

# **Natixis Saudi Arabia Pillar III – Disclosure 2021**

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## **1. Scope of Application**

### **1.1 Scope**

In line with the requirements of Article 68 of the Prudential Regulations issued by the Capital Markets Authority (CMA), All Authorized Persons are required to prepare and publish the pillar III disclosure document. This Pillar III disclosure report is prepared and published by Natixis Saudi Arabia Investment Company (“NSAIC”) in order to satisfy the regulatory provision.

NSAIC is a closed joint stock company (single shareholder company) registered in the Kingdom of Saudi Arabia under Commercial Registration number 1010616683 dated 14 Rabi II 1441H corresponding to 12 December 2019.

The Company obtained CMA license No. 19205-31 dated Muharam 25, 1441H (corresponding to September 24, 2019) and approval to commence business on Ramadan 13, 1441H (corresponding to 6 May 2020) to engage in Arranging, Advising and Dealing as Underwriter. The Company has further updated its licensed activities and cancelled the advising license. The Company obtained the CMA’s approval to operate with Dealing and Arranging licenses on September 20, 2021.

NSAIC is wholly owned by Natixis SA with a paid-up share capital of SAR 50,000,000.

## **2. Capital Structure**

Capital: NSAIC Capital Base as of 31 December 2021 comprise of only Tier 1 Capital.

Tier 1 Capital components for NSAIC comprise only of Share Capital and Audited Accumulated losses. The capital adequacy ratio is being monitored internally to ensure sufficient capital and compliance with the regulations.

For full disclosure, please refer to Disclosure on NSAIC Capital Base (Appendix I).

## **3. Capital Adequacy**

### **3.1 Strategy and Approach for the ICAAP**

NSAIC applies the Internal Capital Adequacy Assessment Process (ICAAP) annually as required by CMA. The ICAAP is designed to ensure that management adequately identifies and measures all material risks, including Pillar I and Pillar II types of regulatory risks. It should also ensure that NSAIC maintains sufficient internal capital relative to its risk profile and that it applies and develops adequate risk management systems.

### **Governance Body Oversight**

NSAIC Board is responsible for understanding the nature and level of risk being taken by the Company and how this risk relates to adequate capital levels. The roles and responsibilities of the Board, the Audit and Risk Committee, CEO, and other departments with regards to the capital management are outlined below in this document.

### **Monitoring and Reporting**

The risk monitoring process ensures that NSAIC’s risk profile remains in line with its risk appetite and framework. Executive managers must ensure that there is regular reporting to the CEO, Audit and Risk Committee, and the Board of Directors regarding the capital adequacy of NSAIC on a quarterly basis, while monitoring on a monthly basis.

## **4. Risk Management**

### **Introduction**

NSAIC's Risk Management is based upon a risk culture that promotes accountability and responsibility and is an integral function encompassing the entire Company. Policies and guidelines issues are applicable to all employees. The Risk Management framework includes the development and maintenance of programs that protect NSAIC from expected risks in the course of its business, as well as unanticipated losses. Risk management assumes a strategic role in assessing risks across the businesses to gauge applicable impact on pricing, capital requirement or other controls / risk strategies requirements to manage risks. The Board has a pre-eminent role in shaping risk culture and the risk management framework.

### **Scope of Risk Management**

NSAIC's Risk management framework encompasses all of the activities of the Company that affect its risk profile. The Company's strategic objective is to optimize the risk / return trade-off by either maximizing return for a given level of risk or minimizing the risk for a desired level of return. Risk management processes involve identification of risks, monitoring risk frameworks, establishing controls on the risks the Company is willing to take in the pursuit of its business objectives. Risk management processes are periodically reviewed and updated to ensure consistency with NSAIC's risk-taking activities. These reviews factor in the size and complexity of the Company's operations, the business environment, the regulatory environment and the strategy of NSAIC. Risk management policy, principles and guidelines are and where necessary, will be formulated and communicated to all employees.

