



Middle East Financial Investment Company (MEFIC Capital)

Pillar III Disclosure Report

As on Dec 31, 2014

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1. Introduction & Scope of Application

The Capital Adequacy and Risk Management Report for MEFIC Capital (hereinafter referred as "MEFIC") have been prepared in accordance with disclosure requirements and guidelines with respect to Pillar 3 of the Basel II Accord, as published by the Capital Market Authority (CMA) in December 2012. The purpose of this disclosure is to inform market participants about MEFIC's risk profile, risk management process & systems and capital adequacy.

MEFIC is a Saudi closed joint stock company established under the Regulation for Companies in the Kingdom of Saudi Arabia. The company operates under Commercial Registration No:1010237038 issued in Riyadh on Sha'ban 2, 1428 H(corresponding to August 15, 2007) and ministerial Resolution No.200/K dated Rajab 30, 1428 H(corresponding to August 13, 2007) announcing the formation of the Company.

MEFIC's objectives are to participate in financial security activities, deal as agent and as principal, perform arranging, advisory and custody services for the purpose of administrative procedures related to the investment funds, portfolio management and financial brokerage in accordance with the license No. 06029-37 of the Capital Market Authority, dated Jumad Al Thani 21, 1427 H (corresponding to July 17, 2007). MEFIC is committed to its core principles, which includes considering each investor as partner, open & transparent dealings, treating all stakeholders with integrity, responsible corporate citizenship, empowering its staff and helping clients to make informed investment decisions.

MEFIC's major business lines are:

- **Brokerage:** MEFIC is a well-known brokerage and trading firm in the Kingdom (ranked #19 in terms of volume traded in 2014) that facilitates investors to buy and sell financial securities using its Brokerage services. MEFIC also provides structured products that could enable clients to achieve optimum returns on their investment.
- **Asset Management:** MEFIC is one of the leading investment management firms in Saudi Arabia, delivering diverse investor centric solutions to its clients. MEFIC serves a diverse clientele comprising institutions, family businesses and High Net worth Individuals etc. The asset classes under management include - Public Equity, Private Equity, Real Estate, Fixed Income and Money Market. The total AUM size in FY 2014 exceeded SAR 1,715 MM spread across seven mutual funds and Discretionary Portfolios.
- **Investment Banking:** MEFIC offers value-added financial advisory services to financial institutions, corporates, public sector companies, and sovereign wealth funds backed by sound financial expertise and knowledge of the local and regional markets. MEFIC's services include advisory services on mergers, acquisitions, debt and equity placements, and initial public offerings (IPOs), and also provide restructuring and business strategic review services.
- **Wealth Management:** The Company is one of the most promising Wealth Management service providers in the Saudi market which caters to High Net worth Individuals (HNW) and Institutions through a broad range of products and services.

1.1 Group Structure

MEFIC's shareholders consist of prominent regional institutions like Kuwait and Middle East Financial Investment Company (KMEFIC) and The Arab Investment Company (TAIC) as well as a group of high net worth individuals and family offices. Below are some of the details about MEFIC's shareholders:

- **Kuwait Middle East Financial Investment Company "KMEFIC"**

KMEFIC is an Investment company incorporated in 1984 and is based in Kuwait. It functions as the investment arm of Ahli United Bank "AUB"-Bahrain. AUB owns majority stake in KMEFIC along with governmental institutions based in Kuwait and Bahrain. KMEFIC provides asset management, investment banking and wealth management solutions. KMEFIC owns 40% share in MEFIC Capital.

- **The Arab Investment Company "TAIC"**

TAIC was established in 1974 as a Pan-Arab joint stock company. Its shareholders comprise of governments in 17 Arab countries. TAIC holds 15% in MEFIC.

- **Individuals / Family Offices**

A group of High Net worth Individuals based out of Saudi Arabia collectively hold 45% stake in MEFIC Capital. These well connected and highly experienced individuals provide the necessary networking capability for MEFIC Capital in Saudi Arabia.

1.2 Material & Legal Impediments

No material or legal impediments as of 31st December 2014.

2.Capital Structure

2.1 Terms & Conditions

No specific terms and conditions are attached to the capital items. The Regulations for Companies in the Kingdom of Saudi Arabia and the Articles of Association, requires a minimum of 10% of the net income for the year to be transferred to the statutory reserve till the reserve reach 50% of the share capital. The company transfers its net income to statutory reserve in accordance with the requirement.

