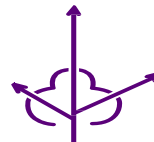




# Derayah - Pillar III Disclosure -2021 Prudential Disclosure Report

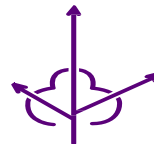
12/31/2021  
Derayah Financial





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## 1. OVERVIEW

These disclosures have been prepared by Derayah Financial (“**Derayah**” or the “**Company**”), a Closed Joint Stock Company registered in the Kingdom of Saudi Arabia. The Company operates under Commercial Registration No. 1010266977 dated 10 Jumada II 1436H (corresponding to 15 April 2009). Licensed by the Saudi Arabian Capital Market Authority (“**CMA**” or the “**Authority**”) under license number 08109-27 dated 23/06/2008 with authorised and paid-up capital of SAR 161.09 million. Derayah has been granted licenses including dealing (agent, principal, and margin lending, underwriting), managing Investments and Operating Funds, advising, arranging, and custody and as such is required to comply with the three “Pillars” of the Capital Requirements defined in Prudential Rules (“**PRs**”). These are:

- Pillar 1, which sets out the minimum amount of capital that Derayah needs to meet its basic regulatory obligations;
- Pillar 2: requires Derayah to determine whether Pillar 1 capital is adequate to cover these risks and additional defined risks. This is achieved through Derayah’s risk-based Internal Capital Adequacy Assessment Process (“**ICAAP**”) and is subject to annual review.
- Pillar 3, requires Derayah to disclose to market participants key information about its underlying risks, risk assessment, management, controls, and capital position hence the adequacy of capital.

The purpose of this document is to comply with the obligations in respect of Pillar 3. Derayah does not have any material or legal impediments affecting the prompt transfer of capital or repayment of liabilities.

All figures in this document are correct as of 31<sup>st</sup> December 2021 unless stated otherwise.

### Frequency of disclosures;

These disclosures will be published at least annually (or more frequently if appropriate) and as soon as practicable following material updates to Derayah’s internal capital adequacy assessments process. Given its size and complexity, Derayah assesses that this annual publication should generally meet its disclosure requirements. Therefore, these disclosures have been tracked with version control.

## 2. CAPITAL STRUCTURE

Derayah’s capital structure comprised of the following elements which form a capital base;

- *Paid-up Share Capital: authorised and issued capital of SAR 161.09 million consisting of 16.109 million shares @ SAR 10 each.*
- *Audited Retained Earning: represents accumulated profits/ (losses) which at the end of 2021 were SAR 392,093 thousand in respect of profit amount.*
- *Tier 1 deduction: deductions in the form of intangible assets and unrealized losses for held for trading investments amounting to SAR (14,715) thousand.*
- *Tier 2 Capital: there was a revaluation reserve under tier 2 capital of SAR 6,722 thousand.*

Capital is held to ensure that a suitable operating margin is maintained more than the higher of Pillar 1 and Pillar 2 capital requirements. Pillar 2 capital requirements are determined using a risk-based approach as required under the Internal Capital Adequacy Assessment Process (ICAAP) of the prudential rules that explicitly take into account management’s view of specific risk exposures.

Therefore, base capital is greater than Pillar 1 capital requirements:

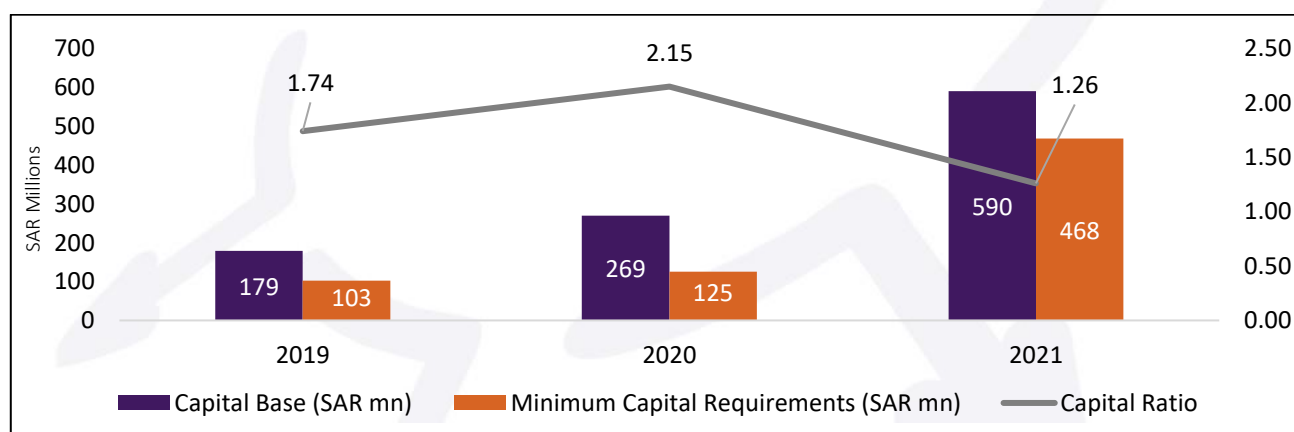
- Base capital SAR 589,711 thousand;
- The sum of market risk, credit risk and operational risk (Pillar I) requirements is SAR 468,005 thousand;

We have determined that, as of 31<sup>st</sup> December 2021, the base capital is as follows to reflect Tier 1 capital with applicable deductions.



