Derayah - Pillar III Disclosure -2019
Prudential Disclosure Report

12/31/2019
Derayah Financial

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1. OVERVIEW

These disclosures have been prepared by Derayah Financial ("**Derayah**" or the "**Company**"), a Saudi Arabian closed joint-stock company with commercial registration number 1010266977 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, advisory, 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, which 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 prompt transfer of capital or repayment of liabilities.

All figures in this document are correct as of 31st December 2019 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 2019 were SAR 16,283 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 (7,424) thousand.
- *Tier 2 Capital*: there was a revaluation reserve under tier 2 capital of SAR 1.1 thousand.

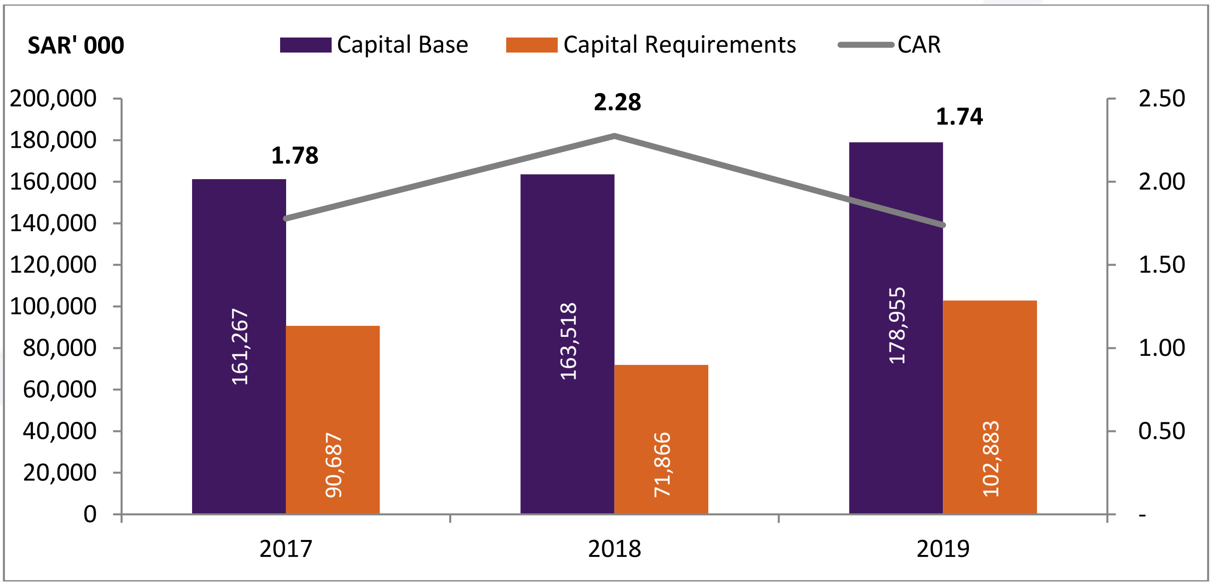
Capital is held to ensure that a suitable operating margin is maintained more than the higher of Pillar 1 and Pillar 2 capital requirements. Pillar 2 capital requirements are determined using a risk-based approach that explicitly takes into account management's view of specific risk exposures.
Therefore, base capital is greater than Pillar 1 capital requirements:

- Base capital SAR 178,955 thousand;
- The sum of market risk, credit risk and operational risk (Pillar I) requirements of SAR 102,883 thousand;

We have determined that, as at 31st December 2019, the base capital is as follows to reflect Tier 1 capital with applicable deductions.

2.1. Disclosure on Capital Base

Capital Base	December 2017	December 2018	December 2019
	SAR '000	SAR '000	SAR '000
Tier-1 capital			
Paid-up capital	161,090	161,090	161,090
Audited retained earnings	57	9,191	16,283
Share premium	-	-	-
Reserves (other than revaluation reserves)	4,061	6,458	7,820
Tier-1 capital contribution	-	-	
Deductions from Tier-1 capital	(7,256)	(13,221)	(7,424)
Total Tier-1 capital	**157,952**	**163,518**	**177,770**
Tier-2 capital			
Subordinated loans	-	-	-
Cumulative preference shares	-	-	-
Revaluation reserves	3,315	-	1,185
Other deductions from Tier-2 (-)	-	-	-
Deduction to meet Tier-2 capital limit (-)	-	-	-
TOTAL CAPITAL BASE	**161,267**	**163,518**	**178,955**



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 frequent as monthly with an annual audit by external auditors and regular reviews by internal audit.

