Derayah - Pillar III Disclosure -2020
Prudential Disclosure Report

12/31/2020
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 2020 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 2020 were SAR 94,259 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 (6,086) thousand.
- *Tier 2 Capital*: there was a revaluation reserve under tier 2 capital of SAR 3,318 thousand.

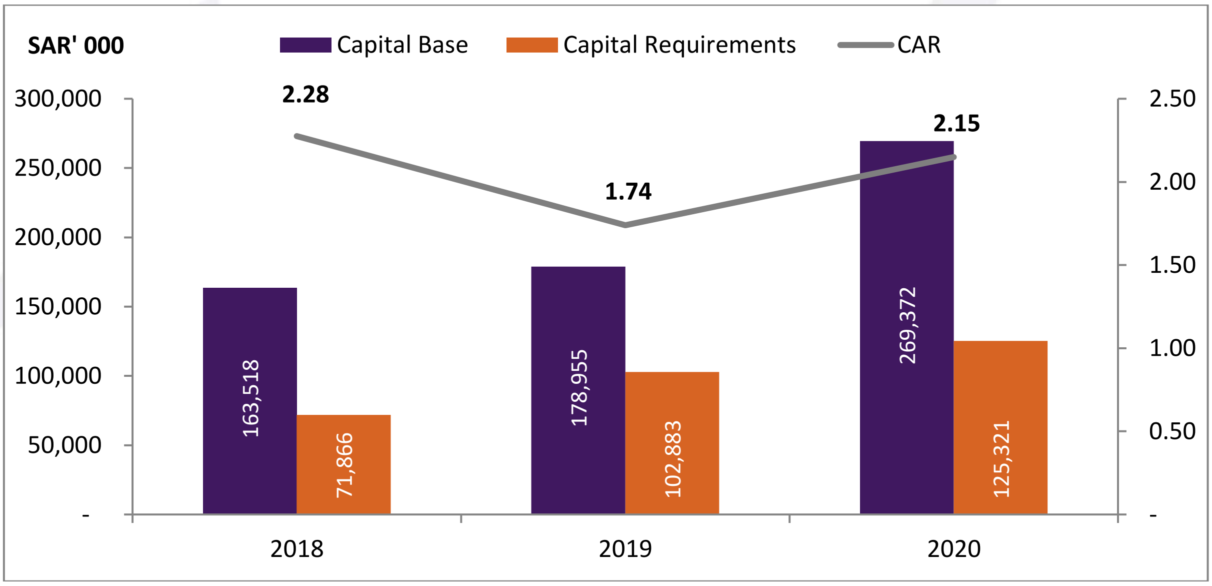
Capital is held to ensure that a suitable operating margin is maintained more than the higher of Pillar 1 and Pillar 2 capital requirements. Pillar 2 capital requirements are determined using a risk-based approach as required under Internal Capital Adequacy Assessment Process (ICAAP) of the prudential rules 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 269,372 thousand;
- The sum of market risk, credit risk and operational risk (Pillar I) requirements is SAR 125,321 thousand;

We have determined that, as at 31st December 2020, the base capital is as follows to reflect Tier 1 capital with applicable deductions.

2.1. Disclosure on Capital Base

Capital Base	December 2018	December 2019	December 2020
	SAR '000	SAR '000	SAR '000
Tier-1 capital			
Paid-up capital	161,090	161,090	161,090
Audited retained earnings	9,191	16,283	94,259
Share premium	-	-	-
Reserves (other than revaluation reserves)	6,458	7,820	16,791
Tier-1 capital contribution	-	-	-
Deductions from Tier-1 capital	(13,221)	(7,424)	(6,086)
Total Tier-1 capital	163,518	177,770	266,054
Tier-2 capital			
Subordinated loans	-	-	-
Cumulative preference shares	-	-	-
Revaluation reserves	-	1,185	3,318
Other deductions from Tier-2 (-)	-	-	-
Deduction to meet Tier-2 capital limit (-)	-	-	
TOTAL CAPITAL BASE	163,518	178,955	269,372



2.2. Capital Adequacy

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

Derayah's capital adequacy ratio as of 31st December 2020 was 2.15 times (215%) the minimum capital adequacy requirements which are 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 asset class levels and vary from the intent of trading exposure by allocating applicable risk weight.