## 2.1. Disclosure on Capital Base

Capital Base	December 2021	December 2020	December 2019
	SAR '000	SAR '000	SAR '000
<b>Tier-1 capital</b>			
Paid-up capital	161,090	161,090	161,090
Audited retained earnings	392,093	94,259	16,283
Share premium	-	-	-
Reserves (other than revaluation reserves)	44,521	16,791	7,820
Tier-1 capital contribution	-	-	-
Deductions from Tier-1 capital	(14,715)	(6,086)	(7,424)
<b>Total Tier-1 capital</b>	<b>582,989</b>	<b>266,054</b>	<b>177,770</b>
<b>Tier-2 capital</b>			
Subordinated loans	-	-	-
Cumulative preference shares	-	-	-
Revaluation reserves	6,722	3,318	1,185
Other deductions from Tier-2 (-)	-	-	-
Deduction to meet Tier-2 capital limit (-)	-	-	-
<b>TOTAL CAPITAL BASE</b>	<b>589,711</b>	<b>269,372</b>	<b>178,955</b>





## 2.2. Capital Adequacy

Derayah ensures that it discharges fully its obligations that arise from the Prudential Rules by maintaining its capital above the minimum level set by the regulations. In this respect, Derayah calculates its capital adequacy ratio on the eligible proprietary investments and its risk-taking activities by complying with the regulatory capital requirements as frequently as monthly with an annual audit by external auditors and regular reviews by internal audit.

Derayah's capital adequacy ratio as of 31<sup>st</sup> December 2021 was 1.26 times (126%) the minimum capital adequacy requirements which is above the minimum required ratio of 1.0 (100%).

It is Derayah's policy that it has sufficient capital to:

- meet regulatory requirements;
- keep an appropriate credit standing with counterparties by maintaining financial prudence, and;
- maintain sufficient liquid funds to meet working capital requirements.

### Calculation of Derayah's capital resources requirement

The capital resources requirement of Derayah for regulatory reporting purposes is the sum of the credit risk, market risk, and operational risk capital requirements.

#### Credit risk

Risk of losses resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which Derayah is exposed. Derayah has adopted the standardized approach for credit risk to calculate the credit risk capital charge requirement under Pillar 1 of the capital requirements defined in Prudential Rules. Considering that this is a regulatory approach to calculate credit risk requirements which expand at various asset class levels and vary from the intent of trading exposure by allocating applicable risk weight.

#### Market risk

The market risk is mainly due to volatility in asset values of investment exposure which arises as a result of movements in relative asset prices. Derayah calculates its market risk capital requirement for Pillar 1 following the prudential requirements defined in chapters of annex 2. As of 31<sup>st</sup> December 2021, Derayah calculated the capital risk charge on investment positions defined under the prudential rules.

#### Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, mechanisms, people, and systems or external events and it includes legal risk as well. Derayah follows the basic indicator approach for calculating the Pillar 1 capital requirements for operational risk. The operational risk capital requirement is therefore calculated as higher of the 15% of three years' average of gross revenues or 25% of one-year overhead expense as per articles 39 to 44 and annex 4 of prudential rules.

## 2.3. Disclosure on Capital Adequacy

Exposure Class	Exposures before CRM SAR '000	Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
<b><i>Credit Risk</i></b>				
<i>On-balance Sheet Exposures</i>	-	-	-	-
Governments and Central Banks	-	-	-	-
Authorised Persons and Banks	123,557	123,557	33,534	4,695
Corporates	283,914	283,914	2,027,144	283,800
Retail	99,412	99,412	298,235	41,753



Investments	168,983	168,983	336,654	47,132
High risk investments (Land)	21,090	21,090	84,360	11,810
Margin Financing	-	-	-	-
Other Assets	32,133	32,133	122,815	17,194
<b>Total On-Balance sheet Exposures</b>	<b>729,089</b>	<b>729,089</b>	<b>2,902,742</b>	<b>406,384</b>
<i>Off-balance Sheet Exposures</i>	48,868	48,868	48,868	6,842
OTC/Credit Derivatives	-	-	-	-
Repurchase agreements	-	-	-	-
Securities borrowing/lending	-	-	-	-
Commitments	-	-	-	-
Other off-balance sheet exposures	-	-	-	-
<b>Total Off-Balance sheet Exposures</b>	<b>48,868</b>	<b>48,868</b>	<b>48,868</b>	<b>6,842</b>
<b>Total On and Off-Balance sheet Exposures</b>	<b>777,957</b>	<b>777,957</b>	<b>2,951,610</b>	<b>413,226</b>
<b>Prohibited Exposure Risk Requirement</b>	-	-	-	-
<b>Total Credit Risk Exposures</b>			<b>2,951,610</b>	<b>413,226</b>
<b><u>Market Risk</u></b>	Long Position	Short Position		Capital Requirement SAR '000
Interest rate risks	-	-		-
Equity price risks	-	-		-
Risks related to investment funds	-	-		-
Securitization/resecuritisation posit.	-	-		-
Excess exposure risks	-	-		-
Settlement risks / counterparty risks	-	-		-
Foreign exchange rate risks	19,012	-		380
Commodities risks.	-	-		-
<b>Total Market Risk Exposures</b>	<b>19,012</b>	<b>-</b>		<b>380</b>
<b><u>Operational Risk</u></b>				<b>54,399</b>
<b>Minimum Capital requirements (a)</b>				<b>468,005</b>
<b>Capital Base (b)</b>				<b>589,711</b>
<b>Surplus/ (Deficit) in capital (b-a)</b>				<b>121,706</b>
<b>Total Capital ratio (b/a)</b>				<b>1.26</b>

\* Derayah uses CRM techniques and has collaterals to cover the exposures to retail and other off-balance sheet exposures, however as per the regulation, since the capital charge is based on the exposures before CRM, the same has been reported here.