The Board is responsible for overall direction, supervision and control of risks at NSAIC. The Board serves the interests of NSAIC by overseeing, evaluating and approving the Company's strategies, its risk appetite, performance objectives, its policies, conduct, reputation and culture. The Company follows the "three lines of defense" approach for management of risks with business lines forming the first line of defense, Compliance forming the second line of defense and Internal Audit (of the parent) forming the third line of defense. NSAIC's business lines as the first line of defense are responsible for the day-to-day risk management. The Company's Compliance function is responsible for assisting NSAIC, its management and Board, in identifying, measuring and mitigating any compliance risks.

The Compliance function's remit includes monitoring regulatory changes, conducting compliance risk assessments, drafting, maintaining, and implementing policies and procedures, increasing staff awareness, monitoring, checking and reviewing compliance with CMA rules and regulations, and reporting on the status of compliance and compliance controls to the Board of NSAIC.

## **5. Credit Risk**

Credit risk is the risk of loss arising out of failure of counterparties to meet their financial or contractual obligations when due.

NSAIC regularly calculates the capital requirements and the minimum regulatory capital pertaining to the Company's Credit Risk as per the CMA Prudential Rules.

## 5. Credit Risk (continued)

NSAIC credit risk is categorized as:

- Risk against placement with the banks
- Risk against corporate receivables (Receivable from a related party)
- Risk against accrued income / deferred expenditure
- Risk against Tangible assets

NSAIC credit exposure is low as the majority of its credit exposure relate to the placement of its capital with a local bank regulated by SAMA, while the remaining is due to a receivable from a related party.

The risk weighted assets for all on-balance sheet exposures and off-balance sheet commitments for the year ended 31 December 2021 is SAR 48.2m (2020: SAR 48.2m). The calculated required minimum capital of SAR 8.8m for the same period (2020: SAR 6.7m) as based on the CMA Standardized Approach Capital calculation.

For full credit risk disclosure, please refer to the following tables in the Appendix:

- Disclosure on Credit Risk's Risk Weight (Appendix III)
- Disclosure on Credit Risk's Rated Exposure (Appendix IV)
- Disclosure on Credit Risk Mitigation (Appendix V)

## 6. Market Risk

Market risk is the risk of loss in value caused by any adverse fluctuations in market parameters. These parameters notably include the prices of securities (bonds, equities), interest rates, raw materials, and foreign exchange rates.

The absence of liquidity may lead to reduced access to Capital Markets, unforeseen cash or capital requirements, or legal restrictions. We do not see any of these risks as material risks for the time being in the Saudi market.

### Risk Mitigation and Control

Market risk exposure is limited to NSAIC's foreign exchange exposures. As NSAIC has limited exposure outside the SAR / AED currencies which are both pegged to the US Dollar, foreign exchange volatility levels are negligible for as long as the pegs are in place.

We do not forecast any changes to the SAR nor AED pegs for the time being.

## 7. Operational Risk

Operational risk is the risk of loss due to inadequate or failed internal processes, whether this is attributable to employees or information systems, or relates to external events with financial, regulatory, legal or reputational impacts.

NSAIC operational risk is considered to be low. NSAIC mitigates its operational risk by applying sound corporate governance practices to promote a well-controlled environment. NSAIC governance practices involve regular local management meetings, Board and Audit and Risk committee meetings review key sources of risk across the board and ensure thorough governance oversight with full transparency.

## **7. Operational Risk** *(continued)*

NSAIC is also subject to Natixis SA internal audits performed by our Head Office which reviews the entities businesses and local practices against best practices and standards to ensure that all types of risks including operational risks are proportionately mitigated.

NSAIC has, over the past 12 months, undergone all necessary oversight at all levels and is in compliance with recommendations.

## **8. Liquidity Risk**

Liquidity risk is the risk that NSAIC will be unable to honor its commitments to its creditors due to the positive difference of maturities between assets and liabilities. This risk could arise, for example, in the event of an overall market liquidity crisis.