2.2 Capital Base

MEFIC's capital base as of 31st December 2014 is as follows:

Capital Base	SAR' 000
<u>Tier - 1 Capital</u>	
Paid-up capital	400,000
Audited retained earnings	10,619
Share premium	-
Reserves (other than revaluation reserves)	5,843
Tier-1 capital contribution	-
Deductions from Tier-1 capital (-)	-1,738
Total Tier 1 Capital	414,403
<u>Tier - 2 Capital</u>	
Subordinated loans	-
Cumulative preference shares	-
Revaluation reserves	-320
Other deductions from Tier-2 (-)	-
Deduction to meet Tier-2 capital limit (-)	-
Total Tier 2 Capital	0
TOTAL CAPITAL BASE	414,403

3. CAPITAL ADEQUACY

Qualitative and quantitative disclosures with respect to capital adequacy are mentioned below:

3. (a) Qualitative disclosure - Minimum Capital Requirement

MEFIC's capital adequacy ratio stands at a comfortable 1.92x as of 31st December 2014; against the minimum CMA requirement of 1x. Thus, the ratio sufficiently covers all material risks of the company. Share capital, statutory reserve and retained earnings are the main sources of Tier I capital and Tier II capital.

3. (b) Qualitative disclosure - Capital Adequacy Assessment

The capital adequacy assessment for current and future business activities is done through the yearly ICAAP process. The ICAAP Report covers the assessment of all material risks; future projected capital required for covering all material risks due to current as well as changes in the risk profile, business objectives and operating environment; capital required under stress scenarios; and associated assessment methods to measure and manage the capital adequacy to ensure ongoing compliance with the guidelines prescribed by CMA. It further involves capital planning and projecting the capital position of the firm over the next three years.

The outcome of the ICAAP analysis is first presented to the Compliance & Risk Committee (RCC) members (wherein MD is the Chairman) as part of the challenge and review process. Wherever refinements are required, they are undertaken and the methodologies, analysis and conclusions are drawn and approved by the RCC members. The Report is then presented to the Board for their approval.

The Internal Audit as per the annual plan independently reviews the governance and capital requirements under Pillar II, based on the ICAAP Report prepared by the firm, and accordingly reports their findings to the Risk Department for their action/modifications.

The pillar I capital ratio calculations are mentioned below:

Capital Requirement Calculation		SAR' 000
	<u>Pillar 1 Capital Requirements</u>	Dec-2014
A	Credit Risk	187,613
B	Market Risk	6,382
C	Operational Risk	22,241
D	Total Pillar-I Capital Requirements (A+B+C)	216,236
E	Total Tier 1 Capital	414,403
F	Pillar 1 Capital Ratio (E/D)	1.92x

3. (c) & (d) Quantitative disclosure - Capital Requirement & Total Capital Ratio

For details please refer to the Appendix II.

4. RISK MANAGEMENT

4.1 General Qualitative Disclosure for Risks - Risk Management & Compliance Function

MEFIC's approach to risk management has been aligned to the organizational objectives submitted to the MEFIC Board. Risk management is an independent function headed by the Senior Risk Manager reporting to the MD with the responsibility for developing adequate risk policies & limits and promoting the risk culture across the organization. It is primarily focused on following lines:

1. Management of Market Risks and Credit Risks across active businesses – Proprietary Investments, Brokerage, Asset Management & Investment Banking.
2. Monitoring MEFIC's performance as per Risk Appetite policy and providing feedback to senior management for possible tightening or enhancing the risk limits.
3. Risk Monitoring & Review tools for key risks across all businesses and key support functions.
4. Ensuring MEFIC's adherence to the capital adequacy norms of CMA.
5. Monitoring Liquidity Risk at Organizational level as well as business unit levels.

Adequate policies and Monitoring procedures are drawn covering the above focus areas. Unit would employ efficient and improved tools to manage the risks based on globally accepted best practices. Monitoring tools and its components will be subject to ongoing improvement during the course of business.

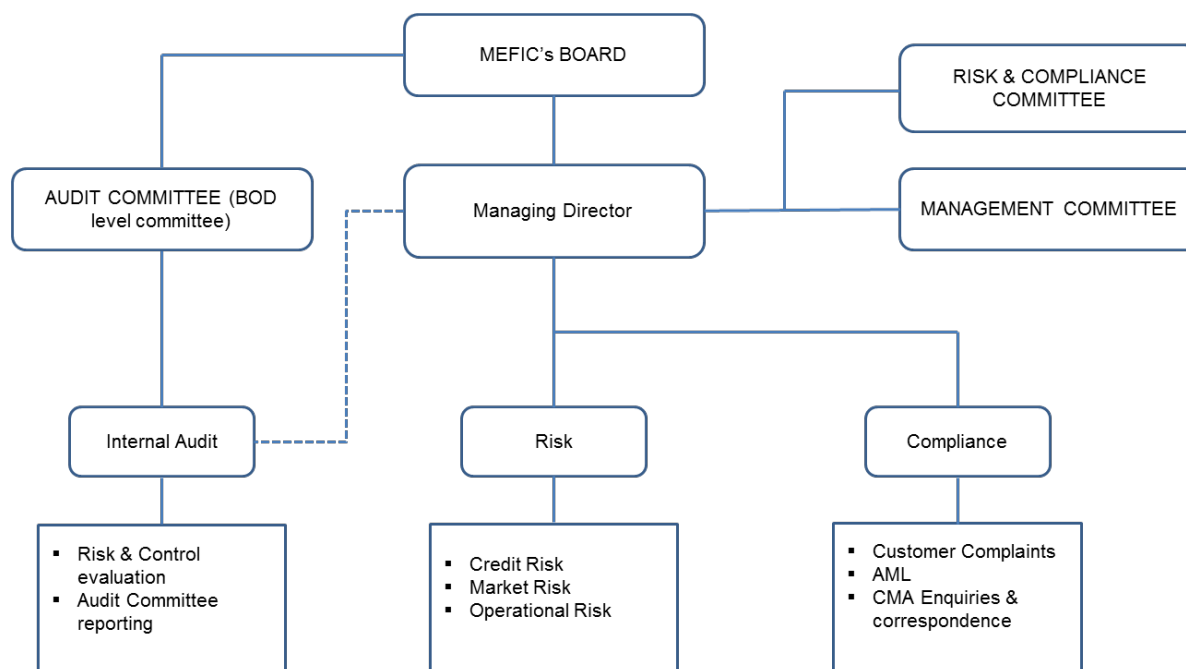
A robust senior management oversight structure is established through the following committees which are chaired by the MD and meet on a regular basis to perform their responsibilities as summarized below in accordance with the respective charters.