### 3. RISK MANAGEMENT

#### 3.1. Overview

##### i. Risk Management Purpose:

Our Risk Management function aims to identify the risks relating to its risk-taking activities, processes, systems and where appropriate to set the level of risk we are willing to assume as risk appetite. In particular, to achieve this by establishing effective risk management policies and procedures that ensure compliance with regulatory requirements and mitigate business risks.

Also, the risk management strategies and processes will facilitate the process of an ongoing assessment and maintenance of the amounts, types, and distribution of internal capital that Derayah considers adequate to cover the level of risks to which it might be exposed. We keep investing in enhancing our risk controls during the year 2021 to stay current and meet the best Saudi markets risk management framework requirements and considering the changes in regulations, Derayah invested in Risk-software, to assess the review of the risk management framework that is complying with the recent local and global guidelines.

##### ii. Risk Management Strategy

Our risk management strategy is embedded within risk management policies by clearly defining risk limits and risk-taking activities as its risk appetite. This has prioritized business risk and has defined risk response strategies to manage these risks. These policies provide integrated risk management support on an enterprise-level to Derayah.

##### iii. Risk Appetite

Our Risk Appetite Framework (RAF) consists of the risk appetite statement, risk limits, and an outline of the roles and responsibilities of the team overseeing the implementation and monitoring of the RAF. The RAF was developed in line with the business strategy and post-consideration of material risks faced by Derayah.

RAF provides a structured approach to the management, measurement, and control of risk to ensure that business activities provide an appropriate balance of return for the risk assumed and remain within the stated risk appetite of the Company.

##### iv. Risk Management Policy:

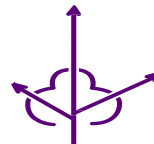
The risk management policies are set and defined directly by the Board of Directors who has the authority to update or amend them. The Board is also responsible for overseeing and approving the risk management strategy and policies, internal compliance, and internal controls. The governance of risk and its supervision is delegated to the board-level Risk and Compliance Committee, which has direct oversight on all risk-related issues. Senior Management of Derayah is required by the Board to assess risk and associated internal compliance and control procedures and report back on the efficiency and effectiveness of risk management practices. Whereas, Limit breaches, if any, are reported by the Risk Management function to the CEO and Risk and Compliance Committee. The limits are reviewed and revised when required.

The process of risk management and internal compliance and control includes:

- Identifying and assessing significant risks that might impact the achievement of Derayah's objectives and mitigate them through preventive controls.
- Developing risk management strategies to manage identified risks, design and implement appropriate risk management policies and procedures.
- Monitoring the performance of the risk management procedures and recommending improvement of the effectiveness of risk management function, when needed.

To stay current and meet the best prevailing Saudi Market risk management practice and considering the changes in regulatory frameworks Derayah regularly arranges for independent third-party reviews on its risk management framework through one of the big four consulting firms in Saudi Arabia.

##### v. Structure of the Risk Management Function:



Derayah has established a dedicated Risk Management Function to oversee risks related to its business. Risk Management of Derayah is appropriately resourced and performs its responsibilities as documented and approved in the form of written policies.

The Senior Management in co-operation with Derayah's employees is responsible for the monitoring of the risks to which their respective departments are exposed, and for reporting to the Risk Management Function. The Risk Management function reports to the management level Risk and Investment Committee and Board level Risk and Compliance Committee. In addition to this risk management has direct access to the Board.

The responsible governing committees are functioning with defined responsibilities for their governance oversight and they have established reporting, monitoring, and authorities within their charters.

The risk management function is subject to regular audit and reviews by internal audits and compliance monitoring programs for risk management.

#### vi. Reporting

Derayah's philosophy to risk management is "well aware management team and board manage risks effectively". This has resulted in implementing a robust risk management framework that is live, integrated, and spread across all business areas. Various reports and information are submitted and reviewed by relevant stakeholders on a daily, monthly, quarterly and annual basis. The stakeholders include management, board, regulators, shareholders, and the general public who receive information about their area in a defined and regulated manner.

### 3.2. Types of risks

#### Credit Risk

Credit risk is defined as the potential that the counterparty will fail to meet its obligations following agreed terms. The goal of credit risk management is to maximize returns by maintaining optimal credit risk exposure within acceptable parameters.

#### Controls and mitigates

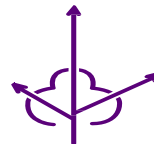
Derayah provides margin financing and has exposure with other counterparties as part of its investments, therefore; following are the controls to manage the credit risk:

- Established counterparties' risk assessment policies and selection criteria.
- Established lending policies, approval matrix, single-party credit, and portfolio concentration limits. Limits on individual clients have been established;
- Assigns risk rating before accepting the clients for screening purposes using credit bureaus information;
- Matching risk profiles to products
- Monitors collaterals continuously.
- Assess and reviews overall portfolio quality.
- Monitors and improves credit risk management techniques to implement the internal risk-based approaches on counterparties.
- Concentration Limits are in place, reviewed, and monitored.
- Performs independent risk reviews periodically to validate the effectiveness of the credit management system.
- Reviews and use of credit rating for assessment of counterparty.
- Expected Credit Losses reviews and provisioning complying with accounting regulations prevailing in KSA.
- Stress testing using maximum downfall models.

