



PILLAR III DISCLOSURES

March 2023

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1 Scope of Application

Jadwa Investment Company (hereby referred to as “the Firm” or “Jadwa”) is a Saudi Closed Joint Stock Company headquartered in Riyadh.

On August 21, 2006, the Saudi Arabian Capital Markets Authority (CMA) granted Jadwa all 5 licenses to operate as a full service Shariah compliant investment bank under the license number 37-6034.

The Pillar III disclosures contained herein relate to the audited financials of Jadwa Investment for the period ended December 31, 2022. These are compiled in accordance with CMA’s the minimum requirements for the annual market disclosure of information as referred to by the Part 7 “Pillar III – Disclosure and Reporting” of the Prudential Rules.

Firm has investments in Jadwa Investment DIFC Limited which has been classified as subsidiary in 2020 audited financial statements as per IFRS. As a result capital adequacy working for the year 2022 is based on consolidated numbers.

1.1 Pillar I – Minimum capital requirements

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.

- Jadwa Investment 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 based indicator approach, which is calculated by applying 25% to the expense indicator, i.e., total expense for year 2022.

1.2 Pillar II – ICAAP

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

Pillar II requires 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 the framework.

The Firm has taken various initiatives to implement the ICAAP and assess capital requirements in accordance with the Firm’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. Jadwa Investment shall publish the Pillar III disclosures at its website <http://www.jadwa.com/en> henceforth.

1.4 Material or Legal Impediments between AP and its Subsidiaries

Jadwa Investment has investments in its subsidiaries in which we do not foresee material or legal impediments between it and Jadwa.

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 the Firm consists of paid-up capital, reserves (other than revaluation reserves) and audited retained earnings and has deductions in the form of dividend expense from retained earnings & negative equity items.

<i>In SAR '000</i>		
Tier-1 capital	Dec 2022	Dec 2021
Paid-up capital	1,000,000	852,735
Reserves (other than revaluation reserves)	255,820	255,820
Audited retained earnings	527,382	268,415
Goodwill and intangible assets	(294)	(511)
Unrealised losses from Held for trading	-	-
Deferred zakah assets	-	-
Other negative equity items	(170,547)	-
Total Tier-1 capital	1,612,361	1,376,459

Table 1 – Tier 1 Capital

A summary of the capital items and components is presented below:

Paid Up Capital: Capital is divided into 100,000,000 shares of SAR 10 each

Reserves: In accordance with the Company's Articles of Association and the new Saudi Arabian Regulations for Companies which came into effect on 25 Rajab 1437H (corresponding to 2 May 2016), the Company sets aside 10% of its net income each year as statutory reserve until such reserve equals to 30% of the share capital. The statutory reserve already reached the 30% threshold specified, accordingly no transfer has been made during the year.

Retained Earnings:

All income taxes, Zakat and the other Saudi taxes, payable or chargeable to the shares of any Shareholder is fully deducted, from that Shareholder's share in the Company's profits and remaining amount is transferred to Audited Retained Earnings after the statutory Audit of each Financial year. Thereby, the profit for the year 2022 has been added after deduction of zakat.

2.2 Tier 2 Capital

After the adoption of IFRS, There is no revaluation reserves in balance sheet hence there is no Tier-2 capital.

<i>In SAR '000</i>		
Tier-2 capital	Dec 2022	Dec 2021
Revaluation reserves	-	-
Total Tier-2 capital	-	-
TOTAL CAPITAL BASE (Tier-1 & 2)	1,612,361	1,376,459

Table 2 – Tier-2 Capital and Total capital Base

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

3 Capital Adequacy

Jadwa Investment defines “Minimum Capital” as the resource necessary to cover unexpected losses and thus the Firm, maintains adequate level of capital to cover risks inherent in its business operations and to support current & future planned business activities of each business units which consolidated into company’s budget. Jadwa ensure that significant capital is available for planned growth.

3.1 Capital Adequacy Ratio and Minimum Capital Requirements

The Firm is adequately capitalized with a Tier I capital ratio of 2.56x and a total capital ratio of 2.56x which is above CMA’s minimum regulatory requirement of 1.00x.