- **Risk & Compliance committee (RCC):** The Committee's principal activities, responsibilities and authorities include:
 - Assisting the executive management in the identification and management of risk.
 - Reviewing the internal control policies and the procedures for the identification, assessment, reporting and management of risk.
 - Ensuring compliance with laws and regulations and ensuring that there are effective and efficient procedures for managing, reporting and responding to risks and events.
 - Identifying and assessing risk in new products and/ or in market conditions and formulating the necessary proposals on related risk management policies and procedures.
 - Ensuring that robust stress testing and scenario analysis have been carried out, and that the chosen scenarios are appropriate and relevant to MEFIC's working environment. Further, appraising the Board on the capital adequacy level under normal and stressed scenarios.
 - Reviewing and approving the Risk Capital requirements for MEFIC.
 - Ensuring that the proposed capital plans meet MEFIC risk appetite.
 - Reviewing & recommending the ICAAP report for Board approval.

- **Management committee (MC):** The Management Committee carries out the following functions:
 - Considers policies, objectives and strategies based on other MEFIC committees' recommendations, and presents appropriate recommendations to the MD/Board for final approval.
 - Formulates strategic plans and disseminates it to the divisions.
 - Approves business plans and budgets of various departments, units or divisions.
 - Steers and monitors the implementation of existing strategic plans by divisions.
 - Recommends appointments of Consultants / third party resources to conduct any business studies as required by the company.
 - Reviews and discusses any departmental problems, and/or issues related to departmental profitability.
 - Reviews management performance and present appropriate recommendations to the MD/Board for final approval.

Risk Management, Compliance & Internal Audit Organization Structure

Below is the organization structure of Risk Management, Compliance and Internal Audit with major areas of responsibilities in place in the governance unit:



✓ Risk Management

Risk unit aims to generate optimum Risk Reward balance for various businesses and for the entire organization. The major functions of Risk unit are:

- Assisting with the planning, designing and implementation of an overall risk management process for the organization
- Support operations with development of risk mitigation strategies
- Monitor and assess the post-period implementation of risk management strategies
- Ownership and maintenance of the risk database related to credit risk, market risk and operational risk
- Risk Review of MEFIC's Business Portfolio-Margin Lending, Fixed Income Fund, Real Estate, Equity Funds, DPMs, Private equity deals etc
- Liquidity Risk Monitoring
- Preparing Quarterly risk report for Risk Management Committee and BoD Review
- Ensure ICAAP process and other regulatory submissions
- Monitoring quantitative risk measures for Investment funds, Margin lending portfolio, Liquidity Risk exposures, structured investment products, Real Estate Funds
- Enhance risk metrics and tools to reflect precision in identifying material risks and its controlling action
- Collate and pass learning/experience from specific business units to others.

✓ Compliance & AML

MEFIC is committed to ensuring compliance with all applicable laws and regulations at all times through a robust compliance and Anti Money Laundering (AML) function overseen by Risk & Compliance Committee (RCC). Major responsibilities include?

- Developing and executing a Compliance program to test compliance of internal policies and procedures
- Reviewing regulatory publications that have impact on the business
- Ensure business processes and practices have been revised to accommodate any new or revised rules
- Facilitating the implementation of any new regulations
- Drafting and updating compliance manuals for various business functions
- Developing communication tools to raise compliance awareness and help embed compliance into the business culture
- Working with the function heads to identify and correct control and regulatory deficiencies issues together with follow up action and reporting responsibilities
- Assisting in the coordination of regulatory inspections with Legal/Compliance and business management
- Reviewing new products and business processes, and highlighting relevant issues pertaining to compliance, providing appropriate solutions and ensuring that regular checks are made as to the appropriateness of products

- Undertaking specific compliance reviews as and when required, for example reviewing client accounts or individual business units, to ensure compliance with the external regulators and internal policies and procedures
- Providing regulatory training to the line managers and business in general on a range of topics, for example money laundering
- Reviewing and approving all financial promotional literature.