#### Market Risk

Market risk is the risk that the value of an investment will decrease due to movements in prices and in particular, due to changes in interest rates, foreign exchange rates, equity, and commodity prices. The associated market risk factors are the interest rate risk, currency risk, equity price risk, and commodity risk.





### Control and mitigates

The associated market risks are captured in policies as follows;

- Defined market risk policies for assessing, monitoring, and reporting the exposures subject to market risk.
- Balance sheet exposures are realized for gains, losses and market-to-market movements of investment and trading portfolio positions are calculated
- foreign currency exposures are converted to the Saudi Riyal
- Limits have been defined within the investment policy for balance exposures and the aggregate market to market is reported and monitored by Risk Committee.

### Liquidity Risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position may potentially increase the risk of losses. Liquidity risk also arises from the lack of marketability of a security or asset that cannot be traded quickly enough in the market to prevent or minimize a loss or to make a profit.

To minimize its exposure to illiquid assets and mitigate liquidity risk, Derayah has established policies and procedures that enable Derayah to monitor its cash flows and to manage its cash positions properly. This allows Derayah to maintain sufficient cash and highly liquid current assets to be able to cover its present or future financial liabilities.

### Controls and mitigates

As a stand-alone investment management firm with limited financial resources, we emphasize on availability of funds and we continuously monitor our liquidity requirements using the following control;

- a) Monthly reviews on capital requirements
- b) Pre-investment reviews to review the potential impact on the availability of funds and prudential requirements
- c) Assets liabilities maturity profile reviews by the board risk committee
- d) Cash flow reviews for margin lending and other proprietary investments
- e) Cash flow projection for the following three years is prepared and reviewed

### Operational Risk

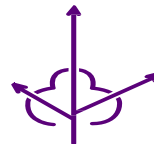
Operational risk is the risk of loss resulting from inadequate and/or lack of internal control processes, mechanisms, people and systems and/or from external events and it includes legal risk as well. It is inherent in all the company's business functions and can occur from a variety of circumstances such as fraud, negligence, error, omission or system failure. To mitigate this Derayah has established a control and governance framework. In addition to this, a well-defined self-risk assessment process is in place.

For calculating its capital requirements for the operational risk the company follows the Basic Indicator Approach as described under articles 39 to 44 and described as per annex-4 of Prudential Rules.

### Controls and mitigates

Operational risk management is one of the most significant sources of risk. We have adopted the following controls for operational risk management;

- a) Developed risk control matrices for all the departments as Risk Control Self-Assessment (RCSA).
- b) Defined risk champions in all functions
- c) Defined Key Risk Indicators (KRI) for all the key business and support areas.
- d) Established Incident management reporting



- e) Operational Risk training and workshops for all team
- f) Disaster recovery exercises conducted annually
- g) Risk assessment of various counterparties, funds, and products
- h) Reporting to board risk and compliance committee on operational risk
- i) KPIs of directors have been defined linking with the operational loss
- j) Arrange insurance cover against the Directors and Officers liabilities, Fraud and misuse, and Cyber Security threats.

## Other Key Risks

### Business Risk

Business risk encompasses the exposure to uncertainty in the wider economic and competitive environment and the impact of that environment on Derayah's ability to carry out its stated business plan. This risk is managed with a long-term strategy, assisted by appropriate management oversight and a documented diversified corporate strategy and business plan.

#### Controls and mitigates

Controls around business risk are listed below that assist us in managing and mitigating business risk;

- a) Defining business model canvass and regular strategy meetings and engaging strategy consultants in aligning business objectives to our strategy.
- b) Annual planning and budgeting as per the documented policy and processes, taking buy-ins from management and securing approval from the board.
- c) Annual capital budgeting process like Internal Capital Adequacy Assessment Process (ICAAP) to ensure an appropriate level of capital resources are available to the business while maintaining prudential requirements.
- d) Focusing on regular diversification of the revenues by continually offering new products and services.

### Reputation Risk

Reputation damage most often arises as an ancillary (but often the most potent) effect of the crystallization of other risks. As Derayah is an independent authorized person, reputational risk is particularly important to it. To mitigate this aspect Derayah has in place a strong corporate governance framework and code of conduct in addition to directors' and officers' liability cover as a prudential indemnity.

#### Controls and mitigates

As most diversified risk profile various controls have been built in governing framework

- e) Defining reputation risk as a key risk indicator and a metric of Risk Appetite statement
- f) Reviews and controls on new product development, launching, and marketing
- g) Emphasis on Shariyah and audit reviews and clients queries and complaints
- h) Risk assessment and due diligence on counterparties
- i) Regular reporting to risk committee on reputational impact as per the risk appetite

### Concentration Risk

Derayah has as part of its business defined its investment policies to spread over various asset classes, geographic distribution, therefore, concentration risk related to investments is minimized, however, as overall business concentration Derayah has strategic business plans to minimize its concentration as a business overall. Also, Derayah to mitigate concentration risk as a business overall has introduced various products to ensure it does not get effects from dried market volumes, stock market volatility, and negative index performance.

#### Controls and mitigates



We have defined and addressed specifically the concentration risk boundaries as a key driver that may lead to credit or part of operational risk and the following are the controls and mitigates;

- j) Defining Investment Policy Statements with setting limits on the following;
  - a. Single Security, Single Issuer
  - b. Single Sector
  - c. Counterparty
  - d. Asset Class
  - e. Currency
  - f. Geography
  - g. Liquidity profile
- k) Defining concentration risk as a key risk indicator and a metric of Risk Appetite statement
- l) Reporting of concentration risk regularly to management and board risk committees.
- m) Reviewing the Concentration risk using a balanced scorecard as part of the ICAAP process.