Following table provides the Firm's capital adequacy ratio

Capital Adequacy Ratio		
Particulars	Dec 2022	Dec 2021
Tier-1 Capital Ratio	2.56x	1.74x
Total Capital Ratio	2.56x	1.74x

Table 3 – Capital Adequacy Ratio

The following table reflects the comparative analysis of capital numbers in 2022 & 2021.

(All amounts in '000 SAR)

Particulars	2022	2021	% Change
Tier I Capital	1,612,361	1,376,459	17%
Tier II Capital	0	0	0%
Total	1,612,361	1,376,459	17%
Minimum capital required			
Credit Risk	475,109	711,252	(33%)
Market risk	3,468	4,871	(29%)
Operational risk	151,094	75,349	101%
Total	629,671	791,472	(20%)
Capital adequacy ratio	2.56	1.74	47%
Surplus in Capital Base	982,690	584,987	68%

Table 4 – Comparison of Capital adequacy and capital numbers – 2022 vs. 2021

Please refer to [Appendix 2](#) for the detailed disclosure on capital adequacy.

3.2 ICAAP

Jadwa Investment through Internal Capital Adequacy Assessment Process (ICAAP) examines its risk profile from both regulatory and internal risk capital point of view.

The ICAAP describes the Firm's business strategy, its forecasts for the next three years for risk weighted assets, 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 Firm's strategic decision making process and risk management framework.

The ICAAP is reviewed by the Executive Management Committee and approved by the CEO on an annual basis with circulation to the Board and a Report is submitted to the CMA. The assessment draws on the results of existing risk management techniques and reporting.

3.3 Scenario Analysis and Stress Testing

Scenario analysis and stress testing refers to various techniques (quantitative and/or qualitative) used by the Firm to assess their susceptibility to exceptional but probable events. It is a risk management technique used to evaluate the potential effects of a specific event and/or movement in a set of financial variables on the Firm's financial condition.

Senior Management is informed of the stress test outcomes to ensure that the Firm has sufficient capital in place and that any unacceptable risks are mitigated. These scenarios are regularly reviewed and updated to account for changing market dynamics. Various stress scenarios and their impact on capital position is reported to CMA on annual basis.

4 Risk Management

Risk Management is an integral function within Jadwa encompassing entire Firm and its guidelines and policy are applicable to all employees. The mission of Risk Management is to develop and maintain programs that protect Jadwa from unanticipated loss in accordance with Jadwa's Risk Management Policy. The primary aim of the Risk Management framework is to establish and strengthen the Risk Management practice at Jadwa as well as to create robust risk infrastructure for entire Jadwa and various stakeholders.

It focuses on following lines:

- Management of Credit, Market, Investment, and Liquidity Risks across active businesses - Asset Management & Investment Banking, in addition to Balance Sheet Investment.
- Management of Enterprise Risk Assessment, by conducting Risk Control and Self-Assessment (RCSA) for all Jadwa's units and continuous update of Risk register.
- Monitoring Jadwa's performance and providing feedback to senior management for possible tightening or enhancing the risk limits.

4.1 Risk Management practice at Jadwa

4.1.1 Risk Management Strategies and processes

Jadwa's Risk management framework encompasses all of the activities of the Firm that affect its risk profile. These include decisions and actions to avoid, mitigate, transfer, insure against, place limits on or explicitly take risk.

Risk Management is the process by which Firm identifies, measures, controls and monitors its risk exposures. The Firm's strategic objective is to optimize the risk / return trade-off by either maximizing return for a given level of risk or minimizing the risk for a desired level of return.

4.1.2 Structure and organization of Risk Management and Compliance function

Head of Risk is responsible for overall risk management functions at the department as well as organization level based on Jadwa's Risk policy & procedure manual.

The Firm follows the "three lines of defence" approach for management of risks with business units forming the first line of defence, risk and compliance forming the second line of defence and audit forming third line of defence. Jadwa's operational units are responsible for the day-to-day risk management.

Risk management has appointed a coordinator in each department, which ensures timely identifying the emerging risks and receiving the appropriate response and establish a sound communication and relationship between risk management department and business lines.