Derayah's capital adequacy ratio as of 31st December 2019 was 1.74 times (174%) the minimum capital adequacy requirements which is well 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 assets class level 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 in accordance with prudential requirements defined in annex 2 chapters and as of 31st December, 2019 had a capital risk charge on investment positions calculated in accordance with defined guidelines in prudential rules.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, mechanisms, people and systems or from 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 article 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
Credit Risk				
On-balance Sheet Exposures	-	-	-	-
Governments and Central Banks	-	-	-	-
Authorised Persons and Banks	17,304	17,304	5,261	737
Corporates	-	-	-	-
Retail	51,895	51,895	155,686	21,796
Investments	50,600	50,600	144,780	20,269
High risk investments (Land)	14,792	14,792	59,169	8,284
Margin Financing	-	-	-	-
Other Assets	16,289	16,289	82,959	11,614
Total On-Balance sheet Exposures	**150,880**	**150,880**	**447,854**	**62,700**
Off-balance Sheet Exposures	22,377	22,377	67,132	9,398

OTC/Credit Derivatives	-		-	-	-
Repurchase agreements	-		-	-	-
Securities borrowing/lending	-		-	-	-
Commitments	-		-	-	-
Other off-balance sheet exposures	-		-	-	-
Total Off-Balance sheet Exposures	**22,377**		**22,377**	**67,132**	**9,398**
Total On and Off-Balance sheet Exposures				**514,986**	**72,098**
Prohibited Exposure Risk Requirement					
	-	-	-	-	-
Total Credit Risk Exposures	**173,257**		**173,257**	**514,986**	**72,098**
Market Risk	**Long Position**	**Short Position**			**Capital Requirement SAR '000**
Interest rate risks	2,827	-			10
Equity price risks	-	-			-
Risks related to investment funds	40,988	-			6,558
Securitization/resecuritisation posit.	-	-			-
Excess exposure risks	-	-			-
Settlement risks / counterparty risks	-	-			-
Foreign exchange rate risks	-	-			-
Commodities risks.	-	-			-
Total Market Risk Exposures	**43,815**	**-**			**6,568**
Operational Risk					**24,217**
Minimum Capital requirements (a)					**102,883**
Capital Base (b)					**178,955**
Surplus/ (Deficit) in capital (b-a)					**76,072**
Total Capital ratio (b/a)					**1.74**

** 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:

The aim of Derayah's Risk Management function is to identify the risks relating to its risk-taking activities, processes, systems and where appropriate to set the level of risk Derayah is 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 mitigates business risks.

In addition, the risk management strategies and processes will facilitate the process of an on-going 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 to.

ii. Risk Management Strategy

Derayah's 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 an integrated risk management support on an enterprise-level to Derayah.

iii. 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 it. 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 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 to 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 on the achievement of Derayah's objectives and mitigate 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 recommend improvement of the effectiveness of risk management function, when needed.

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

iv. 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 to, and to report to the Risk Management Function. The Risk Management function reports to 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 audit and compliance monitoring program for risk management.

v. **Reporting**

Derayah's philosophy to risk management is "well aware management 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 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.

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 purpose using credit bureaus information;
- Matching risk profiles to products
- Monitors collaterals on a continuous basis.
- 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.

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, the currency risk, the equity price risk and the commodity risk.

The associated market risks are captured in policies as follows;

- Equity price risk, the risk that stock prices and/or the implied volatility will change.
- Interest rate risk, the risk that interest rates and/or the implied volatility will change.
- The preventive measure identifies monitors and reports market risk using a combination of tools including securities analysis, value-at-risk, and stress testing.
- Ensures that Derayah's market risk limits are approved, acceptable as risk appetite and are in line with its policies and prudential requirements.
- Appraisal of Limits defined on asset class level, geographic level considering liquidity as a major element.