Compliance processes further includes monitoring of covered persons, strict adherence to ethical standards, regular compliance & AML training & timely implementation of CMA regulations /circulars. Compliance manual together with major policy documents including Market Surveillance and AML, Customer Care Policy, AML/CTF Manual, Employee Trading Policy (ETP) etc., govern the Compliance function.

✓ **Internal Audit Function**

The Internal Audit function is handled by the Internal Audit Manager along with an outsourced company, Al Dar Audit Bureau (member firm of Grant Thornton (GT)) and reports functionally to the Audit Committee of MEFIC Board. The Internal Audit function has the following responsibilities:

- Formulate and implement a risk-based Annual Audit Plan
- Identify and assess the potential risks to MEFIC operations and whether such risks have been satisfactorily mitigated by management
- Review the adequacy and effectiveness of internal control systems.
- Assess, evaluate and promote compliance to internal MEFIC policies & procedures.
- Review MEFIC's compliance with applicable laws and regulations.
- Serve in an advisory capacity as required by management but maintain required independence.
- Provide feedback on performance of the Internal Audit outsourcing firm.
- Serve as Audit Committee Secretary and discharge responsibilities in accordance with the Audit Committee Charter.

4.1.1 General Qualitative Disclosure for Credit Risk

Risk management objective, policies, strategies and process for credit risk are described below:

<p>i) Strategies and Process for Risk management</p>	<p>Following strategies and processes are in place for the management of credit risk:</p> <ul style="list-style-type: none"> ▪ Review of all major investment proposals by Risk management, Legal and Compliance to ensure conformity with the fund's terms & conditions and the product program. ▪ Due diligence of securities and investments for trade execution. ▪ Due diligence of custodians to check their ability to deliver the required services in terms of technology, systems and financial strength. ▪ Stringent risk assessment for Counterparties (CP) selection and limit allocation for investments. (please refer to section 4.4 for more details) ▪ Ascertaining the customer credit worthiness, suitability and risk based customer categorization and collateral requirements for the margin lending business.
<p>ii) Structure and organization of Risk and Compliance function</p>	<p>Organization structure of Risk and Compliance function is provided in section 4.1</p>
<p>iii) Scope and nature of risk reporting and measurement systems</p>	<p>The scope and nature of risk reporting and measurement system regarding credit risk are provided below:</p> <ul style="list-style-type: none"> ▪ Real time monitoring by risk management of all counterparties limits for placements, brokerage and investments. ▪ Daily review of the margin lending portfolio by Risk management as per the margin lending policy. ▪ Monitoring of collateral coverage and margin call triggers for margin lending customers by the risk management. ▪ All credit exposures are captured in the company's systems and required reports are generated as and when needed. ▪ Limit monitoring for the proprietary investments and monthly reporting to the Risk & Compliance Committee as well as quarterly reporting to the board.
<p>iv) Policies/guidelines for hedging</p>	<p>Risk management is responsible for highlighting any breach to the set limits to the MD so that prompt remedial action is taken. Credit risks, in general are thus mitigated through approved risk policies and product programs for all activities and products. Company does not use any specific hedging techniques for credit risks.</p>

4.1.2 General Qualitative Disclosure for Market Risk

Risk management objective, policies, strategies and process for market risk are explained below:

<p>i) Strategies and Process for Risk management</p>	<p>Following strategies and processes are in place in the company for the management of market risk in its business units:</p> <ul style="list-style-type: none"> ▪ Proprietary policy manual provides rules regarding portfolio/investment limits ▪ Geographical, Single and sector limits are fixed as a proportion to firm's equity ▪ Investment due diligence records all relevant risks, their mitigants, limits and risk control processes for principal investment, brokerage business, asset management and Investment Banking. ▪ Underwriting Credit Program lays down policies to mitigate and prudently manage the market risk emanating from equity & debt underwriting risk. ▪ Board approval for all investment banking deals and M&A transactions. ▪ Different risk measures used for the investments across different asset classes: Value-at-risk for listed securities, sensitivity of interest rates, investment ratings etc. ▪ Board approval is required along with Management Committee for all product launches.
<p>ii) Structure and organization of Risk and Compliance function</p>	<p>Organization structure of Risk and Compliance function is provided in section 4.1</p>
<p>iii) Scope and nature of risk reporting and measurement systems</p>	<p>The scope and nature of risk reporting and measurement system regarding credit risk are provided below:</p> <ul style="list-style-type: none"> ▪ Limits monitoring for proprietary investments, mutual funds based on policy defined limits by the risk management ▪ Deal exit memo is prepared and submitted to the board which includes investment details, cost and selling prices of investment and expected profit/loss on exit. ▪ Regular review of real estate funds performance, valuation and market conditions by Risk & Compliance Committee. ▪ Regular review of funds & DPM performance and peer benchmarking and reporting to the board.
<p>iv) Policies/guidelines for hedging</p>	<p>Market risks, in general are mitigated through approved risk policies and product programs for all activities and products. Company does not use any specific hedging techniques for managing market risks.</p>