4.1.3 Scope and nature of risk reporting and measurement systems

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

In all circumstances, all activities giving rise to risk are identified, measured, managed and monitored. This, risk management may be viewed as "life cycle" which includes that following four cycles:



Figure 1 - Risk Management Lifecycle

Risk identification, measurement, management and monitoring in respect of particular activities are carried out in accordance with Jadwa procedures.

Risk identification considers both internal factors (such as Jadwa structure, the nature of activities, and quality of human resources, organizational changes and employee turnover) and external factors (such as changes in the industry and technological advances) that could adversely affect the achievement of Jadwa's strategic objectives.

Risks are measured with reference to the Jadwa strategic priorities, taking account of the likelihood of the risk occurring, potential impact and the range of implications. Risk measurement allows Jadwa to better understand its risk profile and most effectively target risk management resources.

Risk management activities offer Jadwa the advantages of quickly detecting and correcting deficiencies in the policies, processes and procedures for managing risk. The frequency of monitoring depends upon the risks involved and nature of changes in the operating environment.

The Firm periodically reviews its risk limitation and control strategies and adjusts their risk profile accordingly using appropriate strategies in light of their overall risk appetite and profile

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

4.1.4 Policies and guidelines for monitoring and mitigating risks

The Firm has established a Risk Appetite along with limits to monitor the risks across various businesses and at the Firm as a whole. Risk limits are thresholds to monitor that actual risk exposure does not deviate from the target and stays within an organization's risk tolerance/risk appetite. Exceeding risk limits will typically act as a trigger for management action. This requires a Firm to consider at a more granular level how much risk individual units/heads should be allowed to take.

All limit breaches are monitored by the Risk Department who seeks clarifications of such breaches from the business and reports to the CEO and Audit and Risk Committee. Limit breaches are followed by corrective actions in order to bring the risk to acceptable levels.

No	Risk Category	Risk Types	Business Line	Risk Appetite Statement
1	Credit Risk	Equity Portfolio Exposure	Balance Sheet Investment	Jadwa shall not exceed the internal threshold for single counterparty
2		PE Portfolio Exposure		Jadwa shall not exceed the internal threshold for a single sector Jadwa shall not exceed the internal threshold for total investments
3	Financial Risk	Liquidity Risk	Firm	Jadwa shall maintain adequate liquidity to meet its short-term obligations
4		Profit Rate Risk	Firm	Jadwa shall manage its rate sensitive assets and liability such that the change in market rates do not breach internal threshold
5		Earnings volatility	Firm	The projection of net profit based on an approved business plan should not deviate beyond a reasonable range.
6	Market Risk	Underwriting Risk and Capital Adequacy	Firm	Jadwa shall adopt a conservative approach when selecting underwriting public issues. Underwriting commitment should be based on the projected total capital ratio. Jadwa shall maintain minimum Capital adequacy coverage ($\geq 1x$) with adequate buffer at all times to meet CMA rules as well as to remain adequately solvent
7		Currency Risk	Firm	Jadwa can have exposure only in GCC currencies and major currencies such as JPY, EUR, GBP, AUD and USD The exposures shall be kept within internal thresholds
8	Operational Risk	Operational loss	Firm	Operational Risk Loss to be controlled with improvement in systems, policies & procedures of Jadwa's business.
9		People Risk	Firm	Jadwa strives to retain talent by employee friendly policies and offer competitive compensation structures
10	Other Risk	Regulatory risk	Firm	Jadwa shall maintain zero tolerance for any violation on regulatory guidelines related to its business lines or prudential rules issued by CMA.
11		Reputation Risk	Firm	Jadwa shall avoid any situation and action from adverse media News/Statements or customer services complaints resulting in a negative impact on reputation of any product or Jadwa. If an undesirable situation arises it will manage the same aggressively to preserve reputation and brand image.
12		Shariah Risk	Firm	All Business activities must be Shariah compliant and any new product or investment decision to be approved by the Shariah Committee

Table 5 - Risk Appetite Statement

Any breach beyond approved tolerance Limits is highlighted by the Risk to the Business Unit Heads and such breaches are reviewed by Business Unit Head and acceptable remedial actions are to be submitted to Audit and Risk Committee for review.