### Regulatory Compliance and Legal Risk

Operating in a highly regulated environment may result in general non-compliance of regulatory requirements therefore to mitigate any financial and reputational impacts the Compliance function is responsible for monitoring adherence to regulatory standards and for reporting its findings to relevant senior management, appropriate committees, and the Board. The Compliance function is also responsible for the provision of technical regulatory/compliance advice and support.

We are exposed to substantial risks of liability under the applicable regulatory framework of the Capital Market Authority, other dispute resolutions committee's decisions, as well as rules and regulations promulgated by the other competent authorities, for example, Zakat and Tax Authority. We are also subject to the risk of litigation and claims that may be without merit. We could incur significant legal expenses in defending ourselves against and resolving complaints or claims. An adverse resolution of any future cases or claims against us could result in a negative perception of our company and have a material adverse effect on our business, financial condition and results of operations.

Regulatory compliance and legal uncertainties could harm our business. The investment business is heavily regulated. Firms in financial service industries have been subject to an increasingly regulated environment over recent years, and penalties and fines sought by regulatory authorities have increased accordingly. Though strong compliance monitoring programs and AML checks reduce the risk of this exposure coupled with appropriate insurance programs such as prudential insurance and directors and officer liability cover such losses. However, there is no guarantee that these cover complete risk exposure.

### Controls and Mitigates

- a) Appropriate resourcing within Compliance function and outsourced arrangements with a renowned international legal firm.
- b) Regular reviews and monitoring by Compliance and lively engagement of legal team in reviewing and assessing all matters require legal expertise including securing opinion drafting legal notes etc.
- c) As tactical team involvement of legal and compliance in all matters require careful review and opinion
- d) Arrangements on provisioning as any expected loss to avoid financial constraints such as transferring the capital etc.

### Counterparty Risk

We are subject to counterparty risk whereby defaults by parties with whom we do business can harm our business, financial condition, and results of operations.

In our brokerage business, we offer international brokerage with our international counterparty, also we have arrangements for client monies and other custodial set-ups with other investment firms for



various investment products. Our relations with these counterparties are subject to counterparty risks e.g. their ability to repay or provide the required service time to our customers is dependent on their ability to continuously perform the agreed and defined function with any interruptions. As a part of the business, there remains the probability that the counterparty may fail in delivering one or all of the services and as a result, we and our customers face financial losses.

### Controls and Mitigates

Selection and continuous monitoring of the counterparties is a defined process supported by appropriate policies and score-card-based assessment models. The counterparty risk is managed and mitigated using the following;

- a) Defined and maintain the approved policies on counterparty selection
- b) Initial reviews by Risk, Compliance and legal as part of first time onboarding
- c) Regular reviews and assessment using standard score-card based model
- d) Reporting to the risk committee on any significant increase in the risk profile raised out of the assessment
- e) Arrangements on provisioning as any expected loss to avoid financial constraints such as transferring the capital etc.

### Software and Technology and Cyber Security Risk

Derayah's future success largely depends on its response to the demand for new services, products and technologies.

The demand for our services that rely on electronic trading, is characterized by:

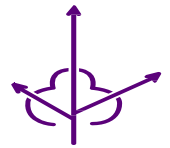
- changing customer demands and investment priorities;
- the need to enhance existing services and products or introduce new technology-driven services and products; and
- rapid change in technological requirements and our capacity to meet that;
- developing industry standards
- risk of system attacks

#### a) Software

We rely on computer software to receive and properly process internal and external data. Any disruption in the proper functioning of our software due to, for example, corrupted data, hardware support, or cyber-attacks, may cause us to make trading errors or suspend our services and could cause us great financial damage. To maintain our competitive advantage, we are continuously developing our software. As we identify and enhance our software, there is a risk that software failures may occur and result in service interruptions, and have other unintended consequences. Therefore, reliance on software could cause us great financial harm in the event of any disruption or corruption of our computer software. We may experience technical failures while developing our software.

#### b) Technology failure and disaster recovery

Though Derayah has made arrangements for disaster recovery and business continuity plan is fully tested and continuously reviewed. Nevertheless, we do not have fully redundant systems. System failures could harm our business. If our systems fail to perform, we could experience unanticipated disruptions in operations, slower response times or decreased customer service and customer satisfaction. Our ability to facilitate transactions successfully and provide high-quality customer service also depends on the efficient and uninterrupted operation of our computer and communications hardware and software systems. Our service has experienced periodic system



interruptions, which we believe will continue to occur from time to time. However, our investment in systems and enhanced technological support will prevent such incidents and improve the continuity arrangements.

c) Cyber Security

The way pandemic attracted the use of technology and the need of online business, organizations have become more vulnerable to cyber threats due to the increasing reliance on computers, networks, programs, social media, and data globally. Data breaches, a common cyber-attack, have a massive negative business impact and often arise from insufficiently protected data.

Although Derayah is using fast and secure lines, our ability to increase the speed/bandwidth with which we provide services to our customers and to increase the scope and quality of such services is limited by and dependent upon the speed and reliability of our customers' access to the Internet, which is beyond our control. If periods of decreased performance, outages, or delays on the Internet occur frequently or other critical issues concerning the Internet are not resolved, overall Internet usage or usage of our web-based products could increase more slowly or decline, which could have a material adverse effect on our business, financial condition and results of operations.