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 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 article 39 to 44 and described as per annex-4 of Prudential Rules.

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.

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.

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 strong a corporate governance framework and code of conduct in addition to directors and officer's liability cover as prudential indemnity.

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. In addition, Derayah to mitigate concentration risk as a business overall has introduced various products to ensure it does not get effects from market volumes or stock market index performance.

Compliance Risk

Operating in highly regulated environment may result in general non-compliances 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 to the Board. The Compliance function is also responsible for the provision of technical regulatory/compliance advice and support.

Information Technology Risk (IT Risk)

IT risk is a business risk—specifically, the business risk associated with the use, ownership, operation, involvement, influence, and adoption of IT within an enterprise. It consists of IT-related events and conditions that could potentially impact the business. It can occur with both uncertain frequency and magnitude, and it creates challenges in meeting strategic goals and objectives.

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 and detailed IT risk assessments and scorecard based models to set capital reserves within pillar II risks. To mitigate IT Risk Derayah has dedicated Disaster Recover and Business Continuity arrangements.

4. Credit Risk Disclosure

Credit risk is defined as the potential that 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.

Past due and impaired financial assets

Derayah has a policy in place which defines "past due" as claims which are considered as shortfall event, where a client fails to meet his financial obligations post-Derayah demand 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.

In view of 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.

Provisions against investments

Derayah arranges for provisions against specific cases, and in general as per 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;

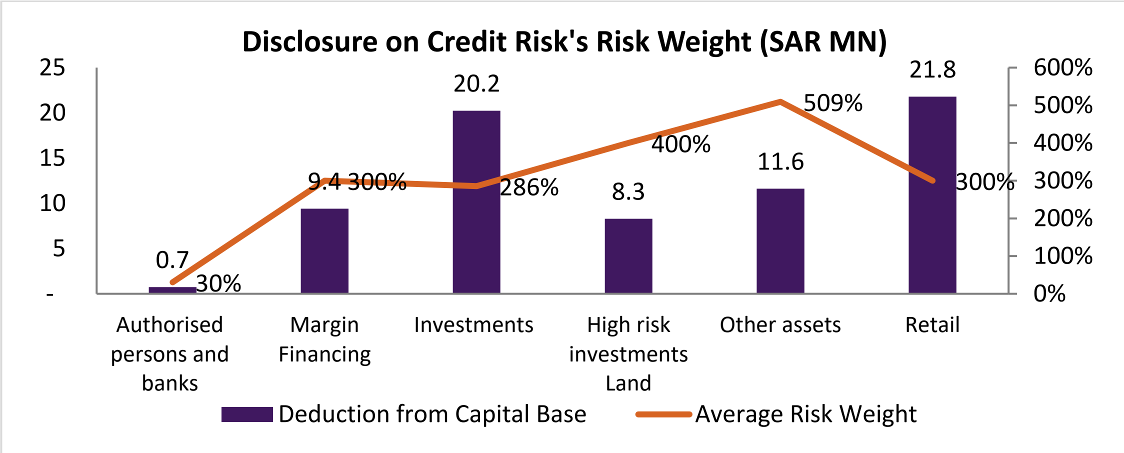
Movement of impairment charge for credit losses ~ SAR	December 31st 2019	December 31st 2018
Opening Balance beginning of the year	2,803	-
Provisions for doubtful	2,307	2,803
Written off during the year	-	-
Closing Balance	**5,110**	**2,803**

* *referring note 12 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%	-	-	11,304	-	-	-	-	-	-	-	2,261
50%	-	-	6,000	-	-	-	-	-	-	-	3,000
100%	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	4,679		-	7,019
200%	-	-	-	-	-	-	-	-	-	-	0
300%	-	-	-	-	-	51,895	-	45,920	-	8,054	317,607
400%	-	-	-	-	-	-	-	-	14,792	-	59,169
500%	-	-	-	-	-	-	-	-	-	-	-
714% (include prohibited exposure)	-	-	-	-	-	-	-	-	-	8,235	58,798
Off-balance sheets commitments	-	-	-	22,377	-	-	-	-	-	-	67,132
Average Risk Weight	**-**	**-**	**30%**	**300%**	**-**	**300%**	**-**	**286%**	**400%**	**509%**	**-**
Deduction from Capital Base	**-**	**-**	**737**	**9,398**	**-**	**21,796**	**-**	**20,269**	**8,284**	**11,614**	**514,986**