4.2 Credit risks

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

Management allocates appropriate limits for counterparties based on its review and limit fixation parameters. Risk Management performs quarterly portfolio Risk Monitor and highlights key observations and exceptions, if any, to the senior management/Audit and Risk committee. Any adverse movements in terms of ratings, geo-political changes or significant down trend in financial performance are highlighted. Risk Management may recommend downsizing or prohibiting the future exposure based on its regular risk review. Such monitoring ensures continuous monitoring of portfolio as well as counterparties.

4.2.1 External ratings

For exposures, the relevant counterparties' rating bands are also considered as per the rating of external agencies. The Risk management policy also maintains an external conversion and ratings sheet for parity amongst the rating agencies approved by CMA. Jadwa uses ratings from credit rating agencies (CRA) mentioned in the Prudential Rules.

The Asset Management team's capabilities and achievements have also been internationally recognized with Moody's Investor Service awarding an investment manager quality rating of MQ-1 to Jadwa's Asset Management division. This is the highest rating on Moody's scale for rating asset management firms globally.

4.2.2 Credit quality steps

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

4.2.3 Credit risk exposures

Jadwa has complied with CMA regulations and used the Standardized Approach in the calculation of the capital required for Credit risk. The 31 Dec 2022 numbers represents the risk positions of Jadwa during the period.

The major types of credit exposures and their respective risk weights are detailed in [Appendix 3](#)

4.2.4 Impairment, past due and provisions

An impaired exposure is an outstanding sum of money owed to Jadwa that has not been paid, despite repeated efforts to collect. The exposure can be either receivable from the customers or receivable from any other sources e.g. receivable from funds and employee. Factors such as the evidence to support the debt, likelihood of recovery, history of recoveries from client, nature of the assignment, competency (liquidity) of the client to pay, sensitivity of the relationship and economic cost of pursuing small debts are taking into account in arriving at the provision.

To fairly reflect the account receivables and appropriate expected credit loss is recorded, the company has developed a methodology for computing Expected Credit Loss (ECL) provisions on accounts receivables as per IFRS accounting requirements. The company uses an allowance matrix to measure the expected credit

losses (ECLs) of account receivables. To arrive at ECLs, loss rate are calculated based on credit loss over past five years and scalar factor of 3.09% is used to reflect differences between economic conditions of past where historical data has been collected, current conditions and the company's view of economic conditions over the expected lives of receivables. Jadwa has made a provision of SAR 77.57M as expected credit loss from receivables at 31 December 2022.

4.2.5 Residual Contractual maturity

The residual contractual maturity of Jadwa's exposures is given in the table below:

(All amounts in '000 SAR)

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
<i>On-balance Sheet Exposures</i>							
Governments and Central Banks	-	-	-	-	-	-	-
Authorised Persons and Banks	1,088,438	1,088,438	-	-	-	-	-
Corporates	73,042	-	-	-	73,042	-	-
Retail	-	-	-	-	-	-	-
Investments	965,774	-	-	-	-	950,916	14,858
Securitisation	-	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-	-
Other Assets	42,565	-	-	-	41,084	-	1,481
Total On-Balance sheet Exposures	2,169,819	1,088,438	-	-	114,126	950,916	16,339
<i>Off-balance Sheet Exposures</i>							
OTC/Credit Derivatives	-	-	-	-	-	-	-
Repurchase agreements	-	-	-	-	-	-	-
Securities borrowing/lending	13,680	-	-	-	-	13,680	-
Commitments	-	-	-	-	-	-	-
Other off-balance sheet exposures	-	-	-	-	-	-	-
Total Off-Balance sheet Exposures	13,680	-	-	-	-	13,680	-
Total On and Off-Balance sheet Exposures	2,183,499	1,088,438	-	-	114,126	964,596	16,339

Table 6 – Residual Maturity of Exposures

4.2.6 Risk Concentrations

Jadwa's Risk Management framework ensures that concentration risks emanating from counterparties and industry exposure are maintained within approved limits and corrective actions are taken to contain any over exposure.

4.2.7 Geographic Distribution of Exposures

Jadwa Investment has a part of its investment exposure in GCC & UK. The following table below suggests the geographic distribution of the Firm's exposures across various regions.

