

Natixis Saudi Arabia Pillar III – Disclosure 2020

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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.

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 2020 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 1 and Pillar 2 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

Statement

On March 11, 2020, the World Health Organization declared a global pandemic specific to the novel coronavirus, soon to become widely known as Covid-19.

By May 2020 when NSAIC received its CMA license to commence business, countries across the globe including Saudi Arabia were already under lockdown with travel restrictions outside and within the Kingdom. It naturally impacted the delivery of our strategy for the year as economic activity came to a halt just as about the Company could get started. The departure of the CEO in the midst of the pandemic further delayed the deployment of NSAIC's strategy. Consequently, NSAIC did not record any business activity for 2020.

Notwithstanding the aforementioned, Risk Management arrangements were in place with a dedicated Board Committee to provide oversight and scrutiny over the Company's risk management systems and processes and a process in place to assess internal controls on an annual basis.

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 it 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.

4. Risk Management *(continued)*

Scope of Risk Management *(continued)*

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 credit risk is categorized as:

- Risk against placement with the banks
- Risk against corporate receivables *(Receivable from a related party)*

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 amount to SAR 48.2m with a calculated required minimum capital of SAR 6.7m as of 31 December 2020 and 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 good 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. 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. As at 31 December 2020 NSAIC closed with a liquid position.

Appendices

Appendix I: Disclosure on Capital Base: As at 31 December 2020

Capital Base	SAR'000
<i>Tier-1 Capital</i>	
Paid-up capital	50,000
Audited retained earnings	(1,348)
Share premium	-
Reserves	-
Deductions from Tier-1 Capital	-
Total Tier-1 capital	48,652
<i>Tier-2 Capital</i>	
Subordinated loans	-
Tier 2 debt securities	-
Cumulative preference shares	-
Revaluation reserves	-
Total Tier-2 capital	-
Total Capital Base	48,652

Appendix II: Disclosure on Capital Adequacy as at 31 December 2020

Exposure Class	Exposures before CRM SAR'000	Net Exposure after CRM SAR'000	Risk Weighted Assets SAR'000	Capital Requirement SAR'000
Credit Risk				
<i>On-balance sheet exposures</i>				
Governments and Ventral Banks	-	-	-	-
Administrative bodies and NPOs	-	-	-	-
Authorised Persons and Banks	44,876	44,876	8,975	1,257
Corporates	5,287	5,287	37,749	5,285
Retail	-	-	-	-
Investments	-	-	-	-
Securitisation	-	-	-	-
Margin Financing	-	-	-	-
Other assets	420	420	1,498	210
Total On-balance sheet exposures	50,583	50,583	48,222	6,752
<i>Off-balance Sheet Exposures</i>				
OTC/Credit Derivatives	-	-	-	-
Repurchase agreements	-	-	-	-
Securities borrowing/lending	-	-	-	-
Commitments	-	-	-	-
Other off-balance sheet exposures	-	-	-	-
Total Off-Balance sheet Exposures	-	-	-	-
<hr/>				
Total On and Off-balance sheet exposures	50,583	50,583	48,222	6,752
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<i>Prohibited Exposure Risk Requirements</i>	-	-	-	-
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Total Credit Risk Exposures	50,583	50,583	48,222	6,752

Appendix II: Disclosure on Capital Adequacy as at 31 December 2020

<i>Market Risk</i>	Long Position	Short Position	Capital Requirement SAR'000
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.	-	-	-
Total Market Risk Exposures	-	-	-

Operational Risks (SAR '000)	1,694
Minimum Capital Requirements (SAR' 000)	8,445
SURPLUS / (DEFICIT) (SAR '000)	40,207
CAPITAL RATIO	5.76

Appendix III: Disclosure on NSAIC's Risk Weight as at
31 December 2020 (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%	-	-	44,876	-	-	-	-	-	-	-	-	44,876	8,975
50%	-	-	-	-	-	-	-	-	-	-	-	-	-
100%	-	-	-	-	-	-	-	-	-	-	-	-	-
150%	-	-	-	-	-	-	-	-	-	-	-	-	-
200%	-	-	-	-	-	-	-	-	-	-	-	-	-
300%	-	-	-	-	-	-	-	-	-	363	-	363	1,089
400%	-	-	-	-	-	-	-	-	-	-	-	-	-
500%	-	-	-	-	-	-	-	-	-	-	-	-	-
714% (include prohibited exposure)	-	-	-	-	5,287	-	-	-	-	57	-	5,344	38,158
Average Risk Weight	-	-	8,975	-	37,749	-	-	-	-	1,498	-	50,583	48,222
Deduction from Capital Base	-	-	1,257	-	5,285	-	-	-	-	209	-	6,751	6,751

**Appendix IV: Disclosure on NSAIC's Rated Exposure as of 31 December 2020
(SAR'000)**

Long term Ratings of counterparties

Exposure Class	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+ 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	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

Appendix IV: Disclosure on NSAIC's Rated Exposure as of 31 December 2020 (SAR'000)

Short term Ratings of counterparties

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

On and Off-balance-sheet Exposures

Governments and Central Banks	-	-	-	-	-
Authorised Persons and Banks	-	44,876	-	-	-
Corporates	-	-	-	-	5,287
Retail	-	-	-	-	-
Investments	-	-	-	-	-
Securitisation	-	-	-	-	-
Margin Financing	-	-	-	-	-
Other Assets	-	-	-	-	420
Total	-	44,876	-	-	5,707

Appendix V: Disclosure on NSAIC Credit Risk Mitigation (CRM) as at 31 December 2020 (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
Credit Risk						
<i>On-balance sheet exposures</i>						
Governments and Ventral Banks	-	-	-	-	-	-
Administrative bodies and NPOs	-	-	-	-	-	-
Authorised Persons and Banks	44,876	-	-	-	-	44,876
Corporates	5,287	-	-	-	-	5,287
Retail	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Securitisation	-	-	-	-	-	-
Margin Financing	-	-	-	-	-	-
Other assets	420	-	-	-	-	420
Total On-balance sheet exposures	50,583	-	-	-	-	50,583
<i>Off-balance Sheet Exposures</i>						
OTC/Credit Derivatives	-	-	-	-	-	-
Repurchase agreements	-	-	-	-	-	-
Securities borrowing/lending	-	-	-	-	-	-
Commitments	-	-	-	-	-	-
Other off-balance sheet exposures	-	-	-	-	-	-
Total Off-Balance sheet Exposures	-	-	-	-	-	-
Total On and Off-balance sheet exposures	50,583	-	-	-	-	50,583