4.1.3 General Qualitative Disclosure for Operational Risk

Risk management objective, policies, strategies and process for operational risk are explained below:

<p>i) Strategies and Process for Risk management</p>	<p>Following strategies and processes are in place in the company for the management of operational risk in its business units:</p> <ul style="list-style-type: none"> ▪ OpR Incident Management and coordination for their resolution. ▪ Develop and Implement operational risk policies and processes. ▪ Maintain OpR Loss records and Root Cause analysis for major incidents. ▪ Reviewing third party/outsourcing contracts, services and major change requests ▪ Business Continuity Management ▪ Create Operational risk awareness across the organization. ▪ Ensuring Risk Control Self-Assessment is implemented. ▪ Ensuring Product program is reviewed in terms of capturing and addressing key risks. ▪ Ensuring any amendment or enhancement in the product program is mandatorily reviewed by Risk management and risk recommendation is being provided to the approving authority ▪ Ensuring product risk is managed as per last approved Program. ▪ Head of Risk Management shall ensure that key procedures are adhered internally. ▪ Key Risk Indicators ▪ Training and Awareness in coordination with Internal Audit & Information Security functions ▪ Strict adherence to ethical standards, regular compliance & AML training & timely implementation of CMA regulations /circulars.
<p>ii) Structure and organization of Risk and Compliance function</p>	<p>Organization structure of Risk and Compliance function is provided in section 4.1</p>
<p>iii) Scope and nature of risk reporting and measurement systems</p>	<p>The scope and nature of risk reporting and measurement system regarding operational risk are provided below:</p> <ul style="list-style-type: none"> ▪ Risk Management is responsible for managing the quarterly Risk Control Self-Assessment (RCSA) in coordination with the Internal Audit Function; monitoring corrective action plans, ensuring policy & regulatory compliance, ▪ Information Security unit to ensure Tadawul compliance, BCP testing and DR testing ▪ Fraud investigations, customer complaints review, continuity of business plans and FATCA review is managed by the compliance unit. ▪ All governance related issues are collectively discussed at the Risk & Compliance Committee meeting which is chaired by the MD and which meets on a monthly basis. ▪ Monitoring of internal audit issues and RCSA issues by risk management/Internal Audit with quarterly review by the Audit Committee (a BoD level committee)
<p>iv) Policies/guidelines for hedging</p>	<p>Operational risk is mitigated through well-established Operational risk policy and a robust system for capturing, reporting and controlling of operational losses.</p>

4.2 Credit Risk Disclosure

Qualitative and quantitative disclosures regarding credit risk are provided below.

Definition of past due claims and impaired liabilities	Past due item shall refer to an exposure where, interest or principal are more than 90 days past due, calculated from the original agreed payment date.																
Approaches adopted to determine impairments and specific provision	Impairment and specific provisions are reviewed periodically by the finance team based on the information available viz, Financial statements of the investment, ageing report, management accounts etc.																
Names of credit rating agencies	S&P/Moody's rating was used with no change during the period.																
Type of exposure classes	Placements with domestic and International Banks.																
Mapping between the credit rating from each CRA	Not applicable as the credit rating agency is one of those mentioned in the Annex 11 & 12 of the prudential regulators.																
Quantitative disclosure: Total gross credit risk exposure	Gross credit exposure and average gross exposure as on 31st December 2014 by various types of credit exposure is provided in appendix III.																
Amount of impaired exposures and past due exposures provided separately	No amount of impaired exposures and past due exposures are in place.																
Amount of impairments and specific provisions	Amount of impairments and specific provisions are as under: <ul style="list-style-type: none"> ▪ Provision on receivables and advances – SAR 11.58 million ▪ Impairment losses on investments- SAR 3.70 million 																
Changes for impairments and specific provisions during the period	Changes for impairment and specific provisions during the period is as under: <ul style="list-style-type: none"> ▪ Provision on receivables and advances – SAR 11.02 million ▪ Impairment losses on investments- SAR 3.15 million 																
Geographic distribution of credit risk exposures	Geographic distribution of credit risk exposure is as under: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Countries</th> <th style="text-align: right;">%</th> </tr> </thead> <tbody> <tr> <td>Kingdom of Saudi Arabia</td> <td style="text-align: right;">76.41%</td> </tr> <tr> <td>State of Kuwait</td> <td style="text-align: right;">9.15%</td> </tr> <tr> <td>Kingdom of Bahrain</td> <td style="text-align: right;">6.81%</td> </tr> <tr> <td>United Kingdom</td> <td style="text-align: right;">7.34%</td> </tr> <tr> <td>Egypt</td> <td style="text-align: right;">0.29%</td> </tr> </tbody> </table>	Countries	%	Kingdom of Saudi Arabia	76.41%	State of Kuwait	9.15%	Kingdom of Bahrain	6.81%	United Kingdom	7.34%	Egypt	0.29%				
Countries	%																
Kingdom of Saudi Arabia	76.41%																
State of Kuwait	9.15%																
Kingdom of Bahrain	6.81%																
United Kingdom	7.34%																
Egypt	0.29%																
Residual contractual maturity breakdown of credit risk exposure	No exposure with contractual maturity as of 31 st Dec 2014																
Reconciliation report for changes in impairment	(SAR'000)	Description	2013	2014	Total	Provision on receivables and advances	558.8	11,020.17	11,578.99	Impairment losses on investments	551.48	3,150.41	3,701.89	Total	1,110.28	14,170.58	15,280.88
Description	2013	2014	Total														
Provision on receivables and advances	558.8	11,020.17	11,578.99														
Impairment losses on investments	551.48	3,150.41	3,701.89														
Total	1,110.28	14,170.58	15,280.88														
Exposure amounts before and after credit risk protection	Please refer to the Appendix IV.																