(All amounts in '000 SAR)

Exposure Class	Total	KSA	GCC	USA	Rest of the World
<i>On-balance Sheet Exposures</i>					
Governments and Central Banks	-	-	-	-	-
Authorized Persons and Banks (including cash)	1,088,438	1,085,625	2,813	-	-
Corporates	73,042	73,042	-	-	-
Retail	-	-	-	-	-
Investments	965,774	799,394	-	166,380	-
Securitization	-	-	-	-	-
Margin Financing	-	-	-	-	-
Other Assets	42,565	42,565	-	-	-
Total On-Balance sheet Exposures	2,169,819	2,000,626	2,813	166,380	-
<i>Off-balance Sheet Exposures</i>					
OTC/Credit Derivatives	-	-	-	-	-
Repurchase agreements	-	-	-	-	-
Securities borrowing/lending	-	-	-	-	-
Commitments	13,680	13,680	-	-	-
Other off-balance sheet exposures	-	-	-	-	-
Total Off-Balance sheet Exposures	13,680	13,680	-	-	-
Total On and Off-Balance sheet Exposures	2,183,499	2,014,306	2,813	166,380	-

Table 7 - Distribution of Exposures by Geography

4.2.8 Credit Risk Exposures by Credit Quality

Please refer to [Appendix 4](#) for the details

4.3 Credit Risk Mitigation

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

Jadwa manages and monitor credit risk arising from investments or financial assets with tools i.e. policy and producer and risk appetite that includes limits for concentration, country, industry and acceptable rating levels for counterparties. Besides the team, follow the stringent framework and exhaustive evaluation process and timely alerts the management on arising risks.

Jadwa has controls in place to ensure that reporting and meaningful risk-reducing action take place when limits are exceeded. Some of the common ways of reducing exposures consist of: assigning transactions to other counterparties for diversification, and restructuring transactions to limit potential exposure and manage their sensitivity to market volatility.

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

Private Equity

- All Private Equity investments are discussed within the team, a rigorous screening process is used and the final decision is approved by the CEO, Investment committee and Board of Directors based on authority matrix.
- Thorough market research and industry analysis are conducted prior to each PE investment and various risks such as commercial, technical, legal etc. are assessed. Support of independent reputed consultant is taken to conduct due diligence before submitting the proposal to the Risk Management department for review.
- The lack of liquidity and irregularity of cash flows is carefully considered in private equity investments and investments in this asset class are measured in terms of IRR to account for the limited cash flow in early years.
- The Firm is responsible for post- acquisition management of PE investments by Jadwa funds. This includes Jadwa board representation on the portfolio Firm and the approval and implementation of corporate governance and corporate strategy.
- Also, the Firm's Balance Sheet Investment limits the exposure of proprietary funds in PE investments.

Open ended funds

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

Holdings in Listed Stock

Jadwa's Balance Sheet investments in stock involve meticulous fundamental analysis of stock prices and are spread across fundamentally sound, liquid stocks as outlined in the Balance Sheet Investment policy. The exposure and limit risk monitoring is done by the Risk Department.

Exposures to Authorized Persons and Banks

Jadwa places deposits with Investment Grade rated banks limiting the Firm's credit risk in deposits and current account balances considerably.

In order to mitigate credit risk, Jadwa employs the following broad principles:

- The limits for exposures in each of the asset class is pre-established
- Every exposure to any counterparty requires approvals at the appropriate (pre-established) seniority level
- All credit exposures are measured and consolidated for each Firm on a global, consolidated basis that applies across the Firm
- Credit ratings of the Banks where Jadwa places its deposits are constantly monitored

Receivable risk

Aging analysis is performed at regular interval on all receivables by categorizing all past due receivables in different time buckets. Analysis results are shared with the management and appropriate actions are taken wherever necessary.

4.3.1 Credit Risk Exposures before/ after Credit Risk mitigation

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

4.4 Counterparty Credit Risk and Off BS Exposure

Jadwa does not deal with transactions in OTC derivatives, repos and reverse repos and securities borrowing/lending.

Jadwa has a Corporate Guarantee with commitment value of SAR 27.36 mn and credit equivalent amount of SAR 13.68 mn. The Risk weighted asset for this exposure is SAR 97.67 mn and the capital requirement is SAR 13.67 mn.