Market risk

The market risk is mainly due to volatility in asset values of investment exposure which arises as a result of movements in relative asset prices. Derayah calculates its market risk capital requirement for Pillar 1 following the prudential requirements defined in chapters of annex 2. As of 31st December 2020, Derayah calculated the capital risk charge on investment positions defined under the prudential rules.

Operational risk

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

2.3. Disclosure on Capital Adequacy

Exposure Class	Exposures before CRM SAR '000	Net Exposures after CRM SAR '000	Risk Weighted Assets SR '000	Capital Requirement SAR '000
Credit Risk				
On-balance Sheet Exposures	-	-	-	-
Governments and Central Banks	-	-	-	-
Authorised Persons and Banks	73,900	73,900	21,560	3,018
Corporates	-	-	-	-
Retail	42,291	42,291	126,873	17,762
Investments	64,690	64,690	186,977	26,177
High risk investments (Land)	13,740	13,740	54,960	7,694
Margin Financing	-	-	-	-
Other Assets	25,791	25,791	102,577	14,361

Total On-Balance sheet Exposures	**220,412**		**220,412**	**492,947**	**69,013**
Off-balance Sheet Exposures	23,889		23,889	23,889	3,344
OTC/Credit Derivatives	-		-	-	-
Repurchase agreements	-		-	-	-
Securities borrowing/lending	-		-	-	-
Commitments	-		-	-	-
Other off-balance sheet exposures	-		-	-	-
Total Off-Balance sheet Exposures	**23,889**		**23,889**	**23,889**	**3,344**
Total On and Off-Balance sheet Exposures				516,836	72,357
Prohibited Exposure Risk Requirement					
	-	-	-	-	-
Total Credit Risk Exposures	244,300		244,300	516,836	72,357
Market Risk	Long Position	Short Position			Capital Requirement SAR '000
Interest rate risks	-	-			-
Equity price risks	-	-			-
Risks related to investment funds	52,064	-			8,334
Securitization/resecuritisation posit.	-	-			-
Excess exposure risks	-	-			-
Settlement risks / counterparty risks	-	-			-
Foreign exchange rate risks	10,578	-			212
Commodities risks.	-	-			-
Total Market Risk Exposures	62,642	-			8,542
Operational Risk					44,422
Minimum Capital requirements (a)					125,321
Capital Base (b)					269,372
Surplus/ (Deficit) in capital (b-a)					144,051
Total Capital ratio (b/a)					2.15

** 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 our 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 we are willing to assume as risk appetite. In particular, to achieve this by establishing effective risk management policies and procedures that ensure compliance with regulatory requirements and mitigates business risks.

Also, 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. We keep investing in enhancing our risk controls as during the year 2020 we engaged one of the big four firms to assist us in reviewing and updating our end to end risk management framework that is compliant with the CMA regulation and aligned with international best practices on risk management following the COSO ERM Framework.

ii. Risk Management Strategy

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

iii. Risk Appetite

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

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

iv. Risk Management Policy:

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

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

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

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

v. Structure of the Risk Management Function:

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

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

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

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

vi. Reporting

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

3.2. Types of risks

Credit Risk

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

Controls and mitigates

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

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

Market Risk

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

Control and mitigates

The associated market risks are captured in policies as follows;

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

Liquidity Risk

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

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

Controls and mitigates

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

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

Operational Risk

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

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

Controls and mitigates

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

a) Developed risk control matrices for all the departments as Risk Control Self-Assessment (RCSA).
b) Defined risk champions in all functions

c) Defined Key Risk Indicators (KRI) for all the key business and support areas.
d) Established Incident management reporting
e) Operational Risk training and workshops for all team
f) Disaster recovery exercises conducting annually
g) Risk assessment of various counterparties, funds, and products
h) Reporting to board risk and compliance committee on operational risk
i) KPIs of directors have been defined linking with the operational loss
j) Arrange insurance cover against the Directors and Officers liabilities, Fraud's and misuse, and Cyber Security threats.

Other Key Risks

Business Risk

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

Controls and mitigates

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

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

Reputation Risk

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

Controls and mitigates

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

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

Concentration Risk

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

Controls and mitigates

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

j) Defining Investment Policy Statements with setting limits on the following;
   a. Single Security, Single Issuer
   b. Single Sector
   c. Counterparty
   d. Asset Class
   e. Currency
   f. Geography
   g. Liquidity profile

k) Defining concentration risk as a key risk indicator and a metric of Risk Appetite statement
l) Reporting of concentration risk regularly to management and board risk committees.
m) Reviewing the Concentration risk using a balanced-scorecard as part of the ICAAP process.

Regulatory Compliance and Legal Risk

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

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

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

Controls and Mitigates

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

Counterparty Risk

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

In our brokerage business, we offer international brokerage with our international counterparty, also we have arrangements for client monies and other custodial set-ups with other investment firms for various investment products. Our relations with these counterparties are subject to counterparty risks e.g. their ability to repay or provide the required service time to our customers is dependent on their ability to continuously perform the agreed and defined function with any interruptions. As a part of the business, there remains the probability that the counterparty may fail in delivering one or all of the services and as a result, we and our customers face financial losses.

Controls and Mitigates

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

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

Software and Technology and Cyber Security Risk

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

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

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

a) Software

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

b) Technology failure and disaster recovery

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

c) Cyber Security

Organizations are becoming more vulnerable to cyber threats due to the increasing reliance on computers, networks, programs, social media, and data globally. Data breaches, a common cyber-attack, have a massive negative business impact and often arise from insufficiently protected data.

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

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

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

Controls and mitigation

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

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

4. Credit Risk Disclosure

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

a) Past due and impaired financial assets

Derayah has a policy in place which defines "past due" as claims which are considered as shortfall 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.

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

b) Provisions against investments

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

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

– Lending arrangements; and
– Other debtors

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

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (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;

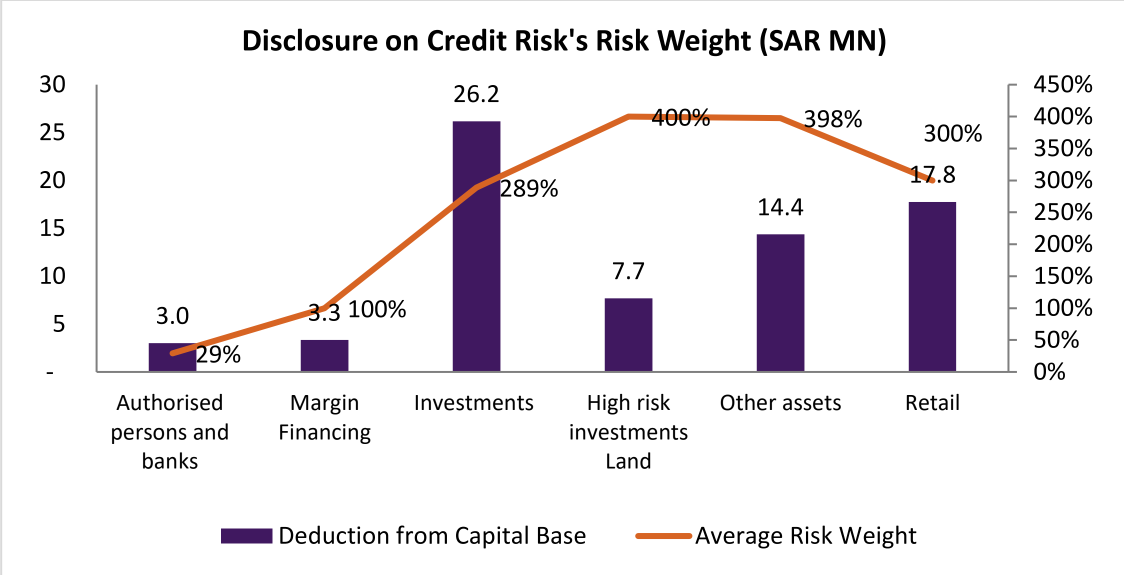
Movement of impairment charge for credit losses ~ SAR	December 31st 2020	December 31st 2019
Opening Balance beginning of the year	5,110	2,803
Provisions for doubtful	4,419,763	2,307
Written off during the year	-	-
Closing Balance	**4,424,873**	**5,110**

* *referring note 25 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%	-	-	51,300	-	-	-	-	-	-	-	10,260
50%	-	-	22,600	-	-	-	-	-	-	-	11,300
100%	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	4,728		-	7,092
200%	-	-	-	-	-	-	-	-	-	-	0
300%	-	-	-	-	-	42,291	-	59,962	-	19,703	365,867
400%	-	-	-	-	-	-	-	-	13,740	-	54,960
500%	-	-	-	-	-	-	-	-	-	-	-
714% (include prohibited exposure)	-	-	-	-	-	-	-	-	-	6,088	43,468
Off-balance sheets commitments	-	-	-	23,889	-	-	-	-	-	-	23,889
Average Risk Weight	-	-	29%	100%	-	300%	-	289%	400%	398%	-
Deduction from Capital Base	-	-	3,018	3,344	-	17,762	-	26,177	7,694	14,361	516,836

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



4.2. Disclosure on Credit Risk's Rated Exposure

Exposure Class (SAR' 000)	Long term Ratings of counterparties							
	Credit quality step	1	2	3	4	5	6	Unrated
	S&P	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Fitch	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	Moody's	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below	Unrated
	Capital Intelligence	AAA	AA TO A	BBB	BB	B	C and below	Unrated
On and Off-balance-sheet Exposures								
Governments and Central Banks	-	-	-	-	-	-	-	-
Authorised Persons and Banks	-	73,900	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	42,291
Investments	-	-	-	-	-	-	-	64,690
High risk investments Land	-	-	-	-	-	-	-	13,740
Margin Financing	-	-	-	-	-	-	-	23,889
Other Assets	-	-	-	-	-	-	-	25,791
Total	-	73,900	-	-	-	-	-	170,400

5. Credit Risk Mitigation

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

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

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

5.1. Disclosure on Credit Risk Mitigation (CRM)

Exposure Class (SAR '000)	Exposures before CRM	Exposures covered by Financial Collateral	Exposures after CRM
Credit Risk			
On-balance Sheet Exposures	-	-	-
Governments and Central Banks	-	-	-
Authorised Persons and Banks	73,900	-	73,900
Corporates	-	-	-
Retail	42,291	-	42,291
Investments	64,690	-	64,690
High risk investments(Land)	13,740	-	13,740
Margin Financing	-	-	-
Other Assets	25,791	-	25,791
Total On-Balance sheet Exposures	220,412	-	220,412
Off-balance Sheet Exposures	23,889		23,889
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	23,889	-	23,889
Total On and Off-Balance sheet Exposures	244,300	-	244,300

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

6. Counterparty Credit Risk Mitigation

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

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

7. Market Risk Disclosure

Market risk is the risk that the value of a portfolio, either an investment portfolio or a trading portfolio, will decrease due to the change in the value of the market risk factors. The standard market risk factors are stock prices, interest rates, and foreign exchange rates.
Derayah considers its exposure to market rate risk is mitigated through diversification over various asset classes and geographies. Therefore, its exposure to market risk relates to the exposure it has to assets which attracts capital requirements as nominal to risk-weighted assets. To mitigate market risk elements in general Derayah's principal investment policies cover an appropriate range of each asset class from minimum to maximum exposure allowed along with a pre-defined loss tolerance level that is monitored regularly by the risk committee.

Measurement

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

Derayah has the following positions as at end of 2020 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	52,064	Saudi	8,330
FX Risk	Investments Funds	10,578	Other	212
Interest Rate Risk (Debt Securities)	Treasury bills	-	-	-
Market Risk Capital Charge		62,642		8,542

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

Measurement

Derayah calculates the Operational Risk Charge as an expenditure-based approach for operational risk calculated at 25% of one years' overhead expense under Pillar I. However, to optimize the capital requirements Derayah may consider adopting other approaches (e.g. standardized approach) with prior approval from the Capital Market Authority and appropriate disclosures.

The following are the operational risk charge positions as of December 31st, 2020.

8.1. Disclosure on Operational Risk Management

Operational Risk	Gross Operating Income			Average	Risk Charge	Capital Requirements
Article 39-44 and Annex-4 PRs	2018	2019	2020		(%)	SAR '000
1. Basic Indicator Approach	121,303	127,914	277,302	175,506	15	26,326
	Overhead Expenses (2019)				Risk Capital Charge	Capital Requirements
2. Expenditure Based Approach	177,690				25	44,422
Operational Risk Capital Charge						44,422

9. Liquidity Risk Disclosure

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

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

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

Derayah conducts stress testing exercises on a 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 sudden liquidity requirements.

Measurement

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

Monitoring

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

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

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

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

9.1. Disclosure on Liquidity Risk Management

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

Figures rounded off.