4.3 Credit Risk Mitigation Exposure

Qualitative and quantitative disclosures regarding credit risk mitigation are provided below:

Discussion of policies for securing collateral	The Company mitigates the margin lending risk by ensuring that the financing facility is properly collateralized on a daily basis, accepting only highly liquid forms of non-cash collateral, and only entering into financing agreements with highly rated and reputable clients. The stocks financed on margin are divided into 4 LVR categories and exposure is given based on the ratios achieved by each stock.
Off-balance sheet netting	Not applicable.
Policies and process for collateral valuation	As mentioned above, LVR sheet is maintained and reviewed on a quarterly basis using risk related parameters and the customers are notified for any change in LVR. Collateral shares are marked to market daily based on Tadawul closing and a report is generated by operations highlighted customer's coverage ratios. Margin calls are initiated when coverage falls below the thresholds' level. Customer is allowed a period to adjust his position or bring cash and action is taken when the coverage reaches the liquidation trigger.
Description of the most important types of collateral	All collateral have the same criteria thus this is not applicable in our case.
Important types of guarantor and credit derivative counterparties	Not applicable.
Market or credit risk concentration within the credit risk mitigation	To mitigate market risk, MEFIC reduces LVRs for stock which are volatile or illiquid and with the help of other risk parameters. Further, the stock concentration is also checked and is downgraded based on concentration of portfolio. Investments limits are set to ensure that all proprietary investments remains within sectoral, geographical and single investment limits
Quantitative disclosure	Please refer to the Appendix V.

4.4 Counterparty Credit Risk (CCR) and Off-Balance Sheet Disclosure

Qualitative and quantitative disclosures regarding Counterparty Credit Risk (CCR) are provided below:

Internal Capital and credit limits for CCR exposures	Not applicable as of 31 st Dec 2014
Policies for securing collateral and establishing credit reserve	Not applicable as of 31 st Dec 2014
Wrong-way risk exposures	Not applicable
Methodology used to calculate the risk exposure amount for CCR	Capital requirement is computed as per the standardized approach using the credit quality steps and credit rating of the counterparty. This guideline is as per the CMA prudential rules.
Collateral required in case of a downgrade in the AP's credit rating	Not applicable.
Quantitative disclosure: Derivative Transaction	Not applicable as of 31 st Dec 2014

4.5 Market Risk Disclosure

Qualitative and quantitative disclosures regarding Market Risk are provided below:

General Disclosure	MEFIC's market risk exposure constitutes of proprietary investments in equities, money market and mutual funds which also include FX risks on investments denominated in foreign currencies.		
Quantitative disclosure: Trading book business	<i>(SAR'000)</i>		
	Balance Sheet Exposure	Capital Requirement	
	Particulars		
	Equity price risks	28,187	4,851
	Foreign exchange rate risks	34,774	1,531
	Total Market Risk Exposures	62,961	6,382

4.6 Operational Risk Disclosure

Qualitative and quantitative disclosures regarding Operational Risk are provided below:

<p>General Disclosure</p>	<p>Few highlights of the operational risk process in the company are:</p> <ul style="list-style-type: none"> ▪ OpR Incident Management and coordination for their resolution. ▪ Develop and Implement operational risk policies and processes. ▪ Maintain OpR Loss records and Root Cause analysis for major incidents. ▪ Reviewing third party/outsourcing contracts, services and major change requests ▪ Business Continuity Management ▪ Create Operational risk awareness across the organization. ▪ Ensuring Risk Control Self-Assessment is implemented. ▪ Ensuring product risk is managed as per last approved Program. ▪ Head of Risk Management shall ensure that key procedures are adhered internally. ▪ Key Risk Indicators ▪ Training and Awareness <p>Strict adherence to ethical standards, regular compliance & AML training & timely implementation of CMA regulations /circulars. We have explained it in detail in 4.1.3.</p>												
<p>Approach adopted for operational risk capital assessment</p>	<p>The Operational Risk capital charge is computed as higher of the following two approaches.</p> <ol style="list-style-type: none"> 1) Basic Indicator Approach: 15% capital charge is calculated on average operating Income for the previous three audited financial years. 2) Expenditure Based Approach: 25% capital charge is calculated on overhead expenses except extraordinary expenses (such as write-offs) as per the most recent audited annual financial statements. 												
<p>Quantitative disclosure: Summary of Operational risk capital requirement</p>	<p style="text-align: right;">(SAR'000)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #1a3d4d; color: white;"> <th style="text-align: left;">Particulars</th> <th style="text-align: left;">Methodology</th> <th style="text-align: right;">FY 2014</th> </tr> </thead> <tbody> <tr> <td>1. Basic Indicator Approach</td> <td><i>Capital charge of 15% on average operating income of previous 3 audited financial years</i></td> <td style="text-align: right;">13,272</td> </tr> <tr> <td>2. Expenditure Based Approach</td> <td><i>Capital charge of 25% on previous year's audited overhead expenses</i></td> <td style="text-align: right;">22,241</td> </tr> <tr> <td>Operational Risk charge for 2014</td> <td><i>Max. of the above</i></td> <td style="text-align: right;">22,241</td> </tr> </tbody> </table>	Particulars	Methodology	FY 2014	1. Basic Indicator Approach	<i>Capital charge of 15% on average operating income of previous 3 audited financial years</i>	13,272	2. Expenditure Based Approach	<i>Capital charge of 25% on previous year's audited overhead expenses</i>	22,241	Operational Risk charge for 2014	<i>Max. of the above</i>	22,241
Particulars	Methodology	FY 2014											
1. Basic Indicator Approach	<i>Capital charge of 15% on average operating income of previous 3 audited financial years</i>	13,272											
2. Expenditure Based Approach	<i>Capital charge of 25% on previous year's audited overhead expenses</i>	22,241											
Operational Risk charge for 2014	<i>Max. of the above</i>	22,241											

4.7 Liquidity Risk Disclosure

Qualitative and Quantitative disclosures regarding Liquidity Risk are provided below:

<p>Strategies and guidelines for liquidity risk management</p>	<ul style="list-style-type: none"> ▪ The company's balance sheet looks comfortably liquid as excess funds are placed as deposits in local banks and invested in local funds. These are considered semi liquid and can be withdrawn to meet liquidity requirements. ▪ Liquidity of various mutual funds managed by fund managers are maintained as per the liquidity policies set out in the fund product program. Each fund maintains sufficient liquidity to meet redemptions under normal and pressured conditions. ▪ It is the company's policy to maintain sufficient liquidity to meet operational and business requirements at all time. Daily liquidity is managed by finance in coordination with the businesses and reviewed by the MD as and when required. Additional funding needs for any new product or investment is planned ahead by clearly stipulating the funding amount, source, and timing and expected funding costs in product proposals /programs. ▪ Risk Management is responsible for developing adequate policies and limits for enterprise-wide liquidity risk management. Liquidity ratios and Maturity Gap Analysis is used for monitoring the liquidity risk. Reports are submitted to the Risk & Compliance Committee as well as the board highlighting the level of liquidity in the balance sheet. 															
<p>Stress test</p>	<p>Stress testing is done for mutual funds or balance sheet on a need basis by the Risk management in coordination with finance and asset managers using realistic and plausible scenarios. The objective is to assess that funds and proprietary position is sufficiently liquid to withstand abnormal redemptions under stressed conditions without any external funding.</p>															
<p>Quantitative disclosures: Liquidity Position</p>	<p>Provided below are some of the liquidity ratio as at 31st December 2014, which reflect the sound liquidity profile of the company.</p> <table border="1" data-bbox="400 1178 1401 1951"> <thead> <tr> <th>Indicators</th> <th>Values in %</th> <th>Inference</th> </tr> </thead> <tbody> <tr> <td>Liquid assets / Total Assets</td> <td>38%</td> <td>This reflects the cushion/comfort level in meeting its short-term liabilities and fixed cost payment</td> </tr> <tr> <td>Illiquid +Long term investments/Total Assets</td> <td>62%</td> <td>This ensures long-term sustainable returns on asset and provides stabilization of income in future years</td> </tr> <tr> <td>Cumulative Mismatch as a % of total liabilities (excluding equity)</td> <td>Nil</td> <td>This reflects that the Company has no significant short term liabilities and earning assets are funded by equity.</td> </tr> <tr> <td>Liquidity Coverage Ratio</td> <td>>125%</td> <td>LCR of 125% and above is considered satisfactorily above the Risk Appetite target limit of 110%. This reflects that the Company has sufficient high quality liquid assets to cover the net cash outflows over the 30-day period under stress scenarios.</td> </tr> </tbody> </table>	Indicators	Values in %	Inference	Liquid assets / Total Assets	38%	This reflects the cushion/comfort level in meeting its short-term liabilities and fixed cost payment	Illiquid +Long term investments/Total Assets	62%	This ensures long-term sustainable returns on asset and provides stabilization of income in future years	Cumulative Mismatch as a % of total liabilities (excluding equity)	Nil	This reflects that the Company has no significant short term liabilities and earning assets are funded by equity.	Liquidity Coverage Ratio	>125%	LCR of 125% and above is considered satisfactorily above the Risk Appetite target limit of 110%. This reflects that the Company has sufficient high quality liquid assets to cover the net cash outflows over the 30-day period under stress scenarios.
Indicators	Values in %	Inference														
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Appendices