4.5 Market Risk

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

4.5.1 Market Risk Management

The guidelines for managing market risk are contained in the risk management policy. Market risk is monitored on a regular basis by the Risk Management Department.

The Firm manages market risk through blend of qualitative and quantitative approach along with experienced talent and establishment of risk limits which restrains extra risk taking. These risk limits are established using a variety of risk measurement tools, including sensitivity analysis, value-at-risk and stress test methodologies.

There are no trading book positions in the Firm and the investments are made on long term basis. There are investments in GBP for which foreign exchange risk capital (unpegged currencies) is reserved as per CMA Pillar 1 minimum capital requirement.

4.5.2 Market Risk - Capital

Market risk Capital requirement is as indicated below:

(All amounts in '000 SAR)

Risk	Capital Required
Equity & Fund Risk	-
Interest Rate / Profit Rate Risk	-
Commodities Risk	-
Foreign Exchange Risk	3,468
Underwriting Risk	-
Excess Exposure Risk	-
Settlement Risk	-
Total	3,468

Table 8 - Market Risk Capital

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 Firm follows an Enterprise Risk Assessment (ERA) approach by performing Risk based Audit which starts with identification and assessment of risks and controls. Jadwa 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 Firm 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 continuously to delete expired risks and identify newly emerging risks in order to ensure that internal controls are proactively realigned to mitigate these emerging risks. Individual line managers are responsible for identifying and assessing the operational risks of their area; this process involves the support from Risk Management Department.

4.6.2 Operational Risk Mitigation

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

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

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

To protect the information entrusted by clients, strategic information, financial and the company related information, the team has adopted higher level IT security governance standards by securing ISO 27001 certification and supporting all departments to comply with IT related regulatory requirements. In addition, performs round the clock external Penetration testing for online services, awareness to employees and having next generation firewall and intrusion prevention system, which stay us ahead in information Security Risk protection. Information security comes under the oversight of IT department.

4.6.3 Operational Risk capital charge

In compliance with CMA requirements, the Firm has adopted the Expenditure Based Approach (EBA) in order to estimate the required capital charge for operational risk as it leads to a higher capital charge than the Basic Indicator Approach (BIA)

(All amounts in '000 SAR)

Approach 1	Year	Gross Income	Average Gross Income	Risk Capital Charge (%)	Capital Required
Basic Indicator Approach (BIA)	2020	295,444	498,897	15%	74,835
	2021	393,989			
	2022	807,258			
Approach 2	Year	Expenses	Risk Capital Charge (%)		Capital Required
Expenditure Based Approach (EBA)	2022	604,375	25%		151,094
Maximum of (BIA or EBA)					151,094

Table 9 - Operational Risk Capital

4.7 Liquidity Risk

Liquidity risk is the inability of an organization to honour payment commitments when they are due and replace funds when they are withdrawn in a timely and cost effective manner.

4.7.1 Liquidity Risk Management

Jadwa has established and implemented a sound funding-liquidity contingency plan, which is based on understanding of the Firm's anticipated sources and uses of funds and on the expected timing of those sources and uses. The plan is subject to periodic review, assessment and approval.

Managing the liquidity of the Firm falls under the purview of the Finance department and the oversight by Risk Management department. The Firm invests surplus funds in the money market instruments in order to support the liquidity requirements of the Firm. In addition, there are approved banking facilities available to accommodate any additional funding requirements for investments.

The portfolio in listed securities can be liquidated in one week or less. Additionally each fund that Jadwa manages is responsible for managing its own liquidity levels therefore there is no requirement to maintain additional liquidity reserve at the Firm level.

4.7.2 Liquidity Reserves

Jadwa holds its Cash in a current deposit account as this can be accessed instantly by it. Jadwa actively manages its funding obligations through a number of measures including availability of surplus cash and daily monitoring of Asset Management funding requirements.

4.7.3 Funding Sources

Jadwa has short term and long term funding lines in SAR from local Banks in Saudi which are tapped as per requirement.