NSAIC does not have significant liquidity risk based on the business structure and activities it engages in. NSAIC closed with a liquid position as at 31 December 2021.

**Appendices**
**Appendix I: Disclosure on Capital Base: As at 31 December 2021**

<b>Capital Base</b>	<b>SAR'000</b>
<b><i>Tier-1 Capital</i></b>	
Paid-up capital	50,000
Audited retained earnings	(1,803)
Share premium	-
Reserves	-
Deductions from Tier-1 Capital	-
<b>Total Tier-1 capital</b>	<b>48,197</b>
<b><i>Tier-2 Capital</i></b>	
Subordinated loans	-
Tier 2 debt securities	-
Cumulative preference shares	-
Revaluation reserves	-
<b>Total Tier-2 capital</b>	<b>-</b>
<b>Total Capital Base</b>	<b>48,197</b>

**Appendix II: Disclosure on Capital Adequacy as at 31 December 2021**

Exposure Class	Exposures before CRM SAR'000	Net Exposure after CRM SAR'000	Risk Weighted Assets SAR'000	Capital Requirement SAR'000
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**Credit Risk**
*On-balance sheet exposures*

Governments and Ventral Banks	-	-	-	-
Administrative bodies and NPOs	-	-	-	-
Authorised Persons and Banks	50,206	50,206	10,041	1,406
Corporates	3,204	3,204	22,877	3,203
Retail	-	-	-	-
Investments	-	-	-	-
Securitisation	-	-	-	-
Margin Financing	-	-	-	-
Other assets	4,352	4,352	13,234	1,853
<b>Total On-balance sheet exposures</b>	<b>57,762</b>	<b>57,762</b>	<b>46,152</b>	<b>6,462</b>

*Off-balance Sheet Exposures*

OTC/Credit Derivatives	-	-	-	-
Repurchase agreements	-	-	-	-
Securities borrowing/lending	-	-	-	-
Commitments	-	-	-	-
Other off-balance sheet exposures	-	-	-	-
<b>Total Off-Balance sheet Exposures</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>Total On and Off-balance sheet exposures</b>	<b>57,762</b>	<b>57,762</b>	<b>46,152</b>	<b>6,462</b>
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<b>Prohibited Exposure Risk Requirements</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
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<b>Total Credit Risk Exposures</b>	<b>57,762</b>	<b>57,762</b>	<b>46,152</b>	<b>6,462</b>
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**Appendix II: Disclosure on Capital Adequacy as at 31 December 2021 (continued)**

<i>Market Risk</i>	<i>Long Position</i>	<i>Short Position</i>	<i>Capital Requirement SAR'000</i>
Interest rate risks	-	-	-
Equity price risks	-	-	-
Risks related to investment funds	-	-	-
Securitisation/resecuritisation positions	-	-	-
Excess exposure risks	-	-	-
Settlement risks and counterparty risks	-	-	-
Foreign exchange rate risks	-	-	-
Commodities risks.	-	-	-
<b>Total Market Risk Exposures</b>	-	-	-

Operational Risks (SAR '000)	2,255
<b>Minimum Capital Requirements (SAR' 000)</b>	<b>8,716</b>
SURPLUS / (DEFICIT) (SAR '000)	39,481
<b>CAPITAL RATIO</b>	<b>5.53</b>

**Appendix III: Disclosure on NSAIC's Risk Weight as at  
31 December 2021 (SAR'000)**
**Exposures after netting and credit risk mitigation**