App I: Illustrative Disclosure on Capital Base

Capital Base	SAR '000
<u>Tier-1 capital</u>	
Paid-up capital	400,000
Audited retained earnings	10,619
Share premium	-
Reserves (other than revaluation reserves)	5,843
Tier-1 capital contribution	-
Deductions from Tier-1 capital	(1,738)
Total Tier-1 capital	414,723
<u>Tier-2 capital</u>	
Subordinated loans	
Cumulative preference shares	
Revaluation reserves	(320)
Other deductions from Tier-2 (-)	
Deduction to meet Tier-2 capital limit (-)	
Total Tier-2 capital	(320)
TOTAL CAPITAL BASE	414,403

App II: Illustrative 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
<u>Credit Risk</u>				
<i>On-balance Sheet Exposures</i>				
Governments and Central Banks	-	-	-	-
Authorised Persons and Banks	72,948	72,948	15,111	2,115
Corporates	8,060	8,060	57,548	8,057
Retail	3,539	3,539	10,617	1,486
Investments	155,260	155,260	393,788	55,130
Securitisation	-	-	-	-
Margin Financing	11,444	11,444	11,444	1,602
Other Assets	161,362	161,362	503,337	70,467
Total On-Balance sheet Exposures	412,613	412,613	991,845	138,858
<i>Off-balance Sheet Exposures</i>				
OTC/Credit Derivatives	-	-	-	-
Repurchase agreements	-	-	-	-
Securities borrowing/lending	-	-	-	-
Commitments	-	-	-	-
Other off-balance sheet exposures	12,803	12,803	12,803	1,792
Total Off-Balance sheet Exposures	12,803	12,803	12,803	1,792
Total On and Off-Balance sheet Exposures	425,416	425,416	1,004,648	140,651
Prohibited Exposure Risk Requirement				46,963
Total Credit Risk Exposures	425,416	425,416	1,004,648	187,614
<u>Market Risk</u>				
	Long Position	Short Position		
Interest rate risks	-	-		-
Equity price risks	17,050	-		3,069
Risks related to investment funds	11,137	-		1,782
Securitisation/resecuritisation positions	-	-		-
Excess exposure risks	-	-		-
Settlement risks and counterparty risks	-	-		-
Foreign exchange rate risks	34,774	-		1,531
Commodities risks	-	-		-
Total Market Risk Exposures	62,961	-		6,382
<u>Operational Risk</u>				
				22,241
Minimum Capital Requirements				216,237
Surplus/(Deficit) in capital				198,167
Total Capital ratio (time)				1.92

App III: Illustrative 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	Securitisation	Other assets	Off-balance sheet commitments	Total Exposure after netting and Credit Risk Mitigation	Total Risk Weighted Assets
0%										15		15	-
20%			72,278									72,278	14,456
50%												-	-
100%			655	11,444							12,803	24,902	24,902
150%								66,903				66,903	100,355
200%												-	-
300%						3,539		68,243		156,712		228,494	685,482
400%								11,866				11,866	47,464
500%								8,248				8,248	41,240
714% (include prohibited exposure)					8,060					4,650		12,710	90,749
Average Risk Weight			21%	100%	714%	300%		254%		312%	100%	425,416	1,004,648
Deduction from Capital Base			2,115	1,602	8,057	1,486	-	55,130	-	70,467	1,792		140,651

App IV: Illustrative Disclosure on Credit Risk's Rated Exposure

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								
Authorised Persons and Banks		72,278		13,458				
Corporates								8,060
Retail								3,539
Investments								155,260
Securitisation								-
Margin Financing								11,444
Other Assets								161,377
Total	425,416	72,278	-	13,458	-	-	-	339,680

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	
On and Off-balance-sheet Exposures						
Governments and Central Banks						
Authorised Persons and Banks						
Corporates						
Retail						
Investments						
Securitisation						
Margin Financing						
Other Assets						
Total						

App V: Illustrative Disclosure on Credit Risk Mitigation (CRM)

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						
Authorised Persons and Banks	72,933	-	-	-	-	72,933
Corporates	8,060	-	-	-	-	8,060
Retail	3,539	-	-	-	-	3,539
Investments	155,260	-	-	-	-	155,260
Securitisation	-	-	-	-	-	-
Margin Financing	11,444	-	-	-	11,444	11,444
Other Assets	161,377	-	-	-	-	161,377
Total On-Balance sheet Exposures	412,613	-	-	-	11,444	412,613
<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	-	-	-	-	-	-
*Other Off-Balance sheet Exposures	12,803	-	-	-	-	12,803
Total Off-Balance sheet Exposures	12,803	-	-	-	-	12,803
Total On and Off-Balance sheet Exposures	425,416	-	-	-	11,444	425,416