4.7.4 Risk Measures and Ratios

Jadwa prepares a statement of expected cash flows arising at the time of settlement of its assets and liabilities and allocates them in different time intervals in which they are expected to occur. The time intervals have been defined as per the prudential rules of Capital Market Authority (CMA) as stated below:

Particulars	1 Day	> 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
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Table 10 - Liquidity Risk Bucketing

An analysis of the residual maturity profile of Jadwa's assets and liabilities has been conducted segregating them in different maturity buckets. The cumulative gap in all the buckets is positive, reflecting that the cash inflows are more than cash outflows.

Liquidity Ratios:

S. No.	Indicators	Values	Inference
1	Current Ratio (Current Assets / Current Term Liabilities)	1.29	This reflects the cushion/comfort level of current assets in meeting Firm's short-term payment liabilities
2	Cumulative Gap as a % of total liabilities (excluding equity)	3.52	This reflects that the Company has no significant short term liabilities and earning assets are funded by equity.
3	Liquidity Coverage Ratio	140%	Liquidity coverage ratio is calculated by dividing high quality liquid assets by short term obligations. A liquidity coverage ratio of greater than 100% is considered satisfactory. LCR reflects that the Company has sufficient high quality liquid assets to cover the net cash outflows over next 30 days. (A haircut of 5% has been used for deposits with other banks and 20% for HFT as per standard market practice)

Table 11 - Liquidity Risk Ratios

4.7.5 Contingency Funding Plan

The Finance Department draws a contingency funding plan at the beginning of the year to address any liquidity crisis in future. Approved credit lines are available to meet any liquidity requirement in any contingent event.

5 Appendices

5.1 Appendix 1 - Disclosure on Capital Base

Capital Base	SAR '000
<u>Tier-1 capital</u>	
Paid-up capital	1,000,000
Audited retained earnings	527,382
Share premium	-
Reserves (other than revaluation reserves)	255,820
Tier-1 capital contribution	-
Deductions from Tier-1 capital	-
- Goodwill and intangible assets (-)	-294
- Unrealised losses from HFT investments (-)	-
- Deferred zakah assets (-)	-
- Other negative equity items (-)	-170,547
Total Tier-1 capital	1,612,361
<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	1,612,361

5.2 Appendix 2 - Disclosure on Capital Adequacy

All Amounts in SAR '000					
Exposure Class	Exposures before CRM		Net Exposures after CRM	Risk Weighted Assets	Capital Requirement
<u>Credit Risk</u>					
<i>On-balance Sheet Exposures</i>					
Governments and Central Banks	-	-	-	-	-
Authorized Persons and Banks (including cash)	1,088,438	1,088,438	1,088,438	217,688	30,476
Corporates	73,042	73,042	73,042	521,517	73,012
Retail	-	-	-	-	-
Investments	965,774	965,774	965,774	2,421,626	339,027
Securitization	-	-	-	-	-
Margin Financing	-	-	-	-	-
Other Assets	42,565	42,565	42,565	135,134	18,919
Total On-Balance sheet Exposures	2,169,819	2,169,819	2,169,819	3,295,965	461,434
<i>Off-balance Sheet Exposures</i>					
OTC/Credit Derivatives	-	-	-	-	-
Repurchase agreements	-	-	-	-	-
Securities borrowing/lending	-	-	-	-	-
Commitments	13,680	13,680	13,680	97,675	13,675
Other off-balance sheet exposures	-	-	-	-	-
Total Off-Balance sheet Exposures	13,680	13,680	13,680	97,675	13,675
Total On and Off-Balance sheet Exposures	2,183,499	2,183,499	2,183,499	3,393,640	475,109
Prohibited Exposure Risk Requirement	-	-	-	-	-
Total Credit Risk Exposures	2,183,499	2,183,499	2,183,499	3,393,640	475,109
<u>Market Risk</u>					
	Long Position	Short Position			
Interest rate risks	-	-			-
Fund Risk	-	-			-
Equity price risks	-	-			-
Risks related to investment funds	-	-			-
Securitization/ re-securitization positions	-	-			-
Excess exposure risks	-	-			-
Settlement risks and counterparty risks	-	-			-
Foreign exchange rate risks	173,420	-			3,468
Commodities risks.	-	-			-
Total Market Risk Exposures	173,420	-			3,468
<u>Operational Risk</u>					
					151,094
<u>Minimum Capital Requirement</u>					629,671
<u>Surplus/ (Deficit) in Capital</u>					982,690
<u>Total Capital Ratio (time)</u>					2.56