Our information technology infrastructure may be vulnerable to security breaches. Any such problems could jeopardize confidential information transmitted over the Internet, cause interruptions in our operations or cause us to have liability to third persons.

Our computer infrastructure is potentially vulnerable to physical or electronic computer break-ins, cyber-attacks. Viruses and similar disruptive problems and security breaches. Any such problems or security breaches could cause us to have liability to one or more third parties, including our customers, and disrupt our operations.

### **Controls and mitigation**

We have been particularly focusing and investing in cybersecurity threats and other technology-related risks and have made redundant arrangements to cope with such threats. The measure of an IT risk can be determined as a product of threat, vulnerability, and asset values. To assess the IT Risk Derayah undertakes various controls testing including penetration tests, independent reviews on systems and controls, apart we carry out detailed IT risk assessments and scorecard-based models to set capital reserves within pillar II risks. Following are some additional controls adopted to mitigate the risk;

- a) Established a dedicated team and defined Information Security Policy
- b) Regular Assessment of Information Risk
- c) Engaging external consultants including big four firms for penetration tests and regular reviews
- d) Continuous external consultants support on Information Security
- e) Investment in Information Security infrastructure
- f) Securing Cyber Security Insurance cover
- g) Availability of fully redundant off-site servers



#### 4. Credit Risk Disclosure

Credit risk is defined as the potential that the counterparty will fail to meet its obligations following agreed terms. The goal of credit risk management is to maximize returns by maintaining optimal credit risk exposure within acceptable parameters.

##### a) Past due and impaired financial assets

Derayah has a policy in place which defines “past due” as claims which are considered as shortfall events, where a client fails to meet his financial obligations post-Derayah demands on his equity positions. Where clients remain within shortfall events for 360 days Derayah will arrange for provisions post analyzing the recoverable amount and legal opinion on the probability of recovery.

Given the above, an assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired at the statement of financial position date. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognized for changes in its carrying amounts.

##### b) Provisions against investments

Derayah arranges for provisions against specific cases, and in general as per the standard Expected Credit Loss Model. For specific cases, a provision is recognized if, as a result of past events, Derayah has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit will be required to settle the obligation.

Derayah may make bad debt provisions which fall into two categories:

- Lending arrangements; and
- Other debtors

The Company assesses on a forward-looking basis the Expected Credit Losses (“ECL”) associated with its debt instruments as part of its financial assets, carried at amortised cost and FVOCI, the ECL is based on a 12-month ECL and lifetime ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance increases in credit risk since origination, the allowance will be based on the lifetime ECL. For time deposits, margin client receivables, due from related parties, and other current financial assets, the Company applies the general approach.

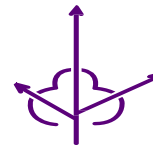
##### Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the input, assumptions and estimation techniques used in measuring ECL is further detailed in note 4.1 Impairment - Financial assets of the Annual Financial Statements, which also sets out key sensitivities of the ECL to changes in these elements.

As of year-end following provisions were made against receivables as standard expected credit loss model as per impairment test conducted on year-end;

Movement of impairment charge for credit losses ~ SAR	December 31 <sup>st</sup> 2021	December 31 <sup>st</sup> 2020
Opening Balance beginning of the year	4,424,873	5,110
Provisions for doubtful	35,254	4,419,763
Written off during the year	-	-
<b>Closing Balance</b>	<b>4,460,127</b>	<b>4,424,873</b>

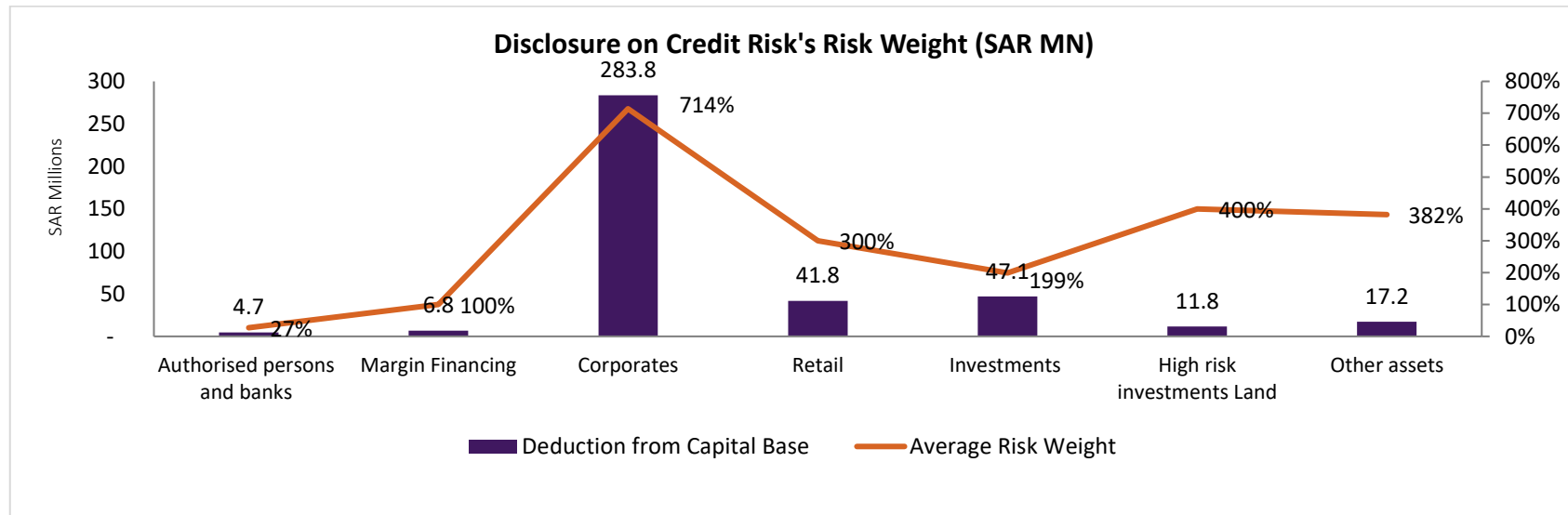
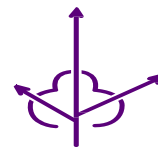
\* referring note 26 of audited financial statements. ~ Saudi Arabian Riyal



