	
Market Risk						
	Long Position	Short Position				
Interest rate risks	-	-		-	-	
Equity price risks	-	-		-	-	
Risks related to investment funds	-	-		-	-	
Securitization/ re-securitization positions	-	-		-	-	
Excess exposure risks	-	-		-	-	
Settlement risks and counterparty risks	-	-		-	-	
Foreign exchange rate risks	54,308	-		5,525	9,709	
Commodities risks.	-	-		-	-	
Total Market Risk Exposures	54,308	-		5,525	9,709	
Operational Risk				21,625	17,218	
Minimum Capital Requirement				125,510	117,156	
Surplus/ (Deficit) in Capital				121,401	99,151	
Total Capital Ratio (time)				1.97	1.85	

5.3. Appendix 3 – Disclosure on Credit Risk's Weight

Risk Weights	Exposures after netting and credit risk mitigation								
	Authorised persons and banks	Corporates	Retail	Past due items	Investments	Other assets	Off-balance sheet commitments	Total Exposure after netting & Credit Risk Mitigation	Total Risk Weighted Assets
0%	-	-	-	-	-	16	-	16	-
20%	174,393	-	-	-	-	-	-	174,393	34,879
50%	5,000	-	-	-	-	-	-	5,000	2,500
100%	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	29,706	-	-	29,706	44,559
200%	-	-	-	-	-	-	-	-	-
300%	-	-	101	-	29,150	18,813	-	48,064	144,193
400%	-	-	-	-	18,421	-	-	18,421	73,683
500%	-	-	-	-	-	-	-	-	-
714% <i>(include prohibited exposure)</i>	-	22,454	-	-	-	2,804	31,150	56,408	402,755
Total Risk Weighted Assets	37,379	160,322	303	-	205,692	76,460	222,413	702,568	

Deduction from Capital Base 2015	5,233	22,445	42	-	28,797	10,704	31,318	98,360
Deduction from Capital Base 2014	2,958	17,248	637	4,521	59,281	4,590	993	90,228

5.4. Appendix 4 – Disclosure on Credit Risk's Rated Exposure

								SAR '000
Exposure Class	Long Term Ratings for Counterparties							
	Credit Quality Step	1	2	3	4	5	6	Unrated
	Standards & Poors	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
<i>On and Off-balance Sheet Exposures</i>								
Governments and Central Banks	-	-	-	-	-	-	-	-
Authorized Persons and Banks	-	179,393	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	22,454
Retail	-	-	-	-	-	-	-	101
Past Due Items	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	77,277
Securitization	-	-	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	31,633
Other off-balance sheet exposures	-	-	-	-	-	-	-	31,150
Total On and Off-Balance sheet Exposures 2015	-	179,393	-	-	-	-	-	152,615
Total On and Off-Balance sheet Exposures 2014	-	97,107	-	-	-	-	-	149,694

5.5. Appendix 5 – Disclosure on Credit Risk Mitigation

SAR '000						
Exposure Class	Exposures before CRM	Exposures covered by Guarantees/ Credit derivatives	Exposures covered by Financial Collateral	Exposures covered by Netting Agreement	Exposures covered by other eligible collaterals	Exposures after CRM
Credit Risk						
<i>On-balance Sheet Exposures</i>						
Governments and Central Banks	-	-	-	-	-	-
Authorized Persons and Banks (including cash)	179,393	-	-	-	-	179,393
Corporates	22,454	-	-	-	-	22,454
Retail	101	-	-	-	-	101
Past Due Items	-	-	-	-	-	-
Investments	77,277	-	-	-	-	77,277
Securitization	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	21,633	-	-	-	-	21,633
Total On-Balance sheet Exposures	300,858	-	-	-	-	300,858
<i>Off-balance Sheet Exposures</i>						
OTC/Credit Derivatives	-	-	-	-	-	-
Repurchase agreements	-	-	-	-	-	-
Securities borrowing/lending	-	-	-	-	-	-
Commitments	-	-	-	-	-	-
Other off-balance sheet exposures	31,150	-	-	-	-	31,150
Total Off-Balance sheet Exposures	31,150	-	-	-	-	31,150
Total On and Off-Balance sheet Exposures 2015	332,008	-	-	-	-	332,008
Total On and Off-Balance sheet Exposures 2014	246,801	-	-	-	-	246,801