5.3 Appendix 3 - Disclosure on Credit Risk Weight

in SAR '000

Risk Weights	Exposures after netting and credit risk mitigation												
	Government s and central banks	Administrativ e bodies and NPO	Authorised persons and banks	Margin Financing	Corporates	Retail	Past due items	Investments	Securitisation	Other assets	Off-balance sheet commitment s	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	1,088,438	-	-	-	-	-	-	-	-	1,088,438	217,688
50%	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	327,035	-	-	-	327,035	490,552
200%	-	-	-	-	-	-	-	-	-	-	-	-	-
300%	-	-	-	-	-	-	-	623,881	-	40,769	-	664,650	1,993,950
400%	-	-	-	-	-	-	-	14,858	-	-	-	14,858	59,431
500%	-	-	-	-	-	-	-	-	-	-	-	-	-
714% (include prohibited exposure)	-	-	-	-	73,042	-	-	-	-	1,796	13,680	88,518	632,021
Average Risk Weight	-	-	20%	-	714%	300%	-	251%	-	317%	714%	155%	-
Deduction from Capital Base	-	-	30,476	-	73,012	-	-	339,027	-	18,919	13,675	2,183,499	-

5.4 Appendix 4 - Disclosure on Credit Risk's Rated Exposure

in SAR '000

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	
On and Off-balance-sheet Exposures								
Governments and Central Banks	NA	-	-	-	-	-	-	-
Authorized Persons and Banks (including cash)	NA	-	-	-	-	-	-	-
Corporates	NA	-	-	-	-	-	-	-
Retail	NA	-	-	-	-	-	-	-
Investments	NA	-	-	-	-	-	-	965,774
Securitization	NA	-	-	-	-	-	-	-
Margin Financing	NA	-	-	-	-	-	-	-
Other Assets	NA	-	-	-	-	-	-	42,565
Off-Balance sheet commitments								13,680
Total		-	-	-	-	-	-	1,022,019

Exposure Class	Short term Ratings of counterparties					
	Credit quality step	1	2	3	4	Unrated
	S & P	A-1+, A-1	A-2	A-3	Below A-3	Unrated
	Fitch	F1+, F1	F2	F3	Below F3	Unrated
	Moody's	P-1	P-2	P-3	Not Prime	Unrated
Capital Intelligence	A1	A2	A3	Below A3	Unrated	
<u>On and Off-balance-sheet Exposures</u>						
Governments and Central Banks	-	-	-	-	-	-
Authorized Persons and Banks (including cash)	-	-	1,088,438	-	-	-
Corporates	-	-	-	-	-	73,042
Retail	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Securitization	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-
Total	-	-	1,088,438	-	-	73,042

5.5 Appendix 5 - Disclosure on Credit Risk Mitigation (CRM)

in 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
<i>Credit Risk</i>						
<i>On-balance Sheet Exposures</i>						
Governments and Central Banks	-	-	-	-	-	-
Authorized Persons and Banks (including cash)	1,088,438	-	-	-	-	1,088,438
Corporates	73,042	-	-	-	-	73,042
Retail	-	-	-	-	-	-
Investments	965,774	-	-	-	-	965,774
Securitization	-	-	-	-	-	-
Margin Financing*	-	-	-	-	-	-
Other Assets	42,565	-	-	-	-	42,565
Total On-Balance sheet Exposures	2,169,819	0	0	0	0	2,169,819
<i>Off-balance Sheet Exposures</i>						
OTC/Credit Derivatives	-	-	-	-	-	-
Exposure in the form of repurchase agreements	-	-	-	-	-	-
Exposure in the form of securities lending	-	-	-	-	-	-
Exposure in the form of commitments	13,680	-	-	-	-	13,680
*Other Off-Balance sheet Exposures	-	-	-	-	-	-
Total Off-Balance sheet Exposures	13,680	0	0	0	0	13,680
Total On and Off-Balance sheet Exposures	2,183,499	0	0	0	0	2,183,499