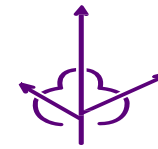
#### 4.1. Disclosure on Credit Risk's Risk Weight

Risk Weights	Exposures after netting and credit risk mitigation										
	Governments and central banks	Administrative bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	Retail	Past due items	Investments	High risk investments Land	Other assets	Total Risk Weighted Assets
0%	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	94,150	-	-	-	-	-	-	-	18,830
50%	-	-	29,407	-	-	-	-	-	-	-	14,704
100%	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	113,530	-	-	170,295
200%	-	-	-	-	-	-	-	-	-	-	0
300%	-	-	-	-	-	99,412	-	55,453	-	25,753	541,852
400%	-	-	-	-	-	-	-	-	21,090	-	84,360
500%	-	-	-	-	-	-	-	-	-	-	-
714% (include prohibited exposure)	-	-	-	-	283,914	-	-	-	-	6,380	2,072,701
Off-balance sheets commitments	-	-	-	48,868	-	-	-	-	-	-	48,868
<b>48,868</b>	-	-	27%	100%	714%	300%	-	199%	400%	382%	-
<b>Deduction from Capital Base</b>	-	-	4,695	6,842	283,800	41,753	-	47,132	11,810	17,194	2,951,610

Note: the risk weights are calculated on weighted average basis.







#### 4.2. 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	
<b>On and Off-balance-sheet Exposures</b>								
Governments and Central Banks	-	-	-	-	-	-	-	-
Authorised Persons and Banks	-	123,557	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	283,914
Retail	-	-	-	-	-	-	-	99,412
Investments	-	-	-	-	-	-	-	168,983
High risk investments Land	-	-	-	-	-	-	-	21,090
Margin Financing	-	-	-	-	-	-	-	48,868
Other Assets	-	-	-	-	-	-	-	32,133
<b>Total</b>	-	<b>123,557</b>	-	-	-	-	-	<b>654,400</b>



## 5. Credit Risk Mitigation

Derayah considers its credit risk primarily arising out of retail exposure and investments available for sale. Therefore, Derayah has adopted robust policies corresponding to its credit risk requirements. This includes various elements of risk mitigating techniques, including but not limited to a detailed credit administration program and detailed policy on securities and counterparties risk assessment supported by a comprehensive securities assessment model to evaluate the securities. Which considers key elements in collateral quality and the selected securities are then marked to market on a real-time basis;

The following table gives details of the exposure value, where the main types of collateral taken by

- Financial collateral, including cash and client portfolios to support the client's position. Financial collateral is marked to market daily and compared to loans outstanding.
- Other assets such as bank deposits. Other assets are valued less often depending on the type of assets held.

### 5.1. Disclosure on Credit Risk Mitigation (CRM)

Exposure Class (SAR '000)	Exposures before CRM	Exposures covered by Financial Collateral	Exposures after CRM
<b><i>Credit Risk</i></b>			
<i>On-balance Sheet Exposures</i>	-	-	-
Governments and Central Banks	-	-	-
Authorised Persons and Banks	123,557	-	123,557
Corporates	283,914	-	283,914
Retail	99,412	-	99,412
Investments	168,983	-	168,983
High risk investments(Land)	21,090	-	21,090
Margin Financing	-	-	-
Other Assets	32,133	-	32,133
<b>Total On-Balance sheet Exposures</b>	<b>729,089</b>	<b>-</b>	<b>729,089</b>
<i>Off-balance Sheet Exposures</i>	48,868	-	48,868
OTC/Credit Derivatives	-	-	-
Exposure in the form of repurchase agreements	-	-	-
Exposure in the form of securities lending	-	-	-
Exposure in the form of commitments	-	-	-
*Other Off-Balance sheet Exposures	-	-	-
<b>Total Off-Balance sheet Exposures</b>	<b>48,868</b>	<b>-</b>	<b>48,868</b>
<b>Total On and Off-Balance sheet Exposures</b>	<b>777,957</b>	<b>-</b>	<b>777,957</b>

\* Derayah uses CRM techniques and has collaterals to cover the exposures to retail and other off-balance sheet exposures, however as per the regulation, since the capital charge is based on the exposures before CRM, the same has been reported here.



## 6. Counterparty Credit Risk Mitigation

Derayah has written policies on counterparties e.g. banks and authorized persons (entity) to place funds with. Based on these policies there is detailed methodology defined to assess the counterparty risk which translates in a score for an entity to qualify, having elements including but not limited to the rating of an entity, capital adequacy of an entity, non-performing loans, corporate governance and the review of financial defaults disclosed by respective entities.

Derayah does not have any derivatives transactions on its exposure therefore, there is no qualitative information is available.

## 7. Market Risk Disclosure

Market risk is the risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decrease due to the change in the value of the market risk factors. The standard market risk factors are stock prices, interest rates, and foreign exchange rates.

Derayah considers its exposure to market rate risk is mitigated through diversification over various asset classes and geographies. Therefore, its exposure to market risk relates to the exposure it has to assets which attracts capital requirements as nominal to risk-weighted assets. To mitigate market risk elements in general Derayah's principal investment policies cover an appropriate range of each asset class from minimum to maximum exposure allowed along with a pre-defined loss tolerance level that is monitored regularly by the risk committee.

### Measurement

Derayah calculates its market risk capital requirement by adopting a standardized approach for Pillar 1 under prudential requirements to segregate such exposures into various asset classes and define according to large exposures and excess exposures by applying respective risk charges for such exposures

Derayah has the following positions as at end of 2021 which are the primary driver against its risk charge on market risk.

### 7.1. Disclosure on Market Risk Management

Investments SAR '000	Type of Investment	MARKET VALUE	COUNTRY	Capital Risk Charge
Equity Price Risk	Equities	-	-	-
Investment Funds	Investment Funds	-	-	-
FX Risk	Investments Funds	19,012	USD	380
Interest Rate Risk (Debt Securities)	Treasury bills	-	-	-
<b>Market Risk Capital Charge</b>		<b>19,012</b>	<b>-</b>	<b>380</b>

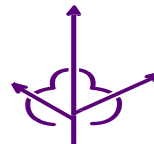
## 8. Operational Risk Disclosure

Operational risk is the risk of loss resulting from inadequate or failed internal processes, mechanisms, people and systems or external events and it includes legal risk as well. It is inherent in all Company's business functions and can occur from a variety of circumstances such as fraud, error, negligence, omission or system failure.

For this reason, Derayah has in place a policy on an operational risk with risk identification at a process level. Also, a business continuity policy that in case of business interruption, it enables the preservation or at least the timely recovery and continuation of essential operations and functions. Internal Audit and Compliance reviews are carried out to identify control weaknesses besides risk management's operational risk reviews.

### Measurement

Derayah calculates the Operational Risk Charge as an expenditure-based approach for operational risk calculated at 25% of one years' overhead expense under Pillar I. However, to optimize the capital requirements Derayah may



consider adopting other approaches (e.g. standardized approach) with prior approval from the Capital Market Authority and appropriate disclosures.

The following are the operational risk charge positions as of December 31<sup>st</sup>, 2021.

### 8.1. Disclosure on Operational Risk Management

Operational Risk	Gross Operating Income			Average	Risk Charge	Capital Requirements
	2019	2020	2021		(%)	SAR '000
Article 39-44 and Annex-4 PRs	127,914	277,302	588,878	331,365	15	49,705
1. Basic Indicator Approach						
	Overhead Expenses (2019)				Risk Capital Charge	Capital Requirements
2. Expenditure Based Approach	217,594				25	54,399
<b>Operational Risk Capital Charge</b>						<b>54,399</b>



## 9. Liquidity Risk Disclosure

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position may potentially increase the risk of financial losses. Liquidity risk also arises from the lack of marketability of a security or asset that cannot be traded quickly enough in the market to prevent or minimize a loss or to make a profit. Derayah's liquidity and cash management policies have been prepared considering the following main objectives;

- Identify the main sources of liquidity risk;
- Define the measurement, monitoring and controlling methodology and process with various internal as well as market indicators of potential liquidity risks at Derayah;
- Provide a formal contingency funding plan (CFP) that sets out strategies for dealing with a liquidity crisis and the procedures for making up cash-flow deficits in emergencies, as required under Prudential Rules;
- Forward cash flow projections

In addition to the above, Derayah's Investment Policies also defines boundaries against liquidity requirements in terms of the various asset class, based on their liquidity profiles.

Derayah conducts stress testing exercises regularly which is based on various assumptions that include consideration of the impact of a sudden liquidity shortage as a result of negative market conditions. Short-term liquid assets can be utilized as free cash available to meet any sudden liquidity requirements.

### Measurement

To minimize its exposure to liquidity risk, Derayah has established procedures that enable it to monitor regularly its cash flows and to manage them properly. Derayah actively manages its funding requirements through several measures including matching structural liquidity requirements.

### Monitoring

The risk and Compliance committee regularly monitors the key ratio such as current ratios, liquidity coverage ratios, and liquidity maturity analysis.

This allows Derayah to maintain sufficient cash and highly liquid current assets to be able to cover its present or future financial liabilities with a sufficient positive liquidity gap. Derayah conducts an analysis of the residual maturity profile of assets and liabilities by segregating them in different maturity buckets. The Risk and Compliance Committee reviews the maturity analysis and ensures that Liquidity Coverage Ratio is well above the required ratio and there is no negative liquidity gap.

	Bucket 1	Bucket 2	Bucket 3	Bucket 4	Bucket 5	Bucket 6	Bucket 7
MATURITIES OF ASSETS AND LIABILITIES	> 1 day to 1 week	>1 week to 1 month	>1 month to 3 months	>3 months to 6 months	> 6 months to 1 year	> 1 year	Non Maturity

The following section reflects the high level of cushion/comfort in meeting Derayah's short-term liabilities compared to any short-term payments.

#### 9.1. Disclosure on Liquidity Risk Management

Description , SAR (000)	2021	2020	2019	2018	2017
Total current assets (a)	546,739	223,181	162,355	116,074	86,645
Total current liabilities (b)	114,322	87,376	38,684	21,430	8,140
Current Ratio (a/b)	5	3	4	5	11

*Figures rounded off*