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



4.2. 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	-	17,304	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	51,895
Investments	-	-	-	-	-	-	-	50,600
High risk investments Land	-	-	-	-	-	-	-	14,792
Margin Financing	-	-	-	-	-	-	-	22,377
Other Assets	-	-	-	-	-	-	-	16,289
Total	**-**	**17,304**	**-**	**-**	**-**	**-**	**-**	**155,953**

5. Credit Risk Mitigation

Derayah considers its credit risk primarily arising out of margin lending business 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 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 securities admissibility and the selected securities are then marked to market on a real-time basis;

Securities admissibility policies are based on scoring model taking the inputs from elements including but not limited to price volatility, profitability, turnover, etc. and derive the results in an aggregate weighted score for a security to be eligible to be acceptable collateral for margin lending within Derayah.

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	Exposures before CRM	Exposures covered by Financial Collateral	Exposures after CRM
Credit Risk			
On-balance Sheet Exposures	-	-	-
Governments and Central Banks	-	-	-
Authorised Persons and Banks	17,304	-	17,304
Corporates	-	-	-
Retail	51,895	-	51,895
Investments	50,600	-	50,600
High risk investments(Land)	14,792	-	14,792
Margin Financing	-	-	-
Other Assets	16,289	-	16,289
Total On-Balance sheet Exposures	**150,880**	**-**	**150,880**
Off-balance Sheet Exposures	22,377		22,377
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	-	-	-
Total Off-Balance sheet Exposures	**22,377**	**-**	**22,377**
Total On and Off-Balance sheet Exposures	**173,257**	**-**	**173,257**

** 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 pre-defined loss tolerance level.

Measurement

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

Derayah has the following positions as at end of 2019 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	40,988	Saudi	6,558
FX Risk	Currencies	-	-	-
Interest Rate Risk (Debt Securities)	Treasury bills	2,827	Egypt	10
Market Risk Capital Charge		**43,815**		**6,568**

8. Operational Risk Disclosure

Operational risk is the risk of loss resulting from inadequate or failed internal processes, mechanisms, people and systems or from 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 policy on an operational risk with risk identification at a process level. In addition, 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 weakness 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, in order to optimize the capital requirements Derayah may consider adopting other approaches (e.g. standardized approach) with prior approval from the Authority and appropriate disclosures.

The following are the operational risk charge positions as of December 31st, 2019.

8.1. Disclosure on Operational Risk Management

Operational Risk	Gross Operating Income			Average	Risk Charge	Capital Requirements
Article 39-44 and Annex-4 PRs	**2017**	**2018**	**2019**		**(%)**	**SAR '000**
1. Basic Indicator Approach	69,617	121,303	127,914	**106,278**	**15**	**15,942**
	Overhead Expenses (2019)				Risk Capital Charge	Capital Requirements
2. Expenditure Based Approach	**96,868**				**25**	**24,217**
Operational Risk Capital Charge						**24,217**

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 in order 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 emergency situations, as required under Prudential Rules;

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 exercise on regular basis 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 and all sudden liquidity requirements.

Measurement

To minimize its exposure to liquidity risk, Derayah has established procedures that enable it to monitor on a regular basis its cash flows and to manage them properly. Derayah actively manages its funding requirements through a number of measures includes matching of structural liquidity requirement.

This allows Derayah to maintain sufficient cash and highly liquid current assets in order 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 terms payments.

9.1. Disclosure on Liquidity Risk Management

Description , SAR (000)	2017	2018	2019
Total current assets (a)	86,645	116,074	162,355
Total current liabilities (b)	8,140	21,430	38,684
Current Ratio (a/b)	11	5	4

Figures rounded off.