Risk Weights	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%	-	-	-	-	-	-	-	-	-	-	-	-	-
20%	-	-	50,206	-	-	-	-	-	-	-	-	50,206	10,041
50%	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-	-	-	-	-	-
200%	-	-	-	-	-	-	-	-	-	-	-	-	-
300%	-	-	-	-	-	-	-	-	-	4,309	-	4,309	12,927
400%	-	-	-	-	-	-	-	-	-	-	-	-	-
500%	-	-	-	-	-	-	-	-	-	-	-	-	-
714% (include prohibited exposure)	-	-	-	-	3,204	-	-	-	-	43	-	3,247	23,184
<b>Average Risk Weight</b>	-	-	<b>10,041</b>	-	<b>22,877</b>	-	-	-	-	<b>13,234</b>	-	<b>57,762</b>	<b>46,152</b>
Deduction from Capital Base	-	-	1,406	-	3,203	-	-	-	-	1,853	-	6,462	6,462

**Appendix IV: Disclosure on NSAIC's Rated Exposure as of 31 December 2021  
(SAR'000)**

		Long term Ratings of counterparties							
Exposure Class	Credit quality step	1	2	3	4	5	6	Unrated	
		<b>S&amp;P</b>	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated
	<b>Fitch</b>	AAA TO AA-	A+ TO A-	BBB+ TO BBB-	BB+ TO BB-	B+ TO B-	CCC+ and below	Unrated	
	<b>Moody's</b>	Aaa TO Aa3	A1 TO A3	Baa1 TO Baa3	Ba1 TO Ba3	B1 TO B3	Caa1 and below	Unrated	
	<b>Capital Intelligence</b>	AAA	AA TO A	BBB	BB+ TO BB-	B	C and below	Unrated	

***On and Off-balance-sheet***

***Exposures***

Governments and Central Banks	-	-	-	-	-	-	-	-
Administrative bodies and NPO	-	-	-	-	-	-	-	-
Authorised Persons and Banks	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-
Securitisation	-	-	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-

**Appendix IV: Disclosure on NSAIC's Rated Exposure as of 31 December 2021 (SAR'000)**
**Short term Ratings of counterparties**

Exposure Class	Credit quality step	1	2	3	4	Unrated
	<b>S&amp;P</b>		A-1+, A-1	A-2	A-3	Below A-3
<b>Fitch</b>		F1+, F1	F2	F3	Below F3	Unrated
<b>Moody's</b>		P-1	P-2	P-3	Not Prime	Unrated
<b>Capital Intelligence</b>		A1	A2	A3	Below A3	Unrated

**On and Off-balance-sheet Exposures**

Governments and Central Banks	-	-	-	-	-
Authorised Persons and Banks	-	50,206	-	-	-
Corporates	-	-	-	-	3,204
Retail	-	-	-	-	-
Investments	-	-	-	-	-
Securitisation	-	-	-	-	-
Margin Financing	-	-	-	-	-
Other Assets	-	-	-	-	4,352
<b>Total</b>	-	<b>50,206</b>	-	-	<b>7,556</b>

**Appendix V: Disclosure on NSAIC Credit Risk Mitigation (CRM) as at 31 December 2021 (SAR'000)**

Exposure Class	Exposures before CRM SAR'000	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
<b>Credit Risk</b>						
<i>On-balance sheet exposures</i>						
Governments and Ventral Banks	-	-	-	-	-	-
Administrative bodies and NPOs	-	-	-	-	-	-
Authorised Persons and Banks	50,206	-	-	-	-	50,206
Corporates	3,204	-	-	-	-	3,204
Retail	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Securitisation	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other assets	4,352	-	-	-	-	4,352
<b>Total On-balance sheet exposures</b>	<b>57,762</b>	-	-	-	-	<b>57,762</b>
<i>Off-balance Sheet Exposures</i>						
OTC/Credit Derivatives	-	-	-	-	-	-
Repurchase agreements	-	-	-	-	-	-
Securities borrowing/lending	-	-	-	-	-	-
Commitments	-	-	-	-	-	-
Other off-balance sheet exposures	-	-	-	-	-	-
<b>Total Off-Balance sheet Exposures</b>	-	-	-	-	-	-
<b>Total On and Off-balance sheet exposures</b>	<b>57,762</b>	-	-	-	-	<b